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**BUSINESS  
START-UP  
TRAINING  
PROGRAMME**

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**Resource Book**



# Business Start-up Training Programme

Resource Book



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# 1. Growth Mindset

## Introduction

The idea of Growth Mindset is about the progressive way people think about their own abilities and talents. The idea was initially introduced by professor Carol Dweck from Stanford University. She emphasises that, those with a growth mindset do not simply rely on “talent” but instead face challenges by digging in, working hard and doing whatever it takes to create success. The growth mindset inspires risk-taking, experimentation, the willingness to stumble, and even “fail” and to persist. They are on a life-long journey of growth and learning and they are able to trust that they will come out ahead.

This is in contrast to the “fixed” mindset where people hold onto their talent for dear life as the proof of whether they can be successful and are afraid to make mistakes for fear that this will unmask their lack of talent and intelligence. Those with a fixed mindset hold themselves back and avoid challenge, feeling that they have to be “perfect” or else they are failures. -

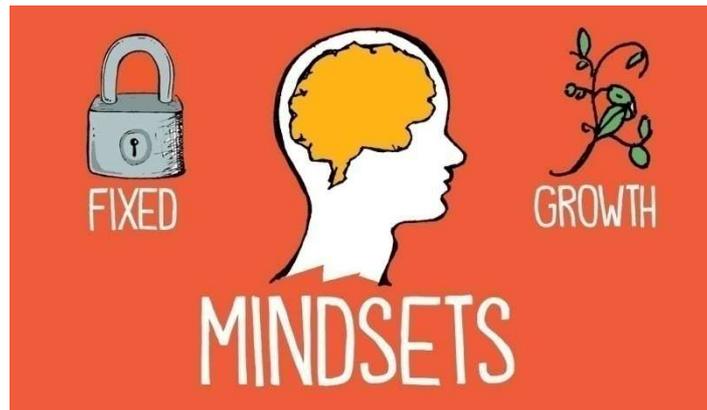
*Professor and Researcher-professor Carol Dweck*

## Change our Mindset

Most people addicted to live a life with fixed mindset because it much easier to spent. That's why we don't see many, many great leaders around us that much in our country. Most importantly that is how our society have trained our mindsets, just to be comfortable with some small tasks and if it still feels difficult we can complain, resist or even protest against. The reason is we are trained to develop a fixed mindset that limits our imagination and to drive us to the find a conventional job in the given system. The way an entrepreneur thinks is totally different from someone who keep doing a 8 hour job. Being an entrepreneur is to get rid of this fixed mindset and develop a growth mind set within. Most of amazingly successful entrepreneurs in Sri Lanka and around the world are not really university graduates or smart people from rich families. In most cases they are from poor families and perhaps are from rural localities. The most common denominator that can be found is the Growth Mindset they have built throughout their early stages of life despite the failure in formal education.

Ask Yourself, On Which Side You Would Stay and Why?

**Easy to do,  
Comfortable  
and Stable**



**Challenging,  
Risky and  
Progressive**

Explain Why?


## How to Spot a Fixed Minded Person

Some interesting phrases to understand a fixed minded person.

Listen carefully and he/she would tell you most of the following things when you ask right questions:

- I know challenges but I don't like challenges.
- Failure means, no one can do it.
- Why don't you focus on one thing and just do it?
- Its not a feedback or advice it's a personal attack on me.
- Its better to settle down, taking risk is too dangerous.
- You did it? Well, it is not a big deal; so many people have done it.
- Success comes from skills and money.
- I cannot bare the work pressure.
- You know what, I just give it up. I don't care.
- I need a fixed job and fixed salary.
- That problem is a difficult one to solve.
- I don't need you to try new things, just do what I say.
- This is not the good time to test new things, because it may fail again.

## Growth Mindset of Emerging Entrepreneurs



## Compare the Difference

Following table compares the difference between Fixed Mindset Vs Growth Mindset

Fixed Mindset	Growth Mindset
<ul style="list-style-type: none"> <li>• <b>My abilities are limited and unchangeable</b></li> </ul>	<ul style="list-style-type: none"> <li>• My abilities and talents can be improved gradually with practice and sometimes rapidly</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Failure is permanent and I can't move forward</b></li> </ul>	<ul style="list-style-type: none"> <li>• Failure is a chance to learn and even pivot</li> </ul>
<ul style="list-style-type: none"> <li>• <b>I take critical feedback as a personal attack</b></li> </ul>	<ul style="list-style-type: none"> <li>• Take feedback and even criticism as a chance to improve and to develop new solutions or systems</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Focus on easier tasks and smaller targets</b></li> </ul>	<ul style="list-style-type: none"> <li>• Focus on effort as they love to take challenges and try new things</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Never bother to enhance talents because everything is difficult for them</b></li> </ul>	<ul style="list-style-type: none"> <li>• Invest more time on building talents because that's what they believe in</li> </ul>

<ul style="list-style-type: none"> <li>• When they face an obstacle – answer is to give up or resist or protest</li> </ul>	<ul style="list-style-type: none"> <li>• Obstacles are chances to do experiments and discover new solutions</li> </ul>
<ul style="list-style-type: none"> <li>• Focuses on simple performance measurements</li> </ul>	<ul style="list-style-type: none"> <li>• Focuses on continuous improvements towards growth</li> </ul>
<ul style="list-style-type: none"> <li>• Less likely to take risks</li> </ul>	<ul style="list-style-type: none"> <li>• Risk is the opportunity to test creativity and imagination</li> </ul>

## Five Factors to Develop Growth Mindset

For Trainers it is essential to understand the five main factors that contribute to Growth Mindset. Following diagram depicts the five main factors and how they differ in the minds of two types of people.



## Growth Mindset

How many of us keep quitting when it is too difficult or when we fail? People with Growth Mindsets will never give up, no matter how



**many times they fail, they will thrive.**

Never give up; you might be closer to reaching your goal than you think

BY DAVID MCELROY

## Self Evaluation

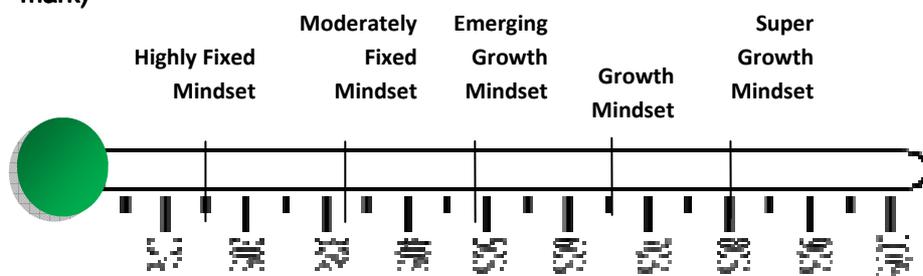
Read the statements in the following assessment form and ask yourself “Do I agree or disagree?” Based on your perception tick mark your answer in any of the four columns;

Totally agree/Agree/Disagree and Totally Disagree.

Statement	Totally Agree	Agree	Disagree	Totally Disagree
1. Do a business just to earn my living				
2. I like to have a permanent income				
3. I'm afraid of facing challenges				
4. When there is a failure we have to be careful and wasting time on trying				
5. We have to focus on our everyday survival				
6. Most of feedback and advice of others are personal attack on me				
7. It's better to settle down because taking risk is too dangerous				
8. It's too late to learn everything now to start something new.				
9. Success comes from skills and money.				
10. Pressure is very high in doing business.				
11. If it is difficult I just give it up. I don't care.				

12. I need a fixed job and fixed salary.				
13. Problems are killing us, no one to solve.				
14. I don't want to try new things, just wanted to do only what I'm doing.				
15. This is not the good time to test new things, because it may fail again.				
Total the tick marks in each column				
Multiply total with numbers of each column	1x... =...	2x. ..= ..	3x...=.. ... ..	5x... =...
Total Marks				

**Growth Mindset Scale (Mark the total score in the scale below and draw a green line from 0 to your mark)**



## What you could do based on your score

### Highly Fixed Mindset

If your score comes under (15-25) this category, you are a person who look for a permanent job and not ready to start a business. You probably don't like to try new things and take risks. May be you have already missed so many opportunities in personal growth. You need to look for ways to develop a growth mindset by leaning about business and entrepreneurship.

### Moderately Fixed Mindset

26 to 45 range is called the people with moderately fixed mindsets. They prefer jobs but also like to start a business or have an idea/s in mind. You have to learn about business by taking part in business training so that you can develop growth mindset. Study more about great entrepreneurs in the world and learn how to unleash your real potential.

### Emerging Growth Mindset

You have already developed a certain level of growth mentality and have lots of potentials. You probably have done some experiments and already taken up risky interventions towards personal growth. Developing a proper business plan and getting advice are necessary for the next step towards improving your growth mindset. Develop a purpose for your life and business and get advice to design a business model so that you will be able to overcome difficulties in personal growth.

### Growth Mindset

People with real growth mindset are able to score more than 61. You are a person with capabilities to start or improve your own business. You can think of diversifying the business to new products or services or new markets. You need master planning skills and people management skills.

## Super Growth Mindset

Powerful entrepreneurs would normally score up to this level. You are a role model to others and can coach others to develop growth mindset.

## Misconceptions of the growth mindset

Across the business world, “growth mindset” has become a buzzword in many major companies, even working its way into their mission statements. But when we probe, we often discover that people’s understanding of the idea is limited. Let’s take a look at three common misconceptions.

1. **I already have it, and I always have.** People often confuse a growth mindset with



being flexible or open-minded or with having a positive outlook — qualities they believe they’ve simply always had. We may call this a false growth mindset. Everyone is actually a mixture of fixed and growth mindsets, and that mixture continually evolves with experience. A “pure” growth mindset doesn’t exist, which we have to acknowledge in order to attain the benefits we seek. But if you are an entrepreneur you have to see what fixed mindset behaviors do I process and how to transform them? What changed I should make and how?

being flexible or open-minded or with having a positive outlook — qualities they believe they’ve simply always had. We may call this a false growth mindset. Everyone is actually a mixture of fixed and growth mindsets, and that mixture continually evolves with experience. A “pure” growth mindset doesn’t exist, which we have to acknowledge in order to attain the benefits we seek. But if you are an entrepreneur you have to see what fixed mindset behaviors do I process and how to transform them? What changed I

2. **A growth mindset is just about praising and rewarding effort.** This isn’t true for



students, entrepreneurs and not true for employees in organizations. In both settings, outcomes matter. Unproductive effort is never a good thing. It’s critical to reward not just effort but learning and progress, and to emphasize the processes that yield these things, such as seeking help from others, trying new strategies, and capitalizing on setbacks to move forward effectively.

**3. Just espouse a growth mindset, and good things will happen.** Mission statement of



your business is wonderful. You can't argue with lofty values displayed on office walls like growth, empowerment, or innovation. But what do they mean to you, as the leader, if the company doesn't implement policies that make them real and attainable? They just amount to lip service. Entrepreneurs who embody a

growth mindset should engage in appropriate risk-taking, knowing that some risks won't work out. They are committed to the growth of every team member, not just in words but in deeds, such as broadly available development and advancement opportunities. And they continually reinforce growth mindset values with policies.

If you are an entrepreneur you have to be careful since there are times we have our own fixed-mindset triggering moments. When we face challenges, receive criticism, or fare poorly compared with others, we can easily fall into insecurity or defensiveness, a response that inhibits growth. Our work environments, too, can be full of fixed-mindset triggers. A company that plays the talent game makes it harder for people to practice growth-mindset thinking and behaviour, such as sharing information, collaborating, innovating, seeking feedback, or admitting errors.

Professor **Carol Dweck**

## 21 Ways to Improve Your Growth Mindset

### 1. Acknowledge and embrace imperfections.

Hiding from your weaknesses means you'll never overcome them. If you are going to start a business means you are going to confront with risks and challenges. No one is perfect neither you are. Being imperfect means to know how to improve further. You always feel like you are in a journey of growth. When you compare your past

with you rather than with other, you realise how perfect you have become and how perfect you will be.

## **2. View challenges as opportunities.**

Challenges are the essence of personal growth. But the society has defined them for us as some miserable threats that often come towards in bad times. This is a myth. Having a growth mindset means relishing opportunities for self-improvement. When you know how to turn negative challenge in to an opportunity by rephrasing the challenge and writing down it as a highly positive sentence, you will realize the power of opportunity. Always turn challenge or threat in to a totally opposite phrase, it will become an opportunity.

## **3. Try different learning tactics.**

Don't stick to videos, when you want to learn about something. Just try a mix of ways such as books, articles, newspapers, audios, videos, internet, seminars, real experiments, advisory sessions and workshops. There's no one-size-fits-all model for learning. What works for one person may not work for you. Learn about learning strategies.

Most important thing is to keep yourself in the learning process throughout. Great thing you could do is to read about at least 10 great entrepreneurs/achievers in the world every month.

## **4. Follow the research on brain plasticity.**

Your brain has amazing ability to expand and rebuild neuron-networks with what you do every day. The brain isn't fixed; the mind shouldn't be either. What you have to do it to engage in activities that helps the brain to rebuild new neuron networks. According to Neuroscientists when we learn something new or go some place new our brain keeps creating new neuro-connections by building networks of neurons inside our brain.

Things you can enhance brain plasticity;

- Practicing new skills
- Learning new things
- Positive relationships
- Spending time with nature
- Being kind to others not expecting
- Exploring new places
- Reading and telling stories
- Doing exercises
- Engaging in some adventurous activities
- Meditation

## 5. Replace the word “failing” with the word “learning.”

The word Fail does not exist in the real world. It is not the time where you have to decide to stop what you do but to restart what you have been doing. When you make a mistake or fall short of a goal, you haven't failed; you've learned. Never rush to decide or judge whether you (or what you do) succeed or failed. Actually failure is a short-term setback that gives us the opportunity to interpret the life lessons of it. Failures are disguised teachers that come to us to give the best lesson we should learn in our lifetime. So, whenever you make a mistake or unable to achieve what you wanted, don't see them as failures, but see them as life lessons at all times.

## 6. Stop seeking approval.

Seek to enrich your ideas not to approve them. When you prioritise approval over learning, you sacrifice your own potential for growth. Always believe in your unlimited inner potential for growth. If it is a business idea you love to implement, no one can decide where to do it or not. Of course you need some inspiration, enrichment and guidance from others to shape up your business idea you love to initiate. People with growth minds would never underestimate their own ability as well as the contribution of others to decide and do the right thing.

## 7. Value both the process and end result.

Use “process Thinking”. Everything around the business ecosystem are interconnected processes and even your business idea is a small process of a big process. Intelligent people enjoy the iterative learning process. Sometimes they don't mind when it continues beyond an expected time frame. Laying out the process of achieving the goals or running the business is as important as defining the end results of it.

Process thinking will expand our view on our business operations and helps us to see unlimited interconnected parts of the entire operation. Growth Minded people as questions such as; how does it connect to other things and what new connections we may have to make?

## 8. Cultivate a sense of purpose.

Short and medium term achievements are very important for business success. But the most important thing is to focus on much bigger life purpose of doing business. Dweck's research also showed that subjects (of her research) with a growth mindset had a greater sense of purpose. Having a great purpose means to keep the big picture in mind. Purpose of Steve Jobs was not build the most valuable brand in the world but to give the whole world/people, some exciting electronic devises that entertain, inspire and make people happy. That purpose has driven Apple to become the most valuable brand in the world. Having a bigger purpose means to be motivated by yourself and to motivate millions of other people.

## 9. Take a Skill Inventory

Growth can be measured in many way and the number of skills/talents you have developed is one aspect. You also can find out and rate the most important skills and the skills you are specialised with. In other words skills you have mastered the most

can be rated based on your own criteria to see the current growth in skill set and if you do it is easy to compare the growth of skills in few years from now.

## 10. Celebrate growth with others.

Every small achievement need to be celebrated and every learning need to be incorporated in your growth process. If you truly appreciate growth, you'll want to share your progress with others. You can also celebrate growth and achievements of others and get inspire.

## 11. Emphasise growth over speed.

Learning fast isn't the same as learning well, and learning well sometimes requires allowing time for mistakes. If you want to develop growth mindset, you have to allow the flow of knowledge in to your mind and have to invest more time on practicing new skills. If there is a delay due to learning requirement, you have to take that time. The more sweat on training means we are going to take less time to mart victory in the battle.

## 12. Portray criticism as positive.

Don't listen to the words of criticism but listen to the meaning that makes. If there is a good point in that meaning, take is seriously, who ever said that? But the words uttered by someone make no sense, just let it go. Don't even try to react. If the meaning of any criticism makes sense, there must be a concept in that meaning. You don't have to use that term, "constructive criticism," but you do have to believe in the concept.

## 13. Opportunities for reflection.

How often do you reflect your growth and learning? Is it daily basis, weekly or monthly? Reflecting on what we lean is one of the most important thing that we all

have to allocate some reasonable time every day. Having a coffee in the evening and reflecting on your learning by writing them on your note book will make your day full of tiny but remarkable achievements.

#### **14. Place effort before talent.**

It is not always the talent which make you a winner but the number of attempts you made till you mark the victory. Hard work should always be rewarded before inherent skill. No one is talented when they start trying for something for the first time. We are eager to appreciate what we achieve and what talents we have. But hardly appreciate the endurance of our effort we maintain that sharpen our talents while ensuring the result.

#### **15. Highlight the relationship between learning and “brain training.”**

Your brain has one hundred billion neurons and they can make connections as much as the number of stars in the universe. Potential of your brain is unlimited and so does the potential in your mind. The brain is like a muscle that needs to be worked out, just like the body. Make sure to engage things that make your brain get proper training every day.

#### **16. Use the word “yet”**

Professor Dweck says “not yet” has become one of her favourite phrases. Whenever you feel you are struggling with a task or a skill, just tell yourself that haven’t mastered it yet. Never say that I cannot do it, but say I still have time. The word Yet, give the sense of hope and motivation to keep the momentum throughout. We tend to say that, I should have done it! But never use that phrase and instead use the word “Yet”.

## 17. Learn from other people's mistakes.

It's not always wise to compare yourself to others, but it is important to realise that humans share the same weaknesses. Compare yourself today with who you are some 10 years ago. Humans used to compare themselves with the richest people in the planet and that is something you should never do in your lifetime. You are the only one, you can call "Me" in this world and there is no other persona like you in this planet. SO, why do you compare yourself with some totally different individual or his wealth or talents?

## 18. Make a new goal for every goal accomplished.

You'll never be done chasing goals and learning. Just because your education is over or you complete a degree, doesn't mean you should stop being interested in a subject. Growth-minded people know how to constantly create new goals to keep themselves stimulated.

## 19. Take risks in the company of others.

Stop trying to save face all the time and just let yourself goof up now and then. It will make it easier to take risks in the future. Both risk and opportunity are connected to different interconnected processes around you. Amazingly there are always the people-factor that influence those processes and connections. So, when and if you know the people they will help you to mitigate risks. If you have already built great relationships, you may have anticipated hundred strategies to overcome risks in your business or profession.

## 20. Think realistically about time and effort.

You need to be productive against time but you also need to be realistic. 100 meter Olympic athletes have to practice 10 years to run a race of 10 seconds. This looks crazy but that's how champions with growth mindset, invest time and effort

realistically in a bigger scale to get what they want. It takes time to learn. Don't expect to master every topic under the sun in one sitting.

## 21. Take ownership over your attitude.

Our decisions come from our own mind, based on the way it process information. It also based on the learning we accumulated throughout. When you develop growth mindset, you know what you are thinking and how you make decisions. Put your fullest attention on how your mind comes in to conclusions and make decisions and have a certain power to navigate your thought process. This is a skill that every growth minded person should master every day. Once you develop a growth mindset, own it. Acknowledge yourself as someone who possesses a growth mentality and be proud to let it guide you throughout your educational career.

## Case Collection

### Apple

That time Apple was not actually making a big progress in profitability and computer market was highly competitive. CEO, Steve Jobs was getting lots of feedbacks from customers and competitors and he was analysing the challenges ahead. He was crazy to find a new way a destructive way to innovate the market system. He was hungry and eager to go for something really big. Apple was good at making computers, Mc/Mackintosh was their brand and that's what they were specialised about.

Suddenly At one of the production meetings with engineers and innovators of Apple, Steve Job was talking about making a music device that is useful for those who travel and a very special one to give them the opportunity to store a huge collection of albums. Highly experienced Apple engineers, strongly condemn his idea of shifting production from computers to music devices. There was a big debate throughout and finally despite counter arguments, Steve decided to go for this new production and that made Apple a profit making

company again and the product was iPod. The decision expanded the market size of the company several times and opened multiple opportunities for the future.

## CBL

At a time CBL was making several kinds of biscuits and no big different form their competitors. It was a difficult time and market leader by the time was so aggressive. Growth minds start brainstorming new ways to face the challenges. After learning from the prevailing market development and the behaviour of competitors, CBL came up with a new range biscuits, new tastes and branding campaigns that are uncommon and unique to CBL. Not a single competitor could replicate the new products and branding strategies and in a very short period of time CBL became the market leader and still is the unbeatable leader.

## Thierry Henry

When Thierry Henry first moved to Arsenal, he was short on confidence and low on goals; in fact, he failed to score in his first 8 games. At the time, he said "I've literally had to go back to school and be re-taught everything about the art of striking". This quote helps as young people often only see the end product and not the work that has gone in to getting there. Cool quotes are one thing, but to really capture student's attention, show them his Twitter bio which further drives home his point.

## Google

In the late 1990s, Larry Page was struggling to sell his product to various businesses. Fortunately for him, no-one wanted to buy it, so he set up his own company, Google. He is an advocate of moon-shot thinking, which in his words is 'having a healthy disregard for the impossible'.

## Growth Mindset Game

Give some instructions to your audience to get ready for a question game and they have to write down the answers individually, on a sheet of paper. Tell them that, “I’m going to tell you a story and ask questions”, Ask your audience the following questions, carefully and tactfully to raise curiosity of participants;

### **Question –1. How do you put giraffe in to a refrigerator in three steps?**

Let them write the answers and give them one minute to do it.

Answer – Open the door of fridge, put the elephant and close the door.

Discussion – Ask the audience to tell their answers and share with them the right answer.

***Lesson is – Don’t be too serious, when the question is simple.***

### **Question – 2. How to put an elephant in to the refrigerator in four steps?**

Let them write the answers and give them one minute to do it.

Answer – Open the door, remove the giraffe, put the elephant and close the door.

Discussion – Ask the audience to tell their answers and share with them the right answer.

***Lesson is – Don’t make the same mistake again.***

**Question – 2. There was a meeting in the jungle organized by the Lion. All the animal were invited and they went. Eventually the lion found that one crazy animal out of all has not respected his invitation. What animal could have been absent in lions meeting? Why?**

Let them write the answers and give them one minute to do it.

Answer – Elephant, because it is still in the fridge.

Discussion – Ask the audience to tell their answers and share with them the right answer.

***Lesson is – Never forget to learn from the failure. Reflect the lessons and use that information to take decisions.***

**Question – 2. There was a river by the jungle and this river is full of killer crocodiles. Water level is about 5 feet everywhere. River flows towards east and it is getting dark. If you have to cross the river now, what strategies would you use to go to the other side of the river?**

Let them write the answers and give them one minute to do it.

Answer – Not to worry, all the animal are in lion's meeting.

Discussion – Ask the audience to tell their answers and share with them the right answer.

***Lesson is – If you don't see the connection of s story you are going to make mistakes. See the connections and think about the process. That's how growth minds see the big picture.***



## 2. Leadership Skills

## Introduction

### Leader

- Leaders are individuals who establish direction for a working group of individuals who gain commitment from this group of members to this direction and who then motivate these members to achieve the direction's outcomes. (Conger, 1992: 18)
- "A leader shapes and shares a vision which gives point to the work of others."- Charles Handy (1992)
- "Leaders are individuals who establish direction for a working group of individuals who gain commitment from these group of members to this direction and who then motivate these members to achieve the direction's outcomes." - Conger, J.A. 'Learning to Lead' San Francisco: Jossey-Bass (1992, p18)
- "Leaders are those who consistently make effective contributions to social order, and who are expected and perceived to do so." - Hosking (1988, p.153)

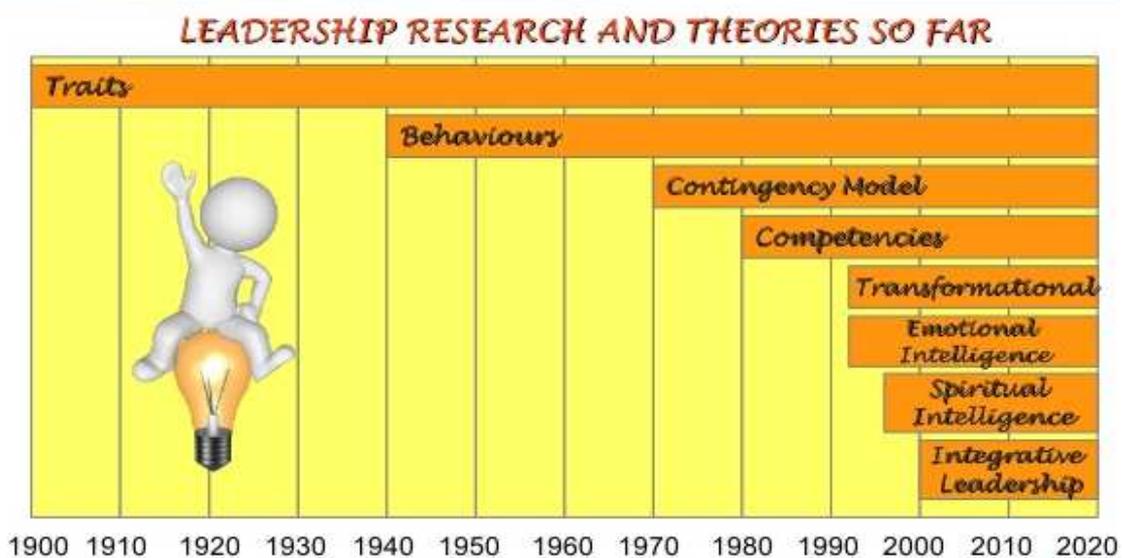
### Leadership

- Leadership requires using power to influence the thoughts and actions of other people. (Zalenik, 1992)
- Leadership is that process in which one person sets the purpose or direction for one or more other persons and gets them to move along together with him or her and with each other in that direction with competence and full commitment. (Jaques & Clement, 1994: 4)
- Leadership is the ability to evaluate and or forecast a long term plan or policy and influence the followers towards the achievement of the said strategy. - Adeoye Mayowa: A Leadership Manager in Nigeria (2009)

**THE ONLY THINGS HAPPEN NATURAL IN ORGANIZATIONS:  
FRICTION, CONFUSION, UNDERPERFORMANCE. EVERYTHING ELSE  
REQUIRES LEADERSHIP-PETER DRUCKER**

**Definition** - While there are many definitions the working definition used for this study is “Leadership skill is the art of motivating or inspiring a group of people to work towards achieving a common goal or a common vision. The skills that makes others want to follow his or her direction.”

## Evolution of Leadership Theory



The effectiveness of your business will never rise above your ability to lead and influence others. Leadership is not reserved for “**born leaders.**” Leadership is developed, not discovered. Born leaders will always emerge, but to stay on top, natural leadership characteristics must be developed. Work will never rise above your ability to lead and influence others. Leadership is not reserved for “**born leaders.**” Leadership is developed, not discovered. Leaders and managers are not the same. While leaders may be effective managers, not all managers can rightfully be called leaders. Managers who are leaders inspire, motivate, and energize people with their clear visions and strategies towards a shared goal. On the other hand, mainstream and traditional managers are short-term oriented, and more concerned with day-to-day activities. Nevertheless, they are efficient at organizing, allocating, controlling, and monitoring resources. “In the past a leader was a

boss. Today's leaders must be partners with their people. They no longer can lead solely based on positional power. As a leader you have the incredible opportunity to bring out the best in others—but to do so you must draw out the best in yourself,

- Managers do things right—but leaders do the right things. That's the fundamental difference between a leader and a manager. As a leader, you discern the right course, set the pace, influence others to follow, and inspire them to excellence and success.
- You must show them—not just tell them. You don't push rope—you pull it.
- You develop trust through integrity and model the behaviour and outcomes they wish to produce. As a leader, you must mean and act what you say.
- As you make positive affirmations, think positive thoughts, and listen to positive people, your can-do attitude will inevitable lead you and your team to success!

## Core Leadership Theories @ a glance

<p><b>TRAIT THEORIES</b></p> <p>argue that effective leaders share a number of common personality characteristics, or "traits." Early theories stated that leadership was innate. These theories are helpful to identify traits and qualities e.g. integrity, empathy, assertiveness, good decision-making skills, and likability.</p>	<p><b>BEHAVIORAL THEORIES</b></p> <p>Focus on what leaders do. In the 1930s, Kurt Lewin developed a framework based on a leader's behavior. He argued that there are three types of leaders:</p> <ul style="list-style-type: none"> <li>* Autocratic leaders</li> <li>* Democratic leaders</li> <li>* Laissez-faire leaders</li> </ul>
<p><b>CONTINGENCY THEORIES</b></p> <p>Focus on the situational influence. They try to predict which style is best in which circumstance. Popular contingency-based models are :</p> <ul style="list-style-type: none"> <li>* Hersey-Blandhard Situational Leadership Theory</li> <li>* House's Path-Goal Theory</li> <li>* Fiedler's Contingency Model</li> </ul>	<p><b>POWER &amp; INFLUENCE THEORIES</b></p> <p>are based on the different ways that leaders use power and influence to get things done. Best-known theories are :</p> <ul style="list-style-type: none"> <li>* French &amp; Raven's 5 Forms of Power</li> <li>* Transactional Leadership (reward's influence)</li> <li>* Leading by example</li> </ul>
<p><b>TRANSFORMATIONAL LEADERSHIP</b></p> <p>Effective leadership is not simply based on a set of attributes, behaviors, and influences. A wide range of abilities and approaches is actually needed. This is why transformational leadership is mostly accurate. Transformational leaders show integrity, and they know how to develop a robust and inspiring vision of the future. They motivate people to achieve this vision, they manage its delivery, and they build ever stronger and more successful teams.</p>	

## If you are an Excellent Business Leader...

You Have to Lead-Vision, Mission and Action

**Excellent leaders keep control of the "Big 3"**

1. Finances
2. Personnel
3. Plan

Manage-Plan, Organize, Implement and Control

**Excellent leaders avoid the "seven deadly sins"**

1. Trying to be liked rather than respected.
2. Not asking team members for advice and help.
3. Thwarting personal talent by emphasizing rules rather than skills.
4. Not keeping criticism constructive.
5. Not developing a sense of responsibility in team members.
6. Failing to keep people informed.
7. Not nurturing, developing and coaching people.

## Five Levels of Leadership



To become the ultimate leader, we have to first understand that there are 5 levels. We also need to understand where we stand at the moment and what it takes to get to the next level.

Of course, we should keep in mind that there are trade-offs the higher we go. The higher the level, the more commitment, the easier we are to read but also the greater our growth. Level 4 Leaders develop other leaders which will ensure the long-term growth of your organization and its people. Whereas Level 5 is reserved for leaders who have spent years growing people and organizations. Only a few make it. Those that do are bigger than life. Level 5

Leaders would include people in history like Martin Luther King and more recent leaders such as Steve Jobs.

### **Level 1: Position / Rights**

At stage one, an authority figure exerts control largely because of position. Often, a leader at this level rules by intimidation. People will follow because they have to. Otherwise, employees will not exert effort beyond their job description or what is required. At this level of leadership, staff lacks commitment leading to high turnover and low morale within the organization.

#### **Indicators of excellence:**

- Highly skilled.
- Knows job description thoroughly.
- Strong initiative.
- Proactive.
- Highly responsible.
- Aware of the history of the organization, relate the organization's history to the people of the organization
- Do your job with consistent excellence.
- Offer creative ideas for change and improvement.

### **Level 2: Permission / Relationship**

At this level, a permission leader relies on people interrelationships with strong emphasis on bringing people together. Employees begin to follow beyond the leader's stated authority.

#### **Indicators of excellence:**

- Possess a genuine love for people.
- Make those who work with you more successful.
- See through other people's eyes.
- Love people more than procedures.
- Do "win-win" or don't do it.
- Include others in your journey.

- Deal wisely with difficult people.

### **Level 3: Production / Results**

At level three, the leader brings the people together on a journey to accomplish a purpose, allowing them to share in the glory of results. People follow to accomplish an objective.

Indicators of excellence:

- Initiate and accept responsibility for growth.
- Develop and follow a statement of purpose.
- Make your job description and energy an integral part of the statement of purpose.
- Develop accountability for results, beginning with yourself.
- Know and do the things that give a high return.
- Communicate the strategy and vision of the organization.
- Become a change-agent and understand timing.
- Make the difficult decisions that will make a difference.

### **Level 4: People Development / Reproduction**

A leader at this stage empowers followers and helps them grow personally. People follow because of loyalty brought about by how the leader has helped them grow.

Indicators of excellence:

- Realize that people are your most valuable asset.
- Place a priority on developing people.
- Be a model for others to follow.
- Pour your leadership efforts into the top 20 percent of your people.
- Expose key leaders to growth opportunities.
- Be able to attract other winners/producers to the common goal.
- Surround yourself with an inner core that complements your leadership.

### **Level 5: Personhood / Respect**

A level five leader has spent years growing people and organizations. People follow because of who and what the leader represents.

Indicators of excellence

- Your followers are loyal and sacrificial.
- You have spent years mentoring and molding leaders.
- You have become a statesman/consultant, and are sought out by others.
- Your greatest joy comes from watching others grow and develop.
- You transcend the organization..

## Six styles of leadership used by Business Leaders

Leaders use different styles in leading their people. Goleman has categorized these styles under six areas. Each of the six styles has its strengths and weaknesses. For each style there are situations where it's warranted. The challenge, of course, is knowing the pros/cons of each style, and using them appropriately.



- **Commanding** – “Do what I say”. Specifies the what and how.
- **Visionary** – “Come with me”. Sets a clear vision, leaves the means open.
- **Affiliative** – “People come first”. Builds team harmony and morale.
- **Democratic** – “What shall we do?”. Gives workers a voice.
- **Pacesetting** – “I will set the example”. Demonstrates high performance.
- **Coaching** – “Here’s how we can do it better”. Focuses on employee development.

	Commanding	Visionary	Affiliative	Democratic	Pace-setting	Coaching
	<b>Do what I tell you!</b>	<b>Come with me!</b>	<b>People come first!</b>	<b>What do you think?</b>	<b>Do as I do, now!</b>	<b>Try this!</b>
	Demands immediate compliance.	Mobilizes people towards a vision.	Creates harmony and builds emotional bonds.	Forges consensus through participation.	Sets high standard for performance.	Develops people for the future.
	Drive to achieve, initiative, self-control.	Self-confidence, empathy, change catalyst.	Empathy. Building relationships, communication	Collaboration, team leadership, communication.	Conscientiousness, drive to achieve, initiative.	Developing others, empathy, self-awareness.
	In a crisis, kick start a turn around or with problem employees.	When changes require a new vision, or when a clear direction is needed.	To heal rifts in a team or to motivate people during stressful circumstances	To build buy-in or consensus, or get input from valuable employees.	To get quick results from a highly motivated and competent team.	Help an employee improve performance or develop long-term strengths.
	Negative overall impact on climate.	Most strongly positive.	Positive.	Negative overall impact on climate.	Negative.	Positive.

Six leadership Styles of Goleman

<b>GOLEMAN'S LEADERSHIP STYLES</b> <small>Adapted from "Leadership That Gets Results," Goleman, D.</small>	Commanding	Pacesetting	Democratic	Affiliative	Visionary	Coaching
<b>The style in a phrase</b>	Do what I tell you	Do as I do	Let's decide what to do together	Let's do what's best for everyone	Do what will help us reach our goals	How can I help you do it better?
<b>The leader's way of working</b>	Demands immediate compliance	Sets high standards of performance	Creates consensus through participation	Creates harmony and builds emotional bonds	Mobilises people towards a vision	Develops people for the future
<b>Underlying emotional intelligence competencies</b>	Achievement Initiative Self-control	Conscientiousness Achievement Initiative	Collaboration Team leadership Communication	Empathy Building relationships Communication	Self-confidence Empathy Change catalyst	Developing others Empathy Self-awareness
<b>When the style works best</b>	In a crisis To start a new project With problem employees	To get quick results from a highly motivated competent team	To gain acceptance or consensus To get input from valued team members	To manage splits in a team Motivation during stressful circumstances	When changes require a new vision When clear direction is needed	To help someone improve performance To develop long term strategies
<b>Overall impact on climate</b>	Negative	Positive	Positive	Positive	Strongly Positive	Strongly Positive

## 1. The Commanding Style

The Commanding style can be effective at pushing through change, especially when the changes involve removing barriers and old ways of doing things. It demands immediate compliance. Works best in crisis or with problematic people. The problems with the Commanding style are numerous:

- It reduces motivation because it reduces employee sense of ownership, responsibility and satisfaction of a job well done.
- It reduces initiative and innovation.

The Commanding style should only be used in extreme circumstances, and for a limited time.

## 2. The Visionary Style

The Visionary style requires a clear vision, and the ability to communicate that vision, to be effective. It also requires articulating standards for success (eg KPIs), and having confidence in the team to stay away from prescribing the means to carry out the work. On its own, the Visionary style does not deal well with individual instances of poor performance, but in general this style is the most effective for mobilising people towards a vision.

## 3. The Affiliative Style

The affiliative style is particularly important when building new teams, restoring trust, and managing institutional change. It requires a leader who is comfortable sharing their own personal experiences, and who can listen actively. It requires a higher amount of emotional intelligence to be effective with this style. The danger with this style is that it may lead to avoiding necessary conflict, and ignoring poor performance. Create emotional binds and harmony. Works best to heal rifts in teams or motivate people in stressful times.

#### 4. The Democratic Style

The democratic style is effective when you really need the buy-in of stakeholders. When you recognize that fiat might get compliance, but the cost of the compliance is high. The challenge with the democratic style is that it needs to be authentic. People need an opportunity to speak and really be heard. This can be time-consuming and may also be frustrating. It requires a leader with excellent facilitation skill to keep control of the participatory process. It is mostly effectively used for specific difficult decisions – especially when the leader is uncertain about the course of action.

#### 5. The Pacesetting Style

The pacesetting style is a natural style for people who were recently promoted up to manager due to their outstanding performance as an individual contributor. The problem with this situation is that management is more than just being the official pacesetter. The pacesetter style may work when all members of a team are intrinsically-motivated high-performers who need little direction. But in practice setting the pace is not nearly sufficient to shape, motivate and energize a team to accomplish great things.

#### 6. The Coaching Style

The coaching style requires a manager who is capable of giving performance feedback that motivates rather than creates fear. This requires some skill. It also requires an employee who is aware of their performance and receptive to improvement. It's unfortunate that in many circumstances one or more of these requirements are lacking. However, when things align, coaching can have a huge impact on the business.

#### **Climate–**

Goleman talks a little about the *climate* in a business or team and how it strongly correlates with performance. He also mentions survey results that associate each leadership style with its effect on climate:

- Visionary (+.54)
- Affiliative (+.46)
- Democratic (+.43)
- Coaching (+.42)
- Pacesetting (-.25)
- Commanding (-.26)

Pacesetting has such a negative effect on climate, and should be used sparingly. Goleman too was surprised. But delving a little deeper revealed the issue: the pacesetting style does not provide the motivation or support needed for workers to learn, improve and excel.

## Emotional Intelligence Model

Goleman also connects the styles with the necessary emotional intelligence capabilities required to be able to use the style. He found that while the qualities traditionally associated with leadership such as intelligence, toughness, determination and vision are required for success, they are insufficient. Truly effective leaders are also distinguished by a high degree of emotional intelligence, which includes: He defines four Emotional Intelligence capabilities, each with several traits:

- **Self-awareness**

The ability to recognise what you are feeling, to understand your habitual emotional responses to events and to recognise how your emotions affect your behaviour and performance. When you are self-aware, you see yourself as others see you, and have a good sense of your own abilities and current limitations.

- **Managing emotions**

The ability to stay focused and think clearly even when experiencing powerful emotions.

Being able to manage your own emotional state is essential for taking responsibility for your actions, and can save you from hasty decisions that you later regret.

- **Motivating oneself**

The ability to use your deepest emotions to move and guide you towards your goals. This ability

enables you to take the initiative and to persevere in the face of obstacles and setbacks.

- **Empathy**

The ability to sense, understand and respond to what other people are feeling.

Self-awareness is essential to having empathy with others. If you are not aware of your own

emotions, you will not be able to read the emotions of others.

- **Social Skill**

The ability to manage, influence and inspire emotions in others.

Being able to handle emotions in relationships and being able to influence and inspire others are

essential foundation skills for successful teamwork and leadership.

## (EI) Emotional intelligence questionnaire

This self-assessment questionnaire is designed to get you thinking about the various competences

of emotional intelligence as they apply to you.

### What you need to do

1. Assess and score each of the questionnaire's statements.

Score your assessment, using a scale where

- 1 indicates that the statement does NOT apply at all
- 3 indicates that the statement applies about half the time
- 5 indicates that the statement ALWAYS applies to you

2. Total and interpret your results

- Transfer your scores to the calculation table and total your results.

*(Remember, the answers you give are likely to vary depending on your mood when you take it.)*

3. Consider your results and identify one or two actions you can take immediately to strengthen your emotional intelligence.

Assess and score how much each statement applies to you;

How much does each statement apply to you		Mark your score				
<p>Read each statement and decide how strongly the statement applies to YOU.</p> <p>Score yourself 1 to 5 based on the following guide.</p> <p>1 = Does not apply ~ 3 = Applies half the time ~ 5 = Always applies</p>		<p>Circle the number that shows how strongly the statement applies</p>				
1	I realise immediately when I lose my temper	1	2	3	4	5
2	I can 'reframe' bad situations quickly	1	2	3	4	5
3	I am able to always motive myself to do difficult tasks	1	2	3	4	5
4	I am always able to see things from the other person's viewpoint	1	2	3	4	5
5	I am an excellent listener	1	2	3	4	5
6	I know when I am happy	1	2	3	4	5
7	I do not openly show my feelings outside	1	2	3	4	5
8	I am usually able to prioritise important activities at work and get on with them	1	2	3	4	5
9	I am excellent at empathising with someone else's problem	1	2	3	4	5

10	I never interrupt other people's conversations	1	2	3	4	5
11	I usually recognise when I am stressed	1	2	3	4	5
12	Others can rarely tell what kind of mood I am in	1	2	3	4	5
13	I always meet deadlines	1	2	3	4	5
14	I can tell if someone is not happy with me	1	2	3	4	5
15	I am good at adapting and mixing with a variety of people	1	2	3	4	5
16	When I am being 'emotional' I am aware of this	1	2	3	4	5
17	I rarely 'fly off the handle' at other people	1	2	3	4	5
18	I never waste time	1	2	3	4	5
19	I can tell if a team of people are not getting along with each other	1	2	3	4	5
20	People are the most interesting thing in life for me	1	2	3	4	5
21	When I feel anxious I usually can account for the reason(s)	1	2	3	4	5
22	Difficult people do not annoy me	1	2	3	4	5
23	I do not evade	1	2	3	4	5
24	I can usually understand why people are being difficult towards me	1	2	3	4	5

25	I love to meet new people and get to know what makes them 'tick'	1	2	3	4	5
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**How much does each statement apply to you**

**Mark your score**

Read each statement and decide how strongly the statement applies to YOU. Score yourself 1 to 5 based on the following guide.  
1 = Does not apply ~ 3 = Applies half the time ~ 5 = Always applies

Circle the number that shows how strongly the statement applies

26	I always know when I'm being unreasonable	1	2	3	4	5
27	I can consciously alter my frame of mind or mood	1	2	3	4	5
28	I believe you should do the difficult things first	1	2	3	4	5
29	Other individuals are not 'difficult' just 'different'	1	2	3	4	5
30	I need a variety of work colleagues to make my job interesting	1	2	3	4	5
31	Awareness of my own emotions is very important to me at all times	1	2	3	4	5
32	I do not let stressful situations or people affect me once I have left work	1	2	3	4	5
33	Delayed gratification is a	1	2	3	4	5

	virtue that I hold to					
34	I can understand if I am being unreasonable	1	2	3	4	5
35	I like to ask questions to find out what it is important to people	1	2	3	4	5
36	I can tell if someone has upset or annoyed me	1	2	3	4	5
37	I rarely worry about work or life in general	1	2	3	4	5
38	I believe in 'Action this Day'	1	2	3	4	5
39	I can understand why my actions sometimes offend others	1	2	3	4	5
40	I see working with difficult people as simply a challenge to win them over	1	2	3	4	5
41	I can let anger 'go' quickly so that it no longer affects me	1	2	3	4	5
42	I can suppress my emotions when I need to	1	2	3	4	5
43	I can always motivate myself even when I feel low	1	2	3	4	5
44	I can sometimes see things from others' point of view	1	2	3	4	5
45	I am good at reconciling differences with other people	1	2	3	4	5

46	I know what makes me happy	1	2	3	4	5
47	Others often do not know how I am feeling about things	1	2	3	4	5
48	Motivations has been the key to my success	1	2	3	4	5
49	Reasons for disagreements are always clear to me	1	2	3	4	5
50	I generally build solid relationships with those I work with	1	2	3	4	5

**Total and interpret your results**

1. **Record** your 1, 2, 3, 4, 5 scores for the questionnaire statements in the grid below. The grid organises the statements into emotional competency lists.

Self-awareness		Self-regulation		Motivating self		Empathy		Social skills	
1		2		3		4		5	
6		7		8		9		10	
11		12		13		14		15	
16		17		18		19		20	
21		22		23		24		25	
26		27		28		29		30	
31		32		33		34		35	
36		37		38		39		40	
41		42		43		44		45	

46

47

48

49

50

2. **Calculate** a total for each of the 5 emotional competencies

Total	Total	Total	Total	Total
=	=	=	=	=
(SA)	(SR)	(MS)	(E)	(SS)

3. **Interpret** your totals for each area of competency using the following guide.

35- 50	This area is a <b>strength</b> for you.
18- 34	<b>Giving attention</b> to where you feel you are weakest will pay dividends
10- 17	Make this area a <b>development priority</b> .

4. **Record** your result for each of the emotional competencies: strength, needs attention or development priority.

	Strength	Needs attention	Development Priority
Self-awareness			
Self-regulation			
Motivating self			
Empathy			
Social Skills			

5. Consider your results and identify one or two actions you can take immediately to strengthen your emotional intelligence.

## 7 habits of highly effective people

(A summary from Stephen Covey's book for leaders)

### HABIT 1: Be Proactive

We're in charge. We choose the scripts by which to live our lives. Use this self-awareness to be proactive and take responsibility for your choices. What distinguishes us as humans from all other animals is our inherent ability to examine our own character, to decide how to view ourselves and our situations, and to control our own effectiveness.

Put simply, in order to be effective one must be proactive. Reactive people take a passive stance -- they believe that the world is happening to them. They say things like: "*There's nothing I can do.*" "*That's just the way I am.*" They think the problem is "out there" -- but that thought is the problem. Reactivity becomes a self-fulfilling prophecy, and reactive people feel increasingly victimized and out of control. Proactive people, however, recognize that they have responsibility -- or "response-ability," which Covey defines as the ability to choose how you will respond to a given stimulus or situation

### HABIT 2: Begin with the End in Mind

Start with a clear destination in mind. We can use our imagination to develop a vision of what we want to become and use our conscience to decide what values will guide us.

Most of us find it rather easy to busy ourselves. We work hard to achieve victories -- promotions, higher income, more recognition. But we don't often stop to evaluate the meaning behind this busyness, behind these victories -- we don't ask ourselves if these things that we focus on so intently are what really matter to us.

In everything we do, we should begin with the end in mind. Start with a clear destination. That way, we can make sure the steps we're taking are in the right direction.

Beginning with the end in mind is also extremely important for businesses. Being a manager is about optimizing for efficiency. But being a leader is about setting the right strategic vision for your organization in the first place, and asking, "What are we trying to accomplish?"

Before we as individuals or organizations can start setting and achieving goals, we must be able to identify our values. This process may involve some rescripting to be able to assert our own personal values. Rescripting, is recognizing ineffective scripts that have been written for you, and changing those scripts by proactively writing new ones that are built of your own values.

It is also important to identify our center. Whatever is at the center of our life will be the source of our security, guidance, wisdom, and power. Our centers affect us fundamentally -- they determine our daily decisions, actions, and motivations, as well as our interpretation of events.

However, Covey notes that none of these centers are optimal, and that instead we should strive to be principle-centered. We should identify the timeless, unchanging principles by which we must live our lives. This will give us the guidance that we need to align our behaviours with our beliefs and values.

You might be ...	If ...
Spouse-centered	Your feelings of security are based on the way your spouse treats you; your direction comes from your own needs / wants and from those of your spouse.
Family-centered	Your security is founded on family acceptance & fulfilling family expectations; your actions are limited by family models and traditions.
Money-centered	Your personal worth is determined by your net worth; profit is your decision-making criteria.
Work-centered	You tend to define yourself by your occupational role; you make your decisions based on the needs and expectations of your work.
Possession-centered	Your security is based on your reputation, your social status, or the tangible things you possess; you tend to compare what you have to what others have.
Pleasure-centered	You make decisions based on what will give you the most pleasure; you see the world in terms of what's in it for you.
Friend-centered	Your security is a function of the social mirror; you are highly dependent on the opinions of others.
Enemy-centered	You make decisions based on what will thwart your enemy; you are defensive, over-reactive, and often paranoid.
Church-centered	Your security is based on church activity and the esteem in which you are held by those in authority or influence in the church; you find identity and security in religious labels and comparisons.
Self-centered	Your security is constantly changing and shifting; you view the world by how decisions, events, or circumstances will affect you.

**Challenge yourself to test the principle of beginning with the end in mind by doing the following:**

1. Visualize in rich detail your own funeral. Who is there? What are they saying about you? About how you lived your life? About the relationships you had? What do you want them to say? Think about how your priorities would change if you only had 30 more days to live. Start living by these priorities.
2. Break down different roles in your life -- whether professional, personal, or community -- and list three to five goals you want to achieve for each.

3. Define what scares you. Public speaking? Critical feedback after writing a book? Write down the worst-case scenario for your biggest fear, then visualize how you'll handle this situation. Write down exactly how you'll handle it.

### **HABIT 3: Put First Things First**

In order to manage ourselves effectively, we must put first things first. We must have the discipline to prioritize our day-to-day actions based on what is most important, not what is most urgent.

In Habit 2, we discussed the importance of determining our values and understanding what it is we are setting out to achieve. Habit 3 is all about actually going after these goals, and executing on our priorities on a day-to-day, moment-to-moment basis.

In order to maintain the discipline and the focus to stay on track toward our goals, we need to have the willpower to do something when we don't want to do it. We need to act according to our values rather than our desires or impulses at any given moment.

### **HABIT 4: Think Win-Win**

In order to establish effective interdependent relationships, we must commit to creating Win-Win situations that are mutually beneficial and satisfying to each party.

Covey explains that there are six paradigms of human interaction:

1. Win-Win: Both people win. Agreements or solutions are mutually beneficial and satisfying to both parties.
2. Win-Lose: "If I win, you lose." Win-Lose people are prone to use position, power, credentials, and personality to get their way.
3. Lose-Win: "I lose, you win." Lose-Win people are quick to please and appease, and seek strength from popularity or acceptance.

4. Lose-Lose: Both people lose. When two Win-Lose people get together -- that is, when two determined, stubborn, ego-invested individuals interact -- the result will be Lose-Lose.
5. Win: People with the Win mentality don't necessarily want someone else to lose -- that's irrelevant. What matters is that they get what they want.
6. Win-Win or No Deal: If you can't reach an agreement that is mutually beneficial, there is no deal.

The best option is to create Win-Win situations. With Win-Lose, or Lose-Win, one person appears to get what he wants for the moment, but the results will negatively impact the relationship between those two people going forward.

The Win-Win or No Deal option is important to use as a backup. When we have No Deal as an option in our mind, it liberates us from needing to manipulate people and push our own agenda. We can be open and really try to understand the underlying issues.

Another important factor in solving for Win-Win situations is maintaining an Abundance Mentality, or the belief that there's plenty out there for everyone.

Most people operate with the Scarcity Mentality -- meaning they act as though everything is zero-sum (in other words, if you get it, I don't). People with the Scarcity Mentality have a very hard time sharing recognition or credit and find it difficult to be genuinely happy about other people's successes. When it comes to interpersonal leadership, the more genuine our character is, the higher our level of proactivity; the more committed we are to Win-Win, the more powerful our influence will be.

To achieve Win-Win, keep the focus on results, not methods; on problems, not people.

Lastly, the spirit of Win-Win can't survive in an environment of competition. As an organization, we need to align our reward system with our goals and values and have the systems in place to support Win-Win.

#### **Practice Success Habit 4:**

Get yourself to start thinking Win-Win with these challenges:

1. Think about an upcoming interaction where you'll be attempting to reach an agreement or solution. Write down a list of what the other person is looking for. Next, write a list next to that of how you can make an offer to meet those needs.
2. Identify three important relationships in your life. Think about what you feel the balance is in each of those relationships. Do you give more than you take? Take more than you give? Write down 10 ways to always give more than you take with each one.
3. Deeply consider your own interaction tendencies. Are they Win-Lose? How does that affect your interactions with others? Can you identify the source of that approach? Determine whether or not this approach serves you well in your relationships. Write all of this down.

### **HABIT 5: Seek First to Understand, Then to Be Understood**

Before we can offer advice, suggest solutions, or effectively interact with another person in any way, we must seek to deeply understand them and their perspective through empathic listening.

Let's say you go to an optometrist and tell him that you've been having trouble seeing clearly, and he takes off his glasses, hands them to you and says, "Here, try these -- they've been working for me for years!" You put them on, but they only make the problem worse. What are the chances you'd go back to that optometrist?

Unfortunately, we do the same thing in our everyday interactions with others. We prescribe a solution before we diagnose the problem. We don't seek to deeply understand the problem first.

Habit 5 says that we must seek first to understand, then to be understood. In order to seek to understand, we must learn to listen.

To listen empathically requires a fundamental paradigm shift. We typically seek first to be understood. Most people listen with the intent to reply, not to understand. At any given moment, they're either speaking or preparing to speak.

After all, communication experts estimate that:

10% of our communication is represented by our words

30% is represented by our sounds

60% is represented by our body language

When we listen autobiographically -- in other words, with our own perspective as our frame of reference -- we tend to respond in one of four ways:

1. Evaluate: Agree or disagree with what is said
2. Probe: Ask questions from our own frame of reference
3. Advise: Give counsel based on our own experience
4. Interpret: Try to figure out the person's motives and behavior based on our own motives and behavior

But if we replace these types of response with empathic listening, we see dramatic results in improved communication. It takes time to make this shift, but it doesn't take nearly as long to practice empathic listening as it does to back up and correct misunderstandings, or to live with unexpressed and unresolved problems only to have them surface later on.

The second part of Habit 5 is " ... then to be understood." This is equally critical in achieving Win-Win solutions.

When we're able to present our ideas clearly, and in the context of a deep understanding of the other person's needs and concerns, we significantly increase the credibility of your ideas.

Practice Success Habit 5:

Here are a few ways to get yourself in the habit of seeking first to understand:

1. Next time you're watching two people communicating, cover your ears and watch. What emotions are being communicated that might not come across through words alone? Was one person or the other more interested in the conversation? Write down what you noticed.
2. Next time you give a presentation, root it in empathy. Begin by describing the audience's point of view in great detail. What problems are they facing? How is what you're about to say offering a solution to their problems?

## HABIT 6: Synergize

By understanding and valuing the differences in another person's perspective, we have the opportunity to create synergy, which allows us to uncover new possibilities through openness and creativity.

The combination of all the other habits prepares us for Habit 6, which is the habit of synergy or "When one plus one equals three or more and the whole is great than the sum of its parts."

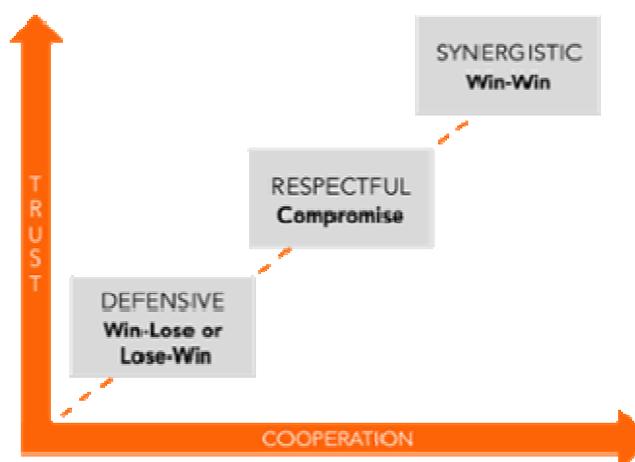
For example, if you plant two plants close together, their roots will co-mingle and improve the quality of the soil, so that both plants will grow better than they would on their own.

Synergy allows us to create new alternatives and open new possibilities. It allows us as a group to collectively agree to ditch the old scripts and write new ones.

So how can we introduce synergy to a given situation or environment? Start with habits 4 and 5 -- you must think Win-Win and seek first to understand.

Once you have these in mind, you can pool your desires with those of the other person or group. And then you're not on opposite sides of the problem -- you're together on one side, looking at the problem, understanding all the needs, and working to create a third alternative that will meet them.

What we end up with is not a transaction, but a transformation. Both sides get what they want, and they build their relationship in the process.



By putting forth a spirit of trust and safety, we will prompt others to become extremely open and feed on each other's insights and ideas, creating synergy.

The real essence of synergy is valuing the differences -- the mental, emotional, and psychological differences between people.

After all, if two people have the same opinion, one is unnecessary. When we become aware of someone's different perspective, we can say, "Good! You see it differently! Help me see what you see."

We seek first to understand, and then we find strength and utility in those different perspectives in order to create new possibilities and Win-Win results.

Synergy allows you to:

- Value the differences in other people as a way to expand your perspective
- Sidestep negative energy and look for the good in others
- Exercise courage in interdependent situations to be open and encourage others to be open
- Catalyze creativity and find a solution that will be better for everyone by looking for a third alternative

Practice Success Habit 6:

1. Make a list of people who irritate you. Now choose just one person. How are their views different? Put yourself in their shoes for one minute. Think and pretend how it feels to be them. Does this help you understand them better?
2. Now next time you're in a disagreement with that person, try to understand their concerns and why they disagree with you. The better you can understand them, the easier it will be to change their mind -- or change yours.
3. Make a list of people with whom you get along well. Now choose just one person. How are their views different? Now write down a situation where you had excellent teamwork and synergy. Why? What conditions were met to reach such fluidity in your interactions? How can you recreate those conditions again?

## HABIT 7: Sharpen the Saw

To be effective, we must devote the time to renewing ourselves physically, spiritually, mentally, and socially. Continuous renewal allows us to synergistically increase our ability to practice each habit. Habit 7 is focused around renewal, or taking time to “sharpen the saw.” It surrounds all of the other habits and makes each one possible by preserving and enhancing your greatest asset -- yourself. There are four dimensions of our nature, and each must be exercised regularly, and in balanced ways:

**Physical Dimension:** The goal of continuous physical improvement is to exercise our body in a way that will enhance our capacity to work, adapt, and enjoy.

To renew ourselves physically, we must:

- Eat well
- Get sufficient rest and relaxation
- Exercise on a regular basis to build endurance, flexibility, and strength

Focusing on the physical dimension helps develop Habit 1 muscles of proactivity. We act based on the value of well-being instead of reacting to the forces that keep us from fitness.

**Spiritual Dimension:** The goal of renewing our spiritual self is to provide leadership to our life and reinforce your commitment to our value system.

To renew yourself spiritually, you can:

- Practice daily meditation
- Communicate with nature
- Immerse yourself in great literature or music

A focus on our spiritual dimension helps us practice Habit 2, as we continuously revise and commit ourselves to our values, so we can begin with the end in mind.

**Mental Dimension:** The goal of renewing our mental health is to continue expanding our mind.

To renew yourself mentally, you can:

- Read good literature
- Keep a journal of your thoughts, experiences, and insights
- Limit television watching to only those programs that enrich your life and mind

Focusing on our mental dimension helps us practice Habit 3 by managing ourselves effectively to maximize the use of our time and resources.

**Social/Emotional Dimension:** The goal of renewing ourselves socially is to develop meaningful relationships.

To renew yourself emotionally, you can:

- Seek to deeply understand other people
- Make contributions to meaningful projects that improve the lives of others
- Maintain an Abundance Mentality, and seek to help others find success

Renewing our social and emotional dimension helps us practice Habits 4, 5, and 6 by recognizing that Win-Win solutions do exist, seeking to understand others, and finding mutually beneficial third alternatives through synergy.

As we focus on renewing ourselves along these four dimensions, we must also seek to be a positive scripter for other people. We must look to inspire others to a higher path by showing them we believe in them, by listening to them empathically, by encouraging them to be proactive.

The real beauty of the 7 Habits is that improvement in one habit synergistically increases our ability to improve the rest. Renewal is the process that empowers us to move along an upward spiral of growth and change, of continuous improvement.

Practice Success Habit 7:

- Make a list of activities that would help you renew yourself along each of the 4 dimensions. Select one activity for each dimension and list it as a goal for the coming week. At the end of the week, evaluate your performance. What led you to succeed or fail to accomplish each goal?

- Commit to writing down a specific “sharpen the saw” activity in all four dimensions every week, to do them, and to evaluate your performance and results.

## Key leadership Characteristics

### A. INTEGRITY - The dictionary defines integrity as “the state of being complete, unified.”

When I have integrity, my words and my deeds match up. I am who I am, no matter where I am or who I am with. Sadly, integrity is a vanishing commodity today.

Integrity is not what we “do” so much as who we “are” (which, in turn, determines what we do). Our system of values is so much a part of us we cannot separate it from ourselves. It becomes the navigating system that guides us. We are all faced with conflicting desires; integrity is the factor that determines which of those desires will prevail. Your influence will grow as people place their confidence in you. The more integrity you demonstrate, the more credible you will be, and the more people will allow you the privilege of influencing their lives. Integrity is important for several reasons:

Integrity builds trust. Dwight Eisenhower said, “In order to be a leader, a man must have followers. And to have followers, a man must have their confidence. Therefore, the supreme quality for a leader is integrity.”

1. Integrity has high influence value. According to a survey of 1,300 senior executives,
2. Integrity is the human quality most necessary to business success.
3. Integrity facilitates high standards. Leaders must live by higher standards than their followers. People often focus on the perks of leadership, but the truth is, the rights decrease, and responsibilities increase, as you climb in an organization. Too many people are ready to assert their rights but not assume their responsibilities.
4. Integrity results in a solid reputation, not just an image. Image is what people think we are. Integrity is what we really are. All of us have known people who were not the same on the outside as they were inside. Thomas Macauley said, “The measure of a man’s real character is what he would do if he would never be found out.”

5. Integrity means “living it” myself before leading others. We can’t lead anyone else farther than we have been ourselves. Too many times we are so concerned about the product that we try to shortcut the process, but there are no shortcuts when integrity is involved.
6. Integrity helps a leader be credible, not just clever. Leaders who are sincere don’t have to advertise the fact. It’s visible in everything they do and soon becomes common knowledge to everyone.
7. Integrity is a hard-won achievement. Integrity isn’t a given in someone’s life. It’s a result of self-discipline, inner trust, and a decision to be relentlessly honest in all situations. If you want to grow in integrity, you need to pursue feedback from those who know you. Ask Them what areas of your life they see as consistent (you do what you say) and what areas they see as inconsistent (you say but don’t always live).

## B. CREATING POSITIVE CHANGE

### Creating a Climate for Change

- The leader must develop a trust with people.
- The leader must make personal changes before asking others to change.
- Good leaders understand the history of the organization.
- Place influencers in leadership positions.
- Develop a meeting agenda that will assist change.
- Encourage influencers to influence others informally.
- Show the people how the change will benefit them.
- Give the people ownership of the change

### Change will happen

Not all change is improvement, but without change there can be no improvement. It’s never too late to change.

## C. PROBLEM-SOLVING

### Four common reasons why people do not perform the way they should

1. They do not know what they are supposed to do.
  2. They do not know how to do it.
  3. They do not know why they should do it
  4. There are obstacles beyond their control.
- We all have Problems
  - Problems give meaning to life
  - People need to change their perspectives, not their problems.
  - Many outstanding people have overcome problems in their lives.
  - A problem is something I can do something about.

A test of a leader is the ability to recognize a problem before it becomes an emergency.

You can judge leaders by the size of the problems they tackle.

- Solve task-problems quickly; people problems will take longer.
- Make a time commitment to people.
- Never solve a problem for a person; solve it with that person.

### **The problem-solving process..**

Identify the problem

- Prioritize the problem.
- Define the problem
- Talk to the right people.
- Get the hard facts.
- Select people to help you in the problem-solving process.
- Collect problem causes
- Collect problem-solving solutions.
- Prioritize and select the best solutions.
- Implement the best solution.
- Evaluate the solution.
- Set up principles or policies to keep problems from recurring.

### **ATTITUDE**

- Life is 10 % what happens to me and 90 % how I react to it.
- We are responsible for our attitudes.
- The leader's attitude helps determine the attitudes of the followers.
- The pessimist complains about the wind.
- The optimist expects it to change.
- The leader adjusts the sails.

#### **The Six Stages of Attitude Change:-**

- Identify problem feelings
- Identify problem behavior
- Identify problem thinking
- Identify right thinking
- Make a public commitment to right thinking.
- Develop a plan for right thinking.

#### **D. VISION**

All effective leaders have a vision of what they must accomplish. That vision becomes the energy behind every effort and the force that pushes through all the problems. With vision, the leader is on a mission and a contagious spirit is felt among the crowd until others begin to rise alongside the leader. Given that, the most common question I get is, "How do I get a vision for my organization?"

This question is crucial. Until it is answered, a person will be a leader in name only. Here are some thoughts to consider as you deliberate on your vision;

1. **Look within you:** What do you feel? What burns inside you? Keeps you up at night? What do you feel passionately about?
2. **Look behind you:** What have you learned? A person without experience sees a vision idealistically, and thinks that vision is enough by itself. A person with experience knows there is more to it; people buy into the leader before they buy into the vision.

3. **Look ahead:** What is the big picture? This question often separates leaders from managers. Leaders are concerned with the organization's basic purpose—why it exists and what it should achieve. They aren't preoccupied with the “how to” or nuts-and bolts aspects of the organization.
4. **Look above you:** Great leaders often sense a “higher calling” that lifts them above themselves.
5. **Look beside you:** what resources are available to you? A vision must be greater than the person who has it. The experienced leader is always looking for others to make the dream come true. The leader continually passes on the vision to those who come around, knowing that dreams, if presented right, are contagious.

Vision is empowering to the leader who has it. The leader with vision believes not only that what he envisions can be done, but that it must be done. And, conviction is contagious, bringing other people along who together can make it happen. A vision is a clear picture of what the leader sees his or her business being or doing. Great leaders know where they are going and they are able to persuade others to follow.

Once a vision is developed, the next step is to communicate it. According to a survey reported by Leadership magazine, communicating a vision is one of the most frustrating areas of leading an organization. But leaders who effectively communicate vision to their followers achieve far more than those who don't.

**Some keys to communicating a vision:**

1. Come alongside the people you are leading and let them see your heart. Cultivate trust; be transparent and patient.
2. Explain the vision. Make the people understand, appreciate and see the vision. Paint the picture for them. Don't just give out information; help them “see” the vision with vivid descriptions, stories, and practical steps they can take to make it happen.

3. Put the things they love in the picture. If what is important to people is part of the vision, they will buy into it.
4. Cultivate trust by bridging the organization's vision and the follower's personal goals.
5. Share the vision's endless possibilities and opportunities with the people. Energize. Keep hope and enthusiasm alive.
6. Allow people to grow as they pursue the vision.
7. Making the vision real requires time. Take the time to reflect and reenergize while trekking the path of the vision.
8. Provide followers with the needed direction—where to begin and what path to follow.
9. Walk with the people in the pursuit of the vision. This forges the commitment between the leader and the follower.
10. Make the people realize their role and valuable contribution to the vision.

#### **E. SELF-DISCIPLINE....**

I defined discipline in the beginning of life as the choice of achieving what you really want by doing things you don't really want to do. After successfully doing this for some time, discipline becomes the choice of achieving what you really want by doing things you now want to do. All great leaders understand that their number one responsibility is for their own discipline and personal growth. If they couldn't lead themselves, they could not lead others. Leaders can never take others farther than they have gone themselves.

Personal discipline can be developed. The earlier you start, the better. What you are going to be tomorrow, you are becoming today. It is essential to begin developing self-discipline in a small way today in order to be disciplined in a big way tomorrow. Pick an area to start on, and work on it for 60 days before you go on to another area. Get books and tapes to motivate and instruct you; ask someone who has the trait to hold you accountable for it.

Celebrate your successes. Remember, having it all doesn't mean having it all at once. Start small and concentrate on today. The slow accumulation of discipline will one day make a big difference.

## F. Staff Development

The growth and development of people is the highest calling of leadership. Those closest to the leader will determine the level of success for that leader. Developing a winning team is the most effective way to impact the world, and a team will always have a greater impact than an individual.

Winning teams have great leaders, who create the right environment for success. They intentionally boost the self-esteem of their personnel. They know and attend to people's basic human needs.

Winning teams pick good people. To do this you need to know what kind of person you need (what kind of qualities should they have in their life), what the job requires, and what the potential staff member wants. When these things line up, the stage is set for a winning team to emerge.

## Ten thoughts on people skills

### 1. The three levels of people/work skills:

- Level 1: The person who works better with people is a follower.
- Level 2: The person who helps people work better is a manager.
- Level 3: The person who develops better people to work is a leader.

### 2. Principles for people development

- Value of people—attitude.
- Commitment to people—time.
- Integrity with people—character
- Standard for people—vision.
- Influence over people—leadership.

### 3. Successful People Developers Make the Right Assumptions about People..

- Everyone wants to feel worthwhile.
- Everyone needs and responds to encouragement.
- People tend to become what the most important people in their lives think they will become.
- People “buy into” the leader before they “buy into” his or her leadership.
- People do not care how much you know until they know how much you care.
- Most people do not know how to be successful
- Failure is the opportunity to begin again more intelligently.
- Most people are naturally motivated.

### 4. What motivates people?

- Significant contributions
- Goal participation
- Recognition
- Clear expectations

### 5. What de-motivates people?

- Don't belittle anyone.
- Don't manipulate anyone.
- Don't be insensitive.
- Don't discourage personal growth.

**6. Successful leaders :-**

- Admitted their mistakes and accepted the consequences, rather than trying to blame others.
- They were able to get along with a wide variety of people.
- They had strong interpersonal skills, sensitivity to others, and tact.
- They were calm and confident, rather than moody and volatile.
- Listen well enough to lead through their eyes
- Relate well enough to communicate with their hearts
- Work well enough to place tools in their hands
- Think well enough to challenge and expand their minds.

**7. The principle causes of unrest among workers are:-**

- Failure to give credit for suggestions.
- Failure to correct grievances
- Failure to encourage
- Criticizing employees in front of other people.
- Failure to ask employees their opinions
- Failure to inform employees their progress
- Favouritism.

**8. The qualities of winners:-**

- Winners are less sensitive to disapproval and rejection—they brush it off.
- Winners think “bottom line.”
- Winners focus on the task at hand.
- Winners are not superstitious—they say, “that’s life.”
- Winners refuse to equate failure with self-worth.
- Winners don’t restrict thinking to established, rigid patterns.

- Winners see the big picture.
- Winners welcome challenge with optimism.
- Winners don't waste time in unproductive thought.

9. **Five things winning team members need to know...:-**

- What is expected from each one.
- That each will have an opportunity to perform.
- How each one is getting along.
- That guidance will be given where each needs it.
- That each will be rewarded according to his contribution.

10. **The ten rules of confrontation.**

1. Do it privately, not publicly.
2. Do it as soon as possible. That is more natural than waiting a long time.
3. Speak to one issue at a time. Don't overload the person with a long list of issues.
4. Once you've made a point don't keep repeating it.
5. Deal only with actions the person can change.
6. Avoid sarcasm. It signals that you are angry at people, not at their actions, and may cause them to resent you.
7. Avoid words like always and never. They usually detract from accuracy and make people defensive.
8. Present criticisms as suggestions or questions if possible.
9. Don't apologize for the confrontational meeting. Doing so detracts from it and may indicate you are not sure you had the right to say what you did.
10. Don't forget the compliments. Use what I call the "sandwich" in these types of meetings: Compliment—Confront—Compliment.

## Leadership Stories

## The Evolution of a Leader - Steve Jobs

Steve Jobs is a classic example of someone who was probably not born to be a leader. After starting Apple Computer from his garage in 1976 he was fired by the board of directors in 1985 when the company was under intense competition and he disagreed with the CEO on of the future direction of the business. After founding Pixar Animation Studios and NeXT Computer he was eventually rehired by Apple in 1997 as CEO and went on to develop the revolutionary iPod, iPhone, and many other products.

By all accounts, Steve Jobs was a very mercurial genius who early in his career routinely yelled at employees, co-workers, partners, and vendors. According to some ex-employees of Apple and NeXT, he was intolerant of anything he viewed as a failure and his foul-mouthed tirades were the stuff of legend. He apparently believed in being brutally honest with others and that their feelings were irrelevant. He did not conduct formal reviews with employees and was very sparing with praise for a job well done.

However, according to recent biographies as he matured his management style began to shift and he began to moderate some of his more negative traits and have more empathy for others, realizing that people had limits. Upon his return to Apple, he was forced to cut staff and was quoted as expressing concern for families of employees that were laid off.

Famous quotes by Steve Jobs:

"Being the richest man in the cemetery doesn't matter to me. Going to bed at night saying we've done something wonderful, that's what matters to me."

"Innovation distinguishes between a leader and a follower."

"Be a yardstick of quality. Some people aren't used to an environment where excellence is expected."

"I want to put a ding in the universe."

## Examples of Jack Welch

Jack Welch exhibited leadership as chief executive officer (CEO) of General Electric Co. from 1981 to 2001. He played an integral part in 600 acquisitions in emerging markets and

increased GE's market value from \$12 billion to \$505 billion. Because things are constantly changing, Welch insisted everyone at GE embrace change. To continue evolving company operations and producing greater output, managers and employees had to continuously reinvent themselves and their work.

Welch hired managers who shared his vision of GE, had endless amounts of energy, and were able to encourage employees to stay engaged in their work. He sought managers who created, developed and refined ideas for the future, and found ways to make them a reality. He also insisted that managers work side-by-side with employees as a way of understanding what they were doing and why.

As a result of Welch's leadership style, managers and employees were more empowered, products gained higher quality, and customer satisfaction and profits increased dramatically.

#### **Konosuke Matsushita the Panasonic Way.**

In Japan in 1917, a 23-year-old apprentice at the Osaka Electric Light Company with no formal education came up with an improved light socket. His boss wasn't interested so young Matsushita started making samples in his basement. He later expanded with battery-powered bicycle lamps and other electronic products. Matsushita Electric, as it was known until 2008 when the company officially changed its name to Panasonic, is now worth \$66 billion.

#### **The Howard Schultz way.**

A trip to Milan gave a young marketer working for a Seattle coffee bean roaster an idea for upscale espresso cafes like they have all over Italy. His employer had no interest in owning coffee shops but agreed to finance Schultz's endeavor. They even sold him their brand name, Starbucks.

The Pierre Omidyar way. In 1995, a computer programmer started auctioning off stuff on his personal website. AuctionWeb, as it was then known, was really just a personal project, but, when the amount of web traffic made it necessary to upgrade to a business Internet account,

Omidyar had to start charging people fees. He actually hired his first employee to handle all the payment checks. The site is now known as eBay.

### **Jan Koum**

Jan Koum, the founder of WhatsApp, was born in a small village near Kiev in Ukraine. Coming from poverty, Koum's family emigrated to California, and Koum started learning about computers in his spare time. By the time he was 18, he had developed impressive skills, and in 1997, he was hired by Yahoo! as an infrastructure engineer.

He spent a decade in that industry before realizing the huge potential of the app industry in 2009 and starting WhatsApp Inc. By 2014, WhatsApp had become enormously popular. Facebook bought the app for a staggering \$19 billion.

### **Sam Walton**

It's almost ironic that Walmart is frequently criticized for underpaying its employees and using cutthroat tactics to maximize profits. Sam Walton, Walmart's founder, had almost nothing to his name himself when he started his first general store back in 1945.

He relied on a \$25,000 loan from his father-in-law to fund that initial purchase, and was an instant success in the retail industry. The first official Walmart was opened in 1962, in Rogers, Ark.; and by 1976, Walmart was worth more than \$176 million. At one point, Walton was considered the wealthiest man in the United States.

### **Oprah Winfrey, Chairman Harpo, Inc.**

The first African-American woman to become a billionaire, Oprah overcame her own trials and tribulations stemming from child abuse. Oprah began her television career at seventeen and her star was lit when she turned around the failing "AM Chicago" show. Oprah's business and career success can be attributed to her passion for helping others.

Oprah clearly states her corporate mission for The Oprah Winfrey Show "...is to use television to transform people's lives, to make viewers see themselves differently and to bring happiness and a sense of fulfillment into every home."

### **Amazon.com**

Fired up in Jeff Bezos' garage in 1994, Amazon.com was driven by what Bezos describes as his "regret minimization framework," designed to reduce the regret he might otherwise have felt for not participating in the lucrative Internet business boom. When trying to decide whether to quit his stable job to create his online bookstore, Bezos remembers, "If I failed I wouldn't regret that, but I knew the one thing I might regret is not ever having tried. I knew that that would haunt me every day, and so . . . it was an incredibly easy decision." In the first two months, Amazon sold to all 50 states and more than 45 countries, averaging \$20,000 per week. Today, it is the largest online retailer in the world.

### **Boeing**

After William E. Boeing cracked the plane he had bought for fun, he was told replacement parts wouldn't be ready for months. Angry, Boeing told a friend they could build a better machine. In 1916, the duo built a seaplane that performed extremely well, prompting Boeing to launch his own aircraft business.

### **Dropbox**

Drew Houston, Founder and current CEO of Dropbox, was a student at MIT when the trouble of forgetting his USB too often led him to envision his successful cloud-based file sharing service. We're glad Houston is forgetful.

### **Coca-Cola**

Coca-Cola surfaced from the experiments of a wounded Civil War veteran, John Pemberton, who tried using coca leaves and kola nuts to counteract his addiction to morphine. Pemberton named his medicinal tonic, “Pemberton’s French Wine Coca,” advertising it as capable of reducing nervousness and irregular organ behavior.

### **FedEx**

As a student at Yale University, Frederick Smith turned in an economics paper outlining an overnight delivery service for the up-and-coming computer information age. After Smith went on to realize the company on his own, he told a reporter that he didn’t know what grade he’d gotten on his original paper—“probably made my usual C.” For years, sample packages in FedEx advertisements held a return address at Yale.

### **General Motors**

The founder of a successful horse drawn carriage company, William C. Durant initially doubted the automobile—it was stinky, loud and dangerous, and he certainly wouldn’t let his daughter ride in one. But in 1900, he heard the worried cries of the public concerning the dangers of cars, and Durant saw a niche opportunity to focus on improved safety. He went on to become one of the leading pioneers in the American automobile industry by founding General Motors in Detroit, where headquarters remain today.

### **Google**

Larry Page was a computer science Ph.D. student at Stanford when he wrote his dissertation on the structure of the World Wide Web. His interest sufficiently piqued, Page focused on defining how web pages linked to each other. He thought there must be something valuable about the number and nature of the links, and as it turns out, the rest of the world seemed to think so too.

**John Deere**

Tales abound as to how John Deere invented his famous steel plow. Before becoming a blacksmith in 1825, Deere worked at his father's tailor shop, where he polished and sharpened needles by running them through sand. As one version of the story goes, Deere used this experience to predict that a correctly shaped plow made of highly polished steel would be much more efficient than iron. In another account, Deere is said to have modeled his plow after the way a steel pitchfork moves through soil and hay.

**Marriott International**

Having experienced the sweaty summers of Washington, D.C. as a Mormon missionary, J. Willard Marriott figured he could turn a profit by offering downtown pedestrians a cooling refreshment. In 1927, Marriott and his wife started a nine-stool root beer stand. Wintertime brought chili and sandwiches to the menu, and then after 30 years in the food business, Marriott's stand had grown to 56 restaurants. When air travel was on the rise in 1953, Marriott embarked on a \$7 million venture to build a motor hotel near the Washington National Airport. It turned out to be a good idea. Today, Marriott's lodging and restaurant business is worth \$3.5 billion.

**Mattel**

Barbie and Hot Wheels came to life because Mattel founders Ruth and Elliot Handler began selling picture frames shortly after World War II. With the leftover scraps, Handler built dollhouse furniture to make a little extra cash. Realizing the miniature toys were more lucrative, the Handlers switched their business model and skyrocketed Mattel to become one of the top toy makers in the country.

**Trader Joe's**

Joe Coulombe's small group of convenience stores was dangerously close to the same model as the already popular 7-Eleven chain in his California area. To differentiate his

brand, Coulobme went with a South Seas motif after traveling around the Caribbean, noticing touristy Americans would go home with newfound tastes for foods they couldn't get in regular grocery stores. Offering just that, the first Trader Joe's market opened in 1967.

### **Under Armour**

Kevin Plank, a former fullback at the University of Maryland, got tired of swapping out the sweaty shirts underneath his jersey. He noticed, however, that his compression shorts stayed dry. So in 1996, from his grandmother's basement, Plank created a shirt using similar moisture-wicking synthetic fabric. His resulting line of Under Armour clothing went on to revolutionize the sportswear industry.

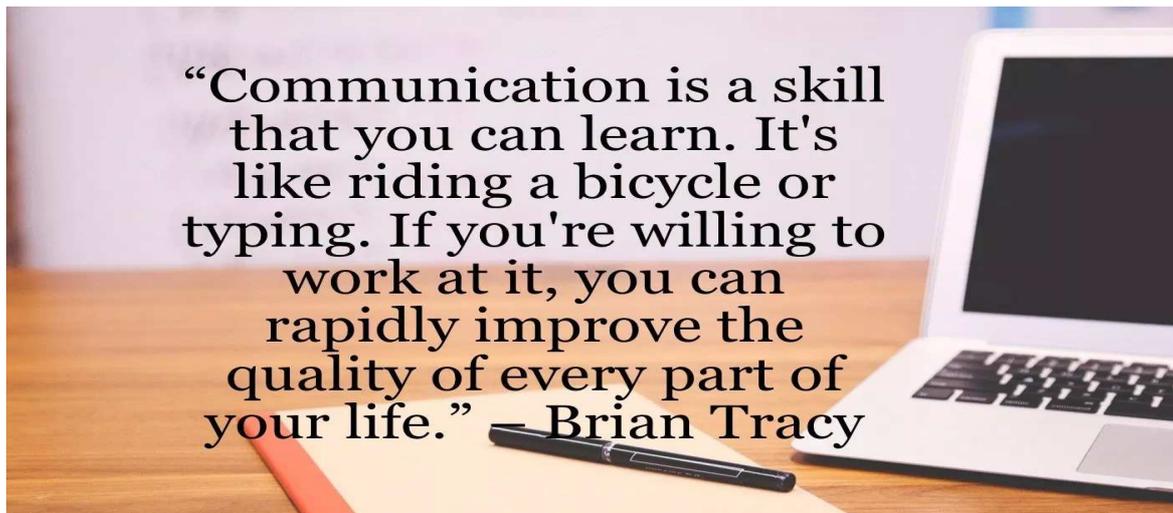
### **Walt Disney Company**

Growing up on a Missouri farm, Walt Disney developed a love for drawing from the requests of his neighbour, a retired doctor named "Doc" Sherwood, who paid Disney to draw pictures of his horse. Disney later became a newspaper cartoonist and commercial artist, where he learned how to make commercials based with cutout animations. His fascination with animation inspired him to establish his own cartoon studio and eventually become the face of the golden age of animation.

### **Wrigley**

After moving to Chicago in 1891 with just \$32 in his pocket, William Wrigley, Jr. began a soap business. As an incentive to buy the soap, Wrigley threw in a free can of baking powder. Soon finding baking powder was more popular than soap, he switched businesses. A year later, Wrigley started throwing in chewing gum for buying baking powder. When chewing gum made a bigger profit than baking powder, Wrigley shifted businesses once again. His success with gum, however, stuck considerably well. Juicy Fruit, anyone?





# 3. Communication

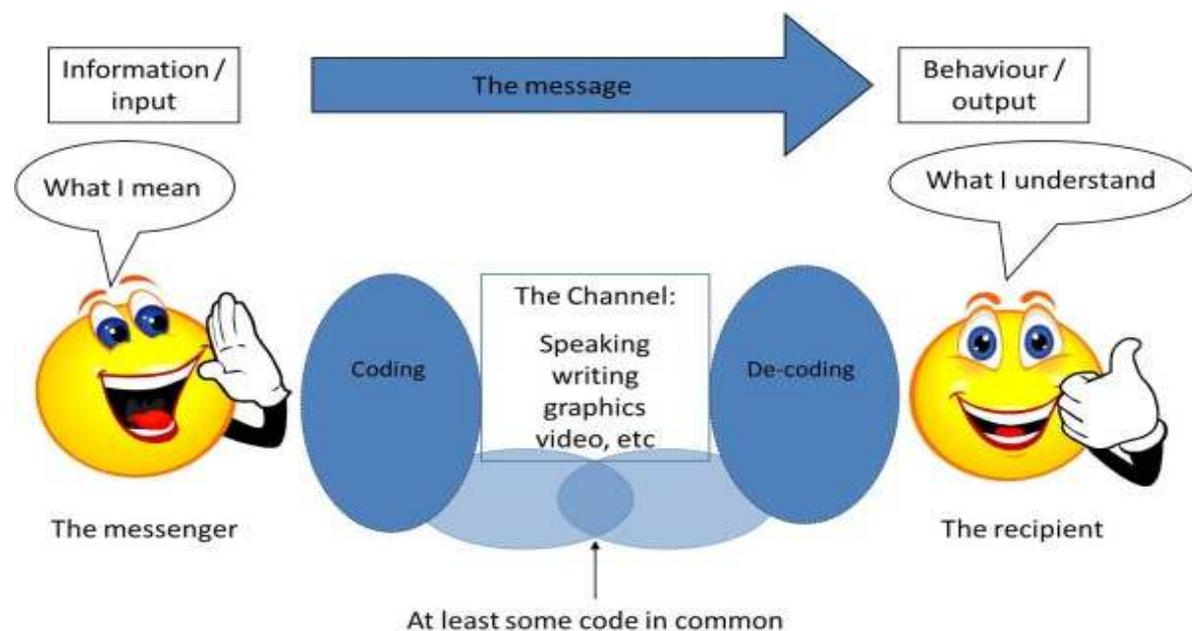
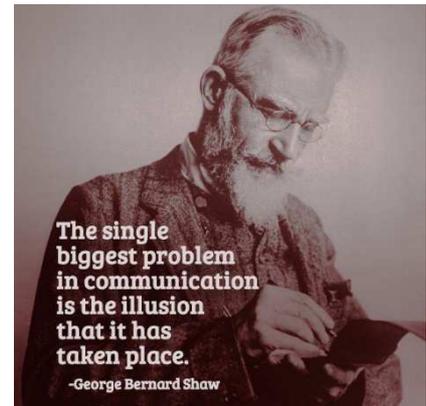
## Skills

## Introduction

Communication tools and understanding is probably at point like no other time in history. Yet we are all exposed to the difficulties of communication at all levels, organizations, families, friends at all levels. This has also meant that people who have mastered communication have an edge over others and have tasted greater success in life, work and play.

On the two sides of the communication line lies two people who are unique and very different from each other at times there would be more similarities than differences but nevertheless very different.

And here lies the critical factor, how do we understand the person on the other end, how do we ensure that the message relayed has been heard in its full meaning. For an effective communication process we need to deal with these challenges.



Behavioural scientist and psychologists have over the years presented various theories and studies on our personalities, communication preferences, learning styles, gender differences in communication and the impact of our worldview on communication. A wider

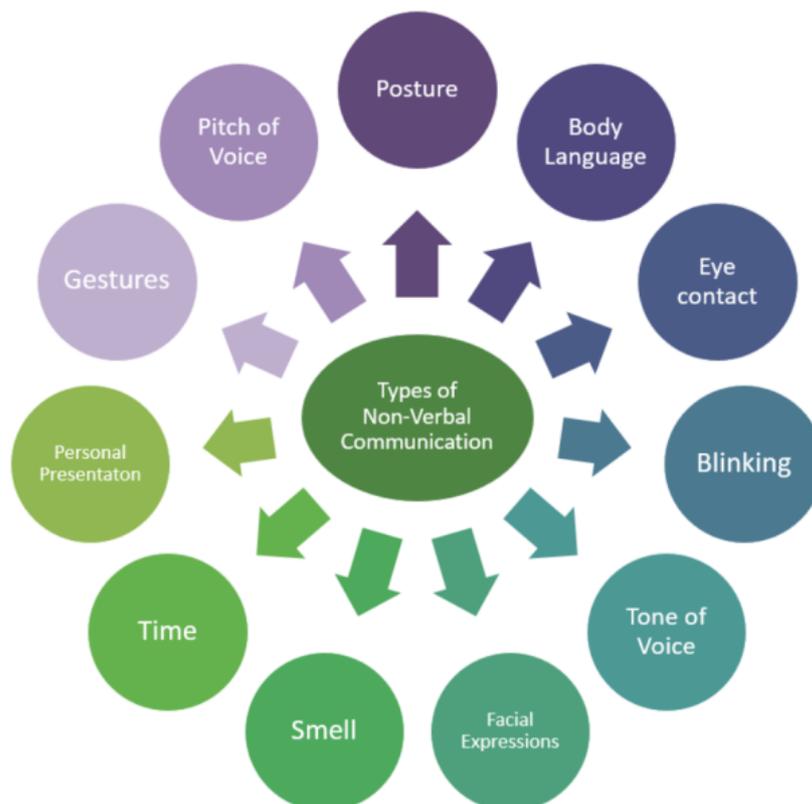
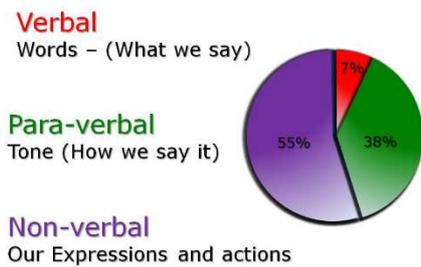
understanding of the different personality styles, communications styles of men and women would definitely assist us in our communication. It must be noted that most of them are theories and therefore does not apply across as a definitive rule but are sure guidelines to help us understand and better communicate with each other.

The foundation to all of this is a sound understanding of the process as shown in the above image.

The critical understanding is that like any other skill communication is a skill that can be mastered over time, whilst communication should never be confused with a language skills, language skills do assist in communication.

In business it is often a story that needs to be communicated, be it your products, services or goods there is a story. Dilmah communicated their story of tea around the world, most of the brands tell their story, the coca cola advertisements tell their story, when you look at successful business communicators they have been able to inspire others with their story. The story of their product, the story of what their product will do in our lives or where it will take us. People buy stories. Therefore, never ignore the power of storytelling; get your staff to learn

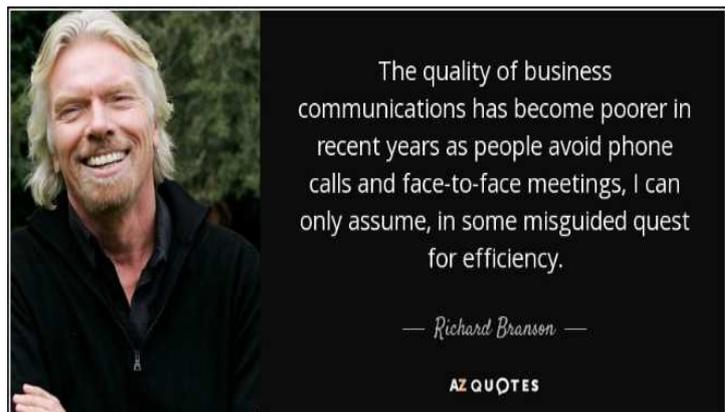
**How We Communicate**



to tell stories of your products, customer service, offers etc. People identify with stories, remember stories and are moved with stories. Stories are powerful. Business communication for SME's is about inspiring people. Eg. If you are running a business providing people driving learning as a learner, don't tell your customers about the number of drives or the vehicles but rather tell them about someone who could not drive who walked in and you trained and got the license and now working or driving without any accidents etc. So, you need to be open all the time to identify the stories that you could pick up. You need to look for stories, since your story has to be authentic. When you are recruiting tell them the story. How you are equipping people to be confident behind the wheel, share your vision connecting to your story and invite them to be part of this big story. People tend to misunderstand words but can related better to a story. Develop stories about your journey, vision, products, service, creativity, etc.

## Definitions

**Communication** - A process by which information is exchanged between individuals through a common system of symbols, signs, or behaviour.



**Business communication** is information sharing between people within and outside an organization that is performed for the commercial benefit of the organization. It can also be defined as relaying of information within a business by its people.

**Mass communication:** Mass communication is a process of transmitting information, thoughts, opinions or attitude through specific channel or media to a large number of heterogeneous audiences.

**Personal communication:** When people exchanged information related to their personal life or personal affair is known as personal communication.

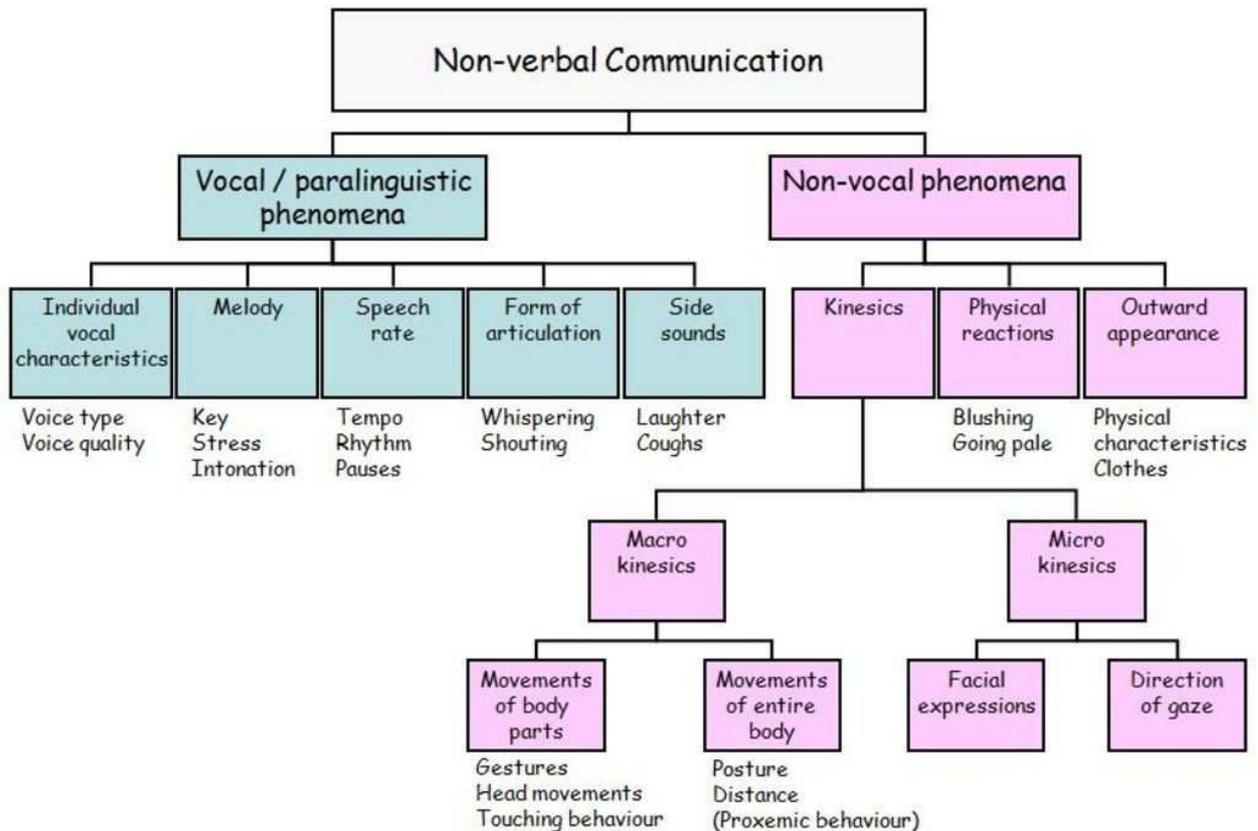
**Interpersonal communication:** Interpersonal communication occurs when two individuals are involved or exchanging information, ideas, opinions, feelings relating to the personal, social, organizational, national and international matter who are located in the same place. It is a process of face-to-face communication between individuals where messages may be verbal (that is, expressed in words) or they may not involve words at all but consist of gestures, facial expressions, and certain postures (body language).

**Formal communication:** Formal communication is the process of exchanging information by following the prescribed or official rules, procedures, systems formalities, chain of command etc. in the organizational structure.

**Informal communication:** Informal communication is the process of spontaneous exchange of information among various people of different status in the organizational structure.

## Verbal and Non-Verbal Communication

Communication is both verbal and nonverbal as the images depict we communicate more with the non-verbal and words we use have very little lasting impact, As you glance through this document what will be easier to remember, identify or understand, is it the images or the written details? I believe it will be the images. In terms of impact what we retain and learn the most is when we experience and that is the reason most trainings focus on facilitation and participatory activities. Case studies, games and activity people are involved will have a greater learning outcome. That is why debriefing become a critical skill and a need following up in order to facilitate the learning amongst the participants. A more detailed diagram of the nonverbal communication is given below.



### *Nonverbal communication can play five roles*

- **Repetition:** It repeats and often strengthens the message you're making verbally.
- **Contradiction:** It can contradict the message you're trying to convey, thus indicating to your listener that you may not be telling the truth.
- **Substitution:** It can substitute for a verbal message. For example, your facial expression often conveys a far more vivid message than words ever can.
- **Complementing:** It may add to or complement your verbal message. As a boss, if you pat an employee on the back in addition to giving praise, it can increase the impact of your message.
- **Accenting:** It may accent or underline a verbal message. Pounding the table, for example, can underline the importance of your message.

**The many different types of nonverbal communication or body language include:**

**Facial expressions.** The human face is extremely expressive, able to convey countless emotions without saying a word. And unlike some forms of nonverbal communication, facial expressions are universal. The facial expressions for happiness, sadness, anger, surprise, fear, and disgust are the same across cultures.

**Body movement and posture.** Consider how your perceptions of people are affected by the way they sit, walk, stand, or hold their head. The way you move and carry yourself communicates a wealth of information to the world. This type of nonverbal communication includes your posture, bearing, stance, and the subtle movements you make.

**Gestures.** Gestures are woven into the fabric of our daily lives. You may wave, point, beckon, or use your hands when arguing or speaking animatedly, often expressing yourself with gestures without thinking.

**Eye contact.** Since the visual sense is dominant for most people, eye contact is an especially important type of nonverbal communication. The way you look at someone can communicate many things, including interest, affection, hostility, or attraction. Eye contact is also important in maintaining the flow of conversation and for gauging the other person's interest and response.

**Touch.** We communicate a great deal through touch. Think about the very different messages given by a weak handshake, a warm bear hug, a patronizing pat on the head, or a controlling grip on the arm, for example.

**Space.** Have you ever felt uncomfortable during a conversation because the other person was standing too close and invading your space? We all have a need for physical space, although that need differs depending on the culture, the situation, and the closeness of the relationship. You can use physical space to communicate many different nonverbal messages, including signals of intimacy and affection, aggression or dominance.

**Voice.** It's not just what you say, it's how you say it. When you speak, other people "read" your voice in addition to listening to your words. Things they pay attention to include your timing and pace, how loud you speak, your tone and inflection, and sounds that convey

understanding, such as “ahh” and “uh-huh.” Think about how your tone of voice can indicate sarcasm, anger, affection, or confidence.

### Barriers to Sending Consistent Messages

We sometimes send confusing or negative non-verbal signals without knowing it. Many things can compromise our ability to communicate effectively: -

**Our stress level:** When we are experiencing personal or work-related stressors, we may be more likely to misread other people’s messages and to send inconsistent or negative non-verbal signals. This may make it more likely for us to display inappropriate behaviours (e.g., yelling, blaming or impatience).

- **Our well-being** (psychological and/or physical): If we are not feeling well physically or emotionally, we can be more likely to focus on the negative aspects of a conversation and we may be more likely to send negative or uncaring non-verbal signals. –

**Distraction:** If we are distracted by thoughts or our environment (e.g., looking at emails on our computer screen while speaking to a worker) our non-verbal signals almost certainly convey disinterest. We may give people the impression that we don’t care or are not listening, even when this may not be true.

## Characteristics of Non-Verbal Communication

Non-verbal communication is any information that is communicated without using words. The important characteristics of non-verbal communication are as follows:

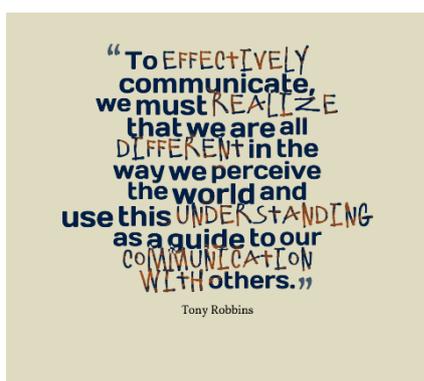
- **No use of words:** Non-verbal communication is a communication without words or language like oral or written communication. It uses gestures, facial expressions, eye contact, physical proximity, touching etc. for communicating with others.
- **Culturally determined:** Non-verbal communication is learnt in childhood, passed on to you by your parents and others with whom you associate. Through this process of

growing up in a particular society, you adopt the taints and mannerisms of your cultural group.

- **Different meaning:** Non-verbal symbols can many meanings. Cross-culture aspects give various meanings to same expression in respect of non-verbal communication.
- **Vague and imprecise:** Non-verbal communication is quite vague and imprecise. Since in this communication there is no use of words or language which expresses clear meaning to the receiver.
- **May conflict with verbal message:** Non-verbal communication is so deeply rooted, so unconscious, that you can express a verbal message and then directly contradict it with a nonverbal message.
- **Largely unconscious:** Non-verbal communication is unconscious in the sense that it is usually not planned nor rehearsed. It comes almost instantaneously.
- **Shows feelings and attitudes:** Facial expressions, gestures, body movements, the way you use your eyes – all communicate your feelings and emotions to others.
- **Informality:** Non verbal communication does not follow any rules, formality or structure like other communication. Most of the cases people unconsciously and habitually engaged in *non-verbal communication* by moving the various parts of the body

## Code system in communication

Communication is the transfer of information. If you want someone to do something you could give him detailed instructions telling him exactly what to do. This would be accurate



but it might take rather a long time. It would be much easier if you could simply say to him: “Go ahead and carry out plan number 4.” This simple sentence might replace pages of instruction. In the military world certain complex patterns of behaviour are coded in this manner so that one only has to specify the code number for the whole pattern of behaviour to be activated. It is the same with computers:

much used programmes are stored under a particular heading and one can call them into use by just specifying that heading. When you go into, a library to get a book you could describe in detail the book you wanted, giving author, title, subject, general outline etc. Instead of all that you could just give the code number from the catalogue. Communication by code can only work if there are preset patterns. These patterns which may be very complex are worked out beforehand and are available under some code heading. Instead of transferring all the required information you just transfer the code heading. That code heading acts as a trigger word which identifies and calls up the pattern you want. This trigger word can be an actual code heading such as the name of a film or it can be some part of the information which acts to call up the rest.

Language itself is the most obvious code system with the words themselves as triggers. There are great advantages in any code system. It is easy to transfer a lot of information very quickly and without much effort. It makes it possible to react appropriately to a situation as soon as the situation is recognized from its code number without having to examine it in detail. It makes it possible to react appropriately to a situation before the situation has even developed fully by identifying the situation from the initial aspects of it.<sup>1</sup>

Therefore, our own understanding or the interpretation of words, codes, symbols result in how we understand and or accept the message. The meaning to the words, codes and symbols are given through our own worldviews, background, childhood learning and experiences. It becomes therefore important for us to interpret these words and meanings from the sender's worldview. If not, we will be looking at the information from our own colored lenses.

## Effective and ineffective Listening Skills

Most people spend more time listening than they spend on any other communication activity, yet a large percentage of people never learn to listen well. One reason is that they develop poor listening habits that continue with them throughout life. The following list contains some of the most **common poor listening habits**:

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<sup>1</sup> Extracted from Lateral Thinking by Edward Bo No

**Not Paying Attention.** Listeners may allow themselves to be distracted or to think of something else. Also, not wanting to listen often contributes to lack of attention.

**“Pseudo-listening.”** Often people who are thinking about something else deliberately try to look as though they were listening. Such pretense may leave the speaker with the impression that the listener has heard some important information or instructions offered by the speaker.

**Listening but Not Hearing.** Sometimes a person listens only to facts or details or to the way they were presented and misses the real meaning.

**Rehearsing.** Some people listen until they want to say something; then they quit listening, start rehearsing what they will say, and wait for an opportunity to respond.

**Interrupting.** The listener does not wait until the complete meaning can be determined, but interrupts so forcefully that the speaker stops in mid-sentence.

**Hearing What Is Expected.** People frequently think they heard speakers say what they expected them to say. Alternatively, they refuse to hear what they do not want to hear.

**Feeling Defensive.** The listeners assume that they know the speaker’s intention or why something was said, or for various other reasons, they expect to be attacked.

**Listening for a Point of Disagreement.** Some listeners seem to wait for the chance to attack someone. They listen intently for points on which they can disagree.

One way people can improve their listening is to identify their own poor listening habits and make an effort to change them. If the listeners will then pay special attention to the circumstances that seem to invite such behaviour, they can consciously attempt to change their habits. For example, if you realize that you are “pseudo-listening” to someone, you can stop and ask that person to repeat his or her last idea. You can even say, “I’m sorry; my mind was wandering.” The more you become conscious of poor listening behaviour, the more likely you are to change your poor listening habits. Besides ridding themselves of bad listening habits, people can acquire positive listening habits. Listed below are a few descriptions of behaviour that can lead to **effective listening**:

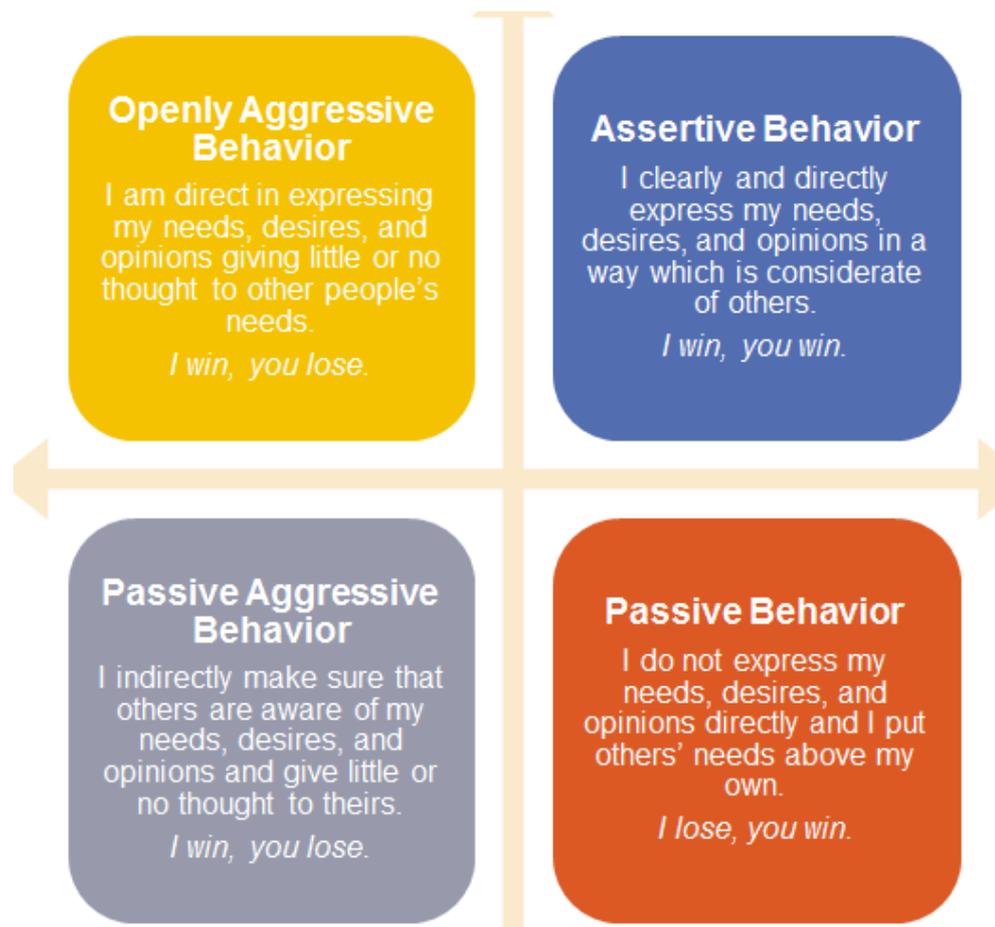
**Paying Attention.** If people really want to be good listeners, they must, on occasion, force themselves to pay attention to the speakers. When speakers are dull conversationalists, a listener must sometimes use effort to keep from being distracted by other things. It is important not only to focus on the speakers, but to use nonverbal cues (such as eye contact, head nods, and smiles) to let them know they are being heard.

**Listening for the Whole Message.** This includes looking for meaning and consistency or congruence in both the verbal and nonverbal messages and listening for ideas, feelings, and intentions as well as facts. It also includes hearing things that are unpleasant or unwelcome.

**Hearing Before Evaluating.** Listening to what someone says without drawing premature conclusions is a valuable aid to listening. By questioning the speaker in a non-accusing manner, rather than giving advice or judging, a listener can often discover exactly what the speaker has in mind—which many times is quite different from what the listener had assumed.

**Paraphrasing What Was Heard.** If the listener non-judgmentally paraphrases the words of the speaker and asks if that is what was meant, many misunderstandings and misinterpretations can be avoided.

## The Four Styles of Communication



Learning to identify the different communication styles - and recognising which one we use most often in our daily interactions with friends, family and colleagues - is essential if we want to develop effective, assertive communication skills. But how can we tell the difference between the styles, and is there a time and place for each one in certain situations? Whilst these are not personality traits, these are learnt and can be easily unlearned and adjusted. Every person has a unique communication style, a way in which they interact and exchange information with others. There are four basic communication styles: passive, aggressive, passive-aggressive and assertive. It's important to understand each communication style, and why individuals use them

**1. PASSIVE COMMUNICATION** is a style in which individuals have developed a pattern of avoiding expressing their opinions or feelings, protecting their rights, and identifying and

meeting their needs. As a result, passive individuals do not respond overtly to hurtful or anger-inducing situations. Instead, they allow grievances and annoyances to mount, usually unaware of the build-up. But once they have reached their high tolerance threshold for unacceptable behaviour, they are prone to explosive outbursts, which are usually out of proportion to the triggering incident. After the outburst, however, they may feel shame, guilt, and confusion, so they return to being passive.

**Passive communicators will often:**

- ♣ fail to assert for themselves
- ♣ allow others to deliberately or inadvertently infringe on their rights
- ♣ fail to express their feelings, needs, or opinions
- ♣ tend to speak softly or apologetically
- ♣ exhibit poor eye contact and slumped body posture

**The impact of a pattern of passive communication is that these individuals:**

- ♣ often feel anxious because life seems out of their control
- ♣ often feel depressed because they feel stuck and hopeless
- ♣ often feel resentful (but are unaware of it) because their needs are not being met
- ♣ often feel confused because they ignore their own feelings
- ♣ are unable to mature because real issues are never addressed

**A passive communicator will say, believe, or behave like:**

- ♣ “I’m unable to stand up for my rights.”
- ♣ “I don’t know what my rights are.”

- ♣ "I get stepped on by everyone."
- ♣ "I'm weak and unable to take care of myself."
- ♣ "People never consider my feelings."

**2. AGGRESSIVE COMMUNICATION** is a style in which individuals express their feelings and opinions and advocate for their needs in a way that violates the rights of others. Thus, aggressive communicators are verbally and/or physically abusive.

**Aggressive communicators will often:**

- ♣ try to dominate others
- ♣ use humiliation to control others
- ♣ criticize, blame, or attack others
- ♣ be very impulsive
- ♣ have low frustration tolerance
- ♣ speak in a loud, demanding, and overbearing voice
- ♣ act threateningly and rudely
- ♣ not listen well
- ♣ interrupt frequently
- ♣ use "you" statements
- ♣ have an overbearing or intimidating posture

**The impact of a pattern of aggressive communication is that these individuals:**

- ♣ become alienated from others
- ♣ alienate others

- ♣ generate fear and hatred in others
- ♣ always blame others instead of owning their issues, and thus are unable to mature

**The aggressive communicator will say, believe, or behave like:**

- ♣ “I’m superior and right and you’re inferior and wrong.”
- ♣ “I’m loud, bossy and pushy.”
- ♣ “I can dominate and intimidate you.”
- ♣ “I can violate your rights.”
- ♣ “I’ll get my way no matter what.”
- ♣ “You’re not worth anything.”
- ♣ “It’s all your fault.”
- ♣ “I react instantly.”
- ♣ “I’m entitled.”
- ♣ “You owe me.”
- ♣ “I own you.”

**3. PASSIVE-AGGRESSIVE COMMUNICATION** is a style in which individuals appear passive on the surface but are really acting out anger in a subtle, indirect, or behind-the-scenes way. People who develop a pattern of passive-aggressive communication usually feel powerless, stuck, and resentful – in other words, they feel incapable of dealing directly with the object of their resentments. Instead, they express their anger by subtly undermining the object (real or imagined) of their resentments.

**Passive-Aggressive communicators will often:**

- ♣ mutter to themselves rather than confront the person or issue

- ♣ have difficulty acknowledging their anger
- ♣ use facial expressions that don't match how they feel - i.e., smiling when angry
- ♣ use sarcasm
- ♣ deny there is a problem
- ♣ appear cooperative while purposely doing things to annoy and disrupt
- ♣ use subtle sabotage to get even

**The impact of a pattern of passive-aggressive communication is that these individuals:**

- ♣ become alienated from those around them
- ♣ remain stuck in a position of powerlessness (like POWs)
- ♣ discharge resentment while real issues are never addressed so they can't mature

**The passive-aggressive communicator will say, believe, or behave like:**

- ♣ "I'm weak and resentful, so I sabotage, frustrate, and disrupt."
- ♣ "I'm powerless to deal with you head on so I must use guerilla warfare."
- ♣ "I will appear cooperative but I'm not."

**4. ASSERTIVE COMMUNICATION** is a style in which individuals clearly state their opinions and feelings, and firmly advocate for their rights and needs without violating the rights of others. These individuals value themselves, their time, and their emotional, spiritual, and physical needs and are strong advocates for themselves while being very respectful of the rights of others.

**Assertive communicators will:**

- ♣ state needs and wants clearly, appropriately, and respectfully
- ♣ express feelings clearly, appropriately, and respectfully
- ♣ use “I” statements
- ♣ communicate respect for others
- ♣ listen well without interrupting
- ♣ feel in control of self
- ♣ have good eye contact
- ♣ speak in a calm and clear tone of voice
- ♣ have a relaxed body posture
- ♣ feel connected to others
- ♣ feel competent and in control
- ♣ not allow others to abuse or manipulate them
- ♣ stand up for their rights

**The impact of a pattern of assertive communication is that these individuals:**

- ♣ feel connected to others
- ♣ feel in control of their lives
- ♣ are able to mature because they address issues and problems as they arise
- ♣ create a respectful environment for others to grow and mature

**The assertive communicator will say, believe, or behave in a way that says:**

- ♣ “We are equally entitled to express ourselves respectfully to one another.”

- ♣ “I am confident about who I am.”
- ♣ “I realize I have choices in my life and I consider my options.”
- ♣ “I speak clearly, honestly, and to the point.”
- ♣ “I can’t control others but I can control myself.”
- ♣ “I place a high priority on having my rights respected.”
- ♣ “I am responsible for getting my needs met in a respectful manner.”
- ♣ “I respect the rights of others.”
- ♣ “Nobody owes me anything unless they’ve agreed to give it to me.”
- ♣ “I’m 100% responsible for my own happiness.” Assertiveness allows us to take care of ourselves, and is fundamental for good mental health and healthy relationships

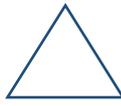
## Activity - Personality Assessment

*a very basic and simple personality test with shapes (DISC and MBTI involves detailed questionnaires and analysis and requires certifications)*

Psycho-Geometrics is based on the notion that we tend to be attracted to certain shapes and forms in the environment because of our personalities, attitudes, education and experiences, as well as the ways in which our individual brains function... If you chose the square, triangle, or rectangle, you chose a linear shape. People who are attracted to these tend to be left-brain thinkers, taking a logical and organized approach to life. If you chose the circle or squiggle, you are categorized as a right-brain thinker. You tend to process information in a less linear and more configurable way, and are more interested in the whole rather than its individual parts. Right-brain thinkers place emphasis on creativity and intuition.

Here is what you need to do for this very simple test. Find a sheet of blank paper and draw a picture or a design of anything you wish using each of the symbols shown below:

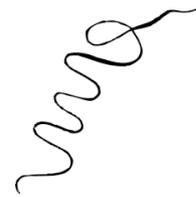
- The Triangle



- The Square



- The Circle



- The Squiggle (a short line that curls and loops in an irregular way.)

Draw each of the symbols one time and one of the symbols two times.

Note: Your drawing may include the symbols in any size you desire.

Once you've finished, do not add any other details. Now examine the picture or design you drew. Is each of the four symbols drawn at least one time? Is only one of the symbols drawn twice? Excellent!

This personality test is based on the theory that we tend to be attracted to certain shapes and forms based on our personality, attitudes, education and the way our brain functions.

**The symbol you chose to draw twice is your dominant personality. See descriptions of each symbol below.**

**The descriptions of the four styles .....**

### The Triangle

For centuries, the triangle has symbolized leadership. Remember the ancient Egyptians? They buried their pharaohs, their leaders, in pyramids. And the triangle shape is a hierarchy – for the military, the government, – with the power concentrated at the top of the triangle.

- Of the four symbols, the Triangle most closely represents leadership. Triangles are ambitious and very interested in their careers.
- You are an overseer, an expeditor, a leader, a person of action.

- Your mantra is "Get it done." You want to make things happen now. You ask others "when?" instead of "how?" or "why?"
- Your watchword is now. Not one day, not some time, not tomorrow, but now.
- You are often charismatic, a person who likes to be the boss and likes to give orders. You like to be in control.
- You are decisive – you like to make decisions – decisions for yourself and decisions for everyone else.
- You see yourself as assertive. Others may see you as aggressive.
- You may be a fan of someone like Donald Trump or General George S. Patton or former British Prime Minister Margaret Thatcher.
- As a child, when using a coloring book and crayons, you had difficulty staying within the lines. You do not like restrictions.
- Your favourite game – what else? – is follow the leader.
- Films you might like the movies, "Patton," "Scarface," "JFK," "Erin Brockovich," "Wall Street."
- If you have a favourite song, it might be "All or Nothing at All" by Frank Sinatra. A favourite dance? The Tango – the dance of power.
- Your positive traits: leadership, decisiveness, ambition, focused, results-driven, self-motivated.
- Potential pitfalls: impatience, aggressiveness, self-centeredness.
- Potential career choices: CEO, president of a company, entrepreneur, executive, manager, supervisor, surgeon, attorney, politician, military officer, pilot, administrator.

Triangle's Motto: "Follow me."

**Triangle Characteristics** -less interested in the work itself, more concerned with their career - ambitious and focused toward the top -shape symbolizes leadership -very competitive -loves to make decisions for self and others -able to focus on the goal of the moment -needs to be seen as "right" by others, has trouble admitting mistakes -movers and shakers, best politicians -well respected, sometimes feared by others

**Personal Habits:** Early arriver, good "scooper" of situations, fidgety, interrupter, power handshake, addiction (compulsive behaviour possible), game player, informed, good problem solver, prefers small groups

### **Stressful Shapes for Triangles:** Squiggles, Rectangles, Circles

**Working with Triangles** -Conflict is dealt with using direct confrontation and is viewed as competition. In true personalities, they get mad and they get even! -Sometimes prefer being a coach rather than a team player. Prefer having several options from which to choose - Timing is very important when approaching them -Maintain emotional control, especially when triangles cannot maintain their own -Present information logically and sequentially - Show them all different perspectives and make sure you understand them

### **The Square**

Of the four symbols, the square places the most emphasis on organization and structure.

- You are an organizer. You may be constantly organizing people and things around you. You are an excellent administrator who enjoys working with figures, statistics, programs, and software.
- Your mantra is "Get it right, even if it takes all night."
- Your watchword is, "How?"
- You believe in the status quo and work ethic. You want everything in the right place at the right time.
- You may be a fan of someone like Bill Gates.
- You enjoy collecting data and information to enter into a database, but others may see you as having a compulsive attention to detail.
- As a child, when using a coloring book and crayons, you tried to color within the lines. Your favorite toy may have been Legos (or Lincoln building blocks, depending on your age).
- Your favorite games include: bridge, chess, math, and crossword puzzles.
- Some of your favorite movies might be: "A Beautiful Mind" and most documentaries, including "March of the Penguins."
- If you have a favorite song, it might be "Why Don't You Do Right?" by Jessica Rabbit. A favorite dance: the square dance with its clear-cut, do-not-deviate, instructions. Perhaps even the "Hokey Pokey."
- Your positive traits: organized, knowledgeable, analytical, patient, persevering, and generally neat.

- Potential pitfalls: you may be a procrastinator, a perfectionist, aloof, resistant to change, and meticulous.
- Potential career choices: CFO or COO, IT professional, programmer, systems analyst, statistician, accountant, professor, bookkeeper, executive assistant, medical specialist, teacher, auditor, government worker, editor.

**Square's motto: "Give me a deadline and I'll get it done."**

**Square Characteristics** -hard worker, determined to get the job done -most structured of all shapes -emphasize organization and logic -need life to be predictable; everything must be in the right place at the right time -almost compulsive to detail -make great administrators (not managers) -love to collect and organize data -excel when instructions and requirements are clear -better at following a plan than designing one -tend to procrastinate over major decisions -prefers maintaining status quo to taking risks -uncomfortable with conflict and emotional situations

**Personal habits-** Love routines, lists, calendars, like tangible things, i.e. put it in writing, promptness, neatness, cleanliness, precision, attention to detail, social loner

**Stressful Shapes for Squares:** Squiggles, Circles, Rectangles, Triangles

**Working with Squares** -Do not catch the square unprepared to discuss a problem -Avoid chaos, surprised and emotional situations -Think through your argument thoroughly before approaching a square -Keep abreast of your tasks and on schedule -Save face for the square; they are concerned with maintaining the respect of their colleagues

### The Circle

Of the four symbols, the circle is the most kind and caring. Your focus is to smooth the waters and keep the peace. You are the glue that holds the family or the work team together—that sensitive person who really cares about feelings.

- You are an optimist. You enjoy working in unison with others to get things done.
- Your mantra is, "Can't we all just get along?"

- Your watchword is "Who?" (Who will be on the team?)
- You express kindness, caring, and concern. You are an excellent communicator because you are an effective listener and know how to establish empathy quickly. You are an excellent problem solver.
- Your hero may be someone like Florence Nightingale, Albert Schweitzer or Mother Teresa.
- You try to keep the peace but others may see you as trying too hard to please everyone.
- As a child, you enjoyed many games and sports, but in softball or baseball you were often the outfielder.
- Your favorite games may include bowling, badminton, tennis, shuffleboard and most team sports.
- Films you may want to see again are, "The Wizard of Oz," or the animated film, "Up."
- Your favorite song may be "Accentuate the Positive." Your favorite dance? the "Electric Slide."
- Your positive traits: friendly, persuasive, empathic, generous, and reflective.
- Potential pitfalls: indecisive, moody, manipulative, and you may have a tendency to get too personal.
- Potential career choices: doctor, nurse, teacher, human resource professional, psychologist, professor, historian, consultant, scout leader, administrative assistant, nun.

**Circle's motto: "Be positive and I will help you do it."**

Circle Characteristics-really care about others, about all people -will do whatever it takes to make co-workers, friends, and family happy -smooth the waters and keep the peace - interested in interpersonal relationships; "reads" others well -best communicators and listeners of all shapes -weak business manages -avoid making unpopular decisions -don not care who has control; can be taken advantage of by more dominant personalities -holistic thinkers -excellent "people" problem solvers and team players

**Personal Habits-** Face to face communications, easygoing, joiner, often in charge of social events, prefer small groups, old-fashioned and sentimental, complimentary, neatness not a priority, artistic, reader, loves to fix things

**Stressful Shapes for Circles:** Squares, Triangles

**Working with Circles** -Conflict distresses them a great deal; they tend to take everything personally -Focus on accommodation and compromise when disagreeing; it is more important for the circle to preserve a relationship than to solve the problem -Let them know it is OK to disagree -Keep the discussion focused and confidential; circles are prone to involve other issues and people -Circles can be very persuasive

### The Squiggle

Of the four symbols, the squiggle is the most unique and the most creative.

- You are original and are always considering possibilities.
- Your mantra is, "Get it done ... differently."
- Your watchword is, "Why?" (Why do we have to do it that way? What are our alternatives?) You continually ask, "What if?"
- You are a future-oriented person.
- You are creative, imaginative, free form, and like to have fun and think out-of-the-square.
- Your hero may be someone like Albert Einstein, Erma Bombeck or Walt Disney.
- You see yourself as always looking for new ideas, new ways and new products. Others may sometimes consider you a little strange or far-out.
- As a child you preferred to draw your own original pictures, rather than color in a coloring book. You often colored trees purple, leaves yellow, and the sky green.
- Your favorite games are charades, musical chairs, and karaoke.
- Movies you may want to see again are, "Avatar" and animated films like "Despicable Me" and the "Shrek" series.
- Your favorite song may be "MairzyDoats." Your favorite dance? You don't have one. You make up the steps as you go.

- Your positive traits: conceptual, creative, intuitive, expressive, motivating, witty, and inventive.
- Potential pitfalls: disorganized, impractical, unrealistic, illogical, eccentric, naïve, uninhibited.
- Potential career choices: writer, journalist, comedian, actor, creative director, marketing associate, sales associate, musician, scientist, researcher, entrepreneur, chef, public relations agent, inventor, real estate agent.

**Squiggle's motto: "Be creative."**

**Characteristics** -also symbolic of creativity (most unique of all shapes because it has no closure) -more configural when processing information -able to produce truly great and new ideas -challenge the status quo -future oriented; more interested in possibilities than reality -excitable; energized by change -uninterested in details, facts, figures -disdains highly structured and mechanized work environments; prefers free-flowing, independent situations

**Personal Habits** Fast mover, interrupts a lot, loses things, daydreams constantly, seeks stimulation, enjoys new people and new situations, rebel, life of party, spontaneous, will talk to anyone

**Stressful Shapes for Squiggles:** Squares, Triangles

**Working with Squiggles** -Squiggles perceive most conflicts as unimportant compared to other things they need to do; however, when they do find it worthwhile, they can be very persuasive and competitive -You may have to guard yourself against their powerful energy if it is too overbearing -Hold discussions in neutral locations -When you reach an agreement you should follow up and work out the details; the squiggle will be off to other activities

## Activity - listening in different ways

**Summary** - To enable participants to experience and practise listening in different ways. Participants share a story of an incident that didn't turn out as they wanted it to. They are listened to in different ways, and different interpretations of the story emerge.

**Approach** - Share that in this activity we explore the idea and value of listening at three levels:

1. the facts
2. the feelings
3. the purpose.
  - This is also known as listening with the head (the facts), the heart (the feelings) and the feet (the purpose).
  - Split the group into groups of four. One person volunteers a story that they are comfortable to share an incident or situation that is not yet settled or where they would have wanted a different outcome. If the group is still trying to get to know each other, ask them to avoid deeply emotional experiences.
  - Ask the three remaining participants to choose one of the roles below and explain that they will be asked to share what they heard afterwards:
    - one person in the group should listen only for the facts (head)
    - one person should focus on listening only for the feelings (heart)
    - one person should focus on listening for the purpose – why the storyteller is telling this story (feet).
  - Invite the storyteller to share their story.
  - Now ask the participants to share what they heard. Try to avoid them just re-telling the story and to focus on giving just the information related to their role (i.e. either the facts, feelings or the purpose behind why the storyteller shared their story).

### Debrief

- Ask the group how they found the practice of listening at different levels? What was valuable about this process?

- o Are there different ways the story can be interpreted? Has the storyteller learned anything through this process?
- o Are there times when it would be useful to listen more for the facts the feelings or the purpose? For example: judges in a court of law try to ensure that attention is paid to the facts. When listening to someone who want to sell you something you may want to listen for the purpose – why is this person telling you a personal story is it just to encourage you to buy the product?



# 4. Interpersonal Relation Skills

## Introduction

We don't live in a vacuum or work in isolation. Even in this high-paced technical world, we are always communicating in some way. Since so many of our waking hours are spent working, a great deal of our lives are spent interacting with co-workers, clients and customers. The ability to use effective interpersonal skills helps you build not just better relationships with others, but makes working with them more enjoyable. The ability to communicate and connect with others at work will make you happier. It will help you build a sense of community and gain the support of others when you need it. The origin of all effective relationships resides within ourselves. It begins with our ability to value others and use the interpersonal skills needed to demonstrate that. When you manage or lead other people, it is especially critical to gain the Interpersonal Leadership Skills you need. In the business domain, the term refers to an employee's ability to get along with others while getting the job done. People with strong interpersonal skills are often more successful in both their professional and personal lives.

*"The most basic of all human needs is the need to understand  
and be understood."* - Ralph Nichols

Interpersonal skills relate to the knowledge of social expectations and customs, and they consider others' reactions to adjust tactics and communication as needed. Some describe interpersonal skills as social intelligence that relies on paying attention to the actions and speech of others and interpreting it correctly as part of forming a response. While they are based in part on an individual's personality and instincts, these skills also develop with life experiences and knowledge. Through awareness of how you interact with others, and with practice, you can improve your interpersonal skills.

Since decision making, counselling skills, Leadership including emotional intelligence will be discussed in detail in separate documents, the focus will be on self-awareness through the Johari window and understating conflict styles through the inventory.

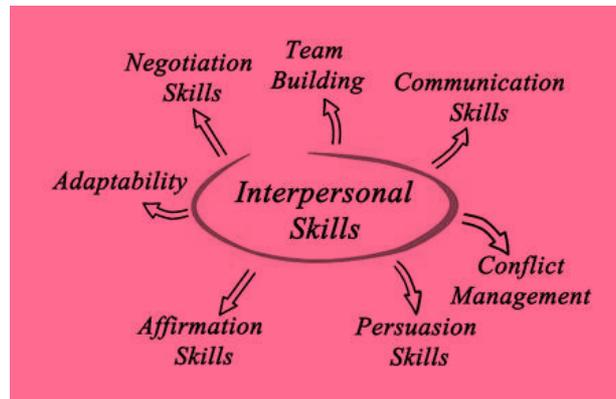


Figure 1 Skills for interpersonal relations

*"Your career success in the workplace of today - independent of technical expertise - depends on the quality of your people skills." - Max Messmer*

## Interpersonal skills for entrepreneurs

Humans are social beings, so the manner in which we interrelate with others and our ability to establish positive relationships have an enormous impact on our success in the different areas of our lives. This is especially important when a person is running a business and dealing with customers, suppliers, employees, investors, and others on a regular basis. How well we handle ourselves in these relationships and the way we are perceived by others could facilitate and bring about winning a contract, landing a big client, successfully negotiating favourable financing terms and conditions with lending institution, solving conflicts among employees, building effective teams, leaving a good impression with the media, and more. People with improved interpersonal skills tend to have a positive attitude, to be more solution-oriented. Everyone enjoys doing business with those who can get the job done and get along with others at the same time.

**"People don't care how much you know unless you know how much you care"**

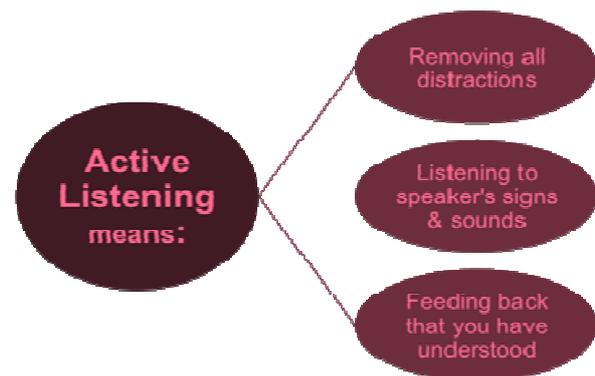
**– John C. Maxwell**

Most business owners probably don't even realize that they practice communication skills every day in the course of running a business. Entrepreneurs should be able to effectively interpret other people's messages and adapt their own messages to others. It means that

during normal business activities entrepreneurs use such communication skills as active listening and responding skills, persuasion and negotiating skills, public speaking skills, and writing skills.

### Active Listening Skills

Listening is the ability to receive and interpret messages in the communication process. Listening is the key to all effective communication, without the ability to listen effectively messages are easily misunderstood, communication breaks down, and the sender of the message can easily become frustrated or irritated. Listening is



so important that many top employers provide a listening skills training for their employees. Being an active listener will help do the following:

Being an active listener will help do the following:

- Increase management effectiveness of response
- Improve customer relations
- Avoid or reduce conflict
- Reduce customer complaints
- Be better at satisfying your customers' needs and wants
- Create a better work environment
- 

### Persuasion and Negotiating Skills

It's often used to motivate others to come to an agreement or accomplish goals. Regardless of how big or small the issue, effective persuasion comes down to three things:



Figure 3 Persuasion in action

Negotiation is the process of discussion between two or more disputants, who seek to find a solution to a common problem, one that meets their needs and interests acceptably. Learning to be a skilled negotiator can help you make deals, solve problems, manage conflicts, and build relationships.

### Writing skills

Communication is much more than speaking and listening – writing is also a major part of a business person’s world, making writing skills crucial for success. Thus, an entrepreneur should be able to write a business letter, a business plan, a report, as well as know how effectively communicate via electronic media, writing effective e-mails, texting, using social media.



Figure 4 Writing skills needed

They are the keys to make relationships successful, which brings about success of a business. So, successful entrepreneurs cannot do without strong interpersonal skills, communication skills in particular.

### Consumer Focus

Digital marketing has changed the game for a lot of entrepreneurs. So much of success is now contingent upon understanding the needs of consumers and finding ways to meet them with your business. Entrepreneurs need to work to really understand the mentality of the people who make their business possible, then cater your products, services, policies, and marketing campaigns to those people.

## The Ability to Inspire Others

No one can doubt that an entrepreneur is passionate about their work. But it's the ability to instil that inspiration in others that really drives success. In some ways, this is an extension of the communication skill. You need to be able to explain things in an understandable way, then take it a step further to make the project resonate with your team.

Inspiring your network of influencers, for example, can be a major driving force behind your business.

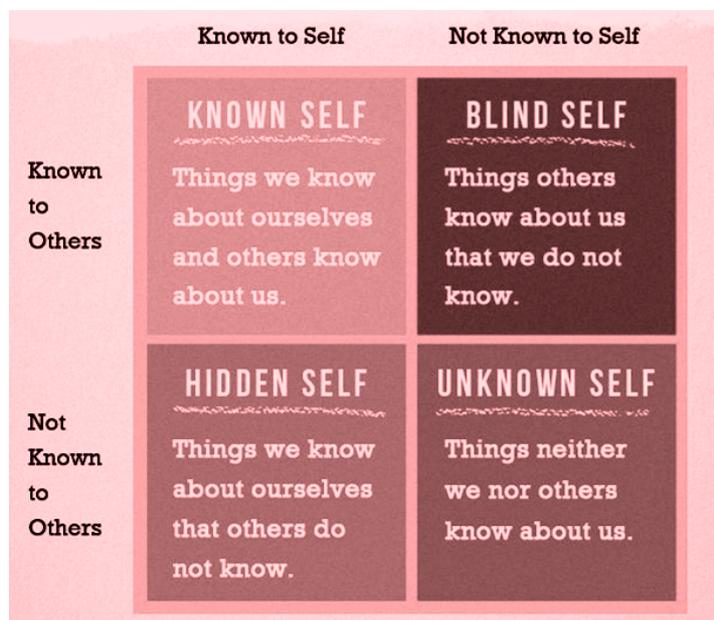
If you can get others excited about your work, the momentum created can be huge.

**“For the person trying to do everything alone, the game really is over. If you want to do something big, you must link up with others. One is too small a number to achieve greatness. That’s the Law of Significance.” - — John C. Maxwell,**

**“A great dream with a bad team is nothing more than a nightmare.” - — John C. Maxwell.**

## JOHARIwindow

It is necessary to improve self-awareness and personal development among individuals when they are in a group. The ‘Johari’ window model is a convenient method used to achieve this task of understanding and enhancing communication between the members in a group. The Johari window is a technique that helps people better understand their relationship with themselves and others. It was created by psychologists Joseph Luft (1916–2014) and Harrington Ingham (1916–1995) in 1955



Usage of the tool:

- self-awareness
- personal development
- improving communications
- interpersonal relationships
- group dynamics
- team development; and
- inter group relationships

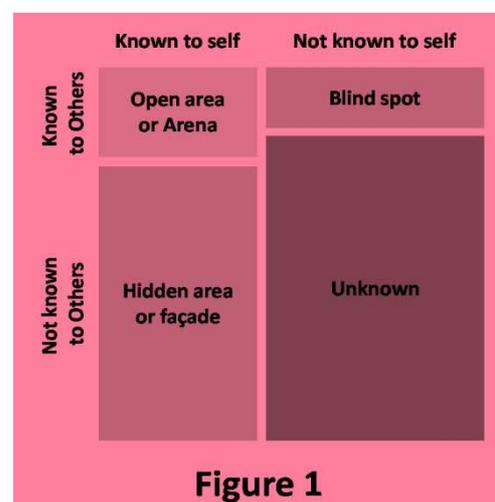
The Johari window model is used to enhance the individual's perception on others. This model is based on two ideas- trust can be acquired by revealing information about you to others and learning yourselves from their feedbacks. Each person is represented by the Johari model through four quadrants or window pane. Each four window panes signifies personal information, feelings, motivation and whether that information is known or unknown to oneself or others in four viewpoints.

The method of conveying and accepting feedback is interpreted in this model. A Johari is represented as a common window with four panes. Two of these panes represent self and the other two represent the part unknown to self but to others. The information transfers from one pane to the other as the result of mutual trust which can be achieved through socializing and the feedback got from other members of the group.

1. **The open quadrant** (area of free activity). This area consists of things known to both the individual and the people they're interacting with such as names, preferences, areas of expertise, and so forth. It can reach into more subjective territory as well concerning knowledge about your wants, desires, motives, behaviors, and so forth. You can visualize this quadrant as one that expands in size as you get to know a person and their habits, personality, and other things that make them unique. Here the information about the person his attitudes, behaviour, emotions, feelings, skills and views will be known by the person as well as by others. This is mainly the area where all the communications occur and the larger the arena becomes the more effectual and dynamic the relationship will be. 'Feedback solicitation' is a process which occurs by understanding and listening to the feedback from another person.

Through this way the open area can be increased horizontally decreasing the blind spot. The size of the arena can also be increased downwards and thus by reducing the hidden and unknown areas through revealing one's feelings to other person.

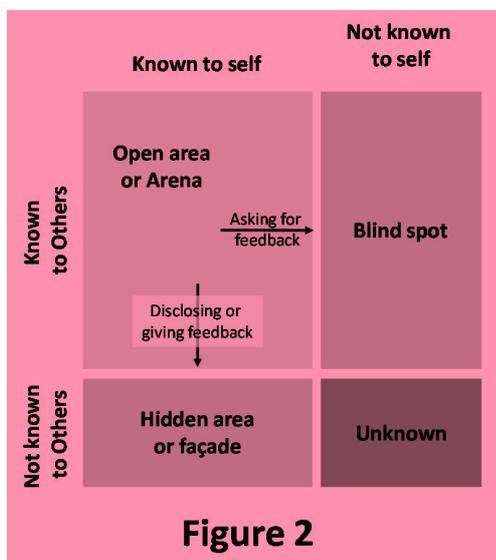
2. **The blind quadrant** (blind area). This space represents things that other people know about you but for which you do not know they are aware. In other words, it contains the set of things that I think you don't know about me but that you actually know about me. Others may interpret yourselves differently than you expect. We often assume that the public and private selves are all that we are. However, the views that others have of us may be different from those we have of ourselves. For example a person who considers themselves as intelligent may be viewed as an arrogant and socially ignorant by others. Our blind selves may remain blind because others will not discuss this part of us for a range of reasons. Perhaps they realize that we would be unable to accept what they see. Perhaps they have tried to discuss this and we have been so blind that we assume their views are invalid. They may also withhold this information as it gives them power over us. The blind spot is reduced for an efficient communication through seeking feedback from others.
  
3. **The hidden quadrant** (avoided or hidden area). This is the inverse of the blind quadrant in the sense that it captures things that I know about myself but that you don't know about me. This is information which you feel reluctant to reveal about yourself. This includes feelings, past experiences, fears, secrets etc. We keep some of our feelings and information as private as it affects the relationships and thus the hidden area must be reduced by moving the information to the open areas
  
4. **The unknown quadrant** (area of unknown activity). Finally, the fourth self is one which neither us or nor other people see. This undiscovered self may include both good and bad things that may remain forever undiscovered or may one day be discovered, entering the private, blind or maybe even public selves. The Information which are



unaware to yourselves as well as others. This includes the information, feelings, capabilities, talents etc. This can be due to traumatic past experiences or events which can be unknown for a lifetime. The person will be unaware till he discovers his hidden qualities and capabilities or through observation of others. Between the Blind and Undiscovered selves are partly hidden selves that only some people see. Psychologists and those who are more empathic, for example, may well see more than the average person. Open communication is also an effective way to decrease the unknown area and thus to communicate effectively.

## Example

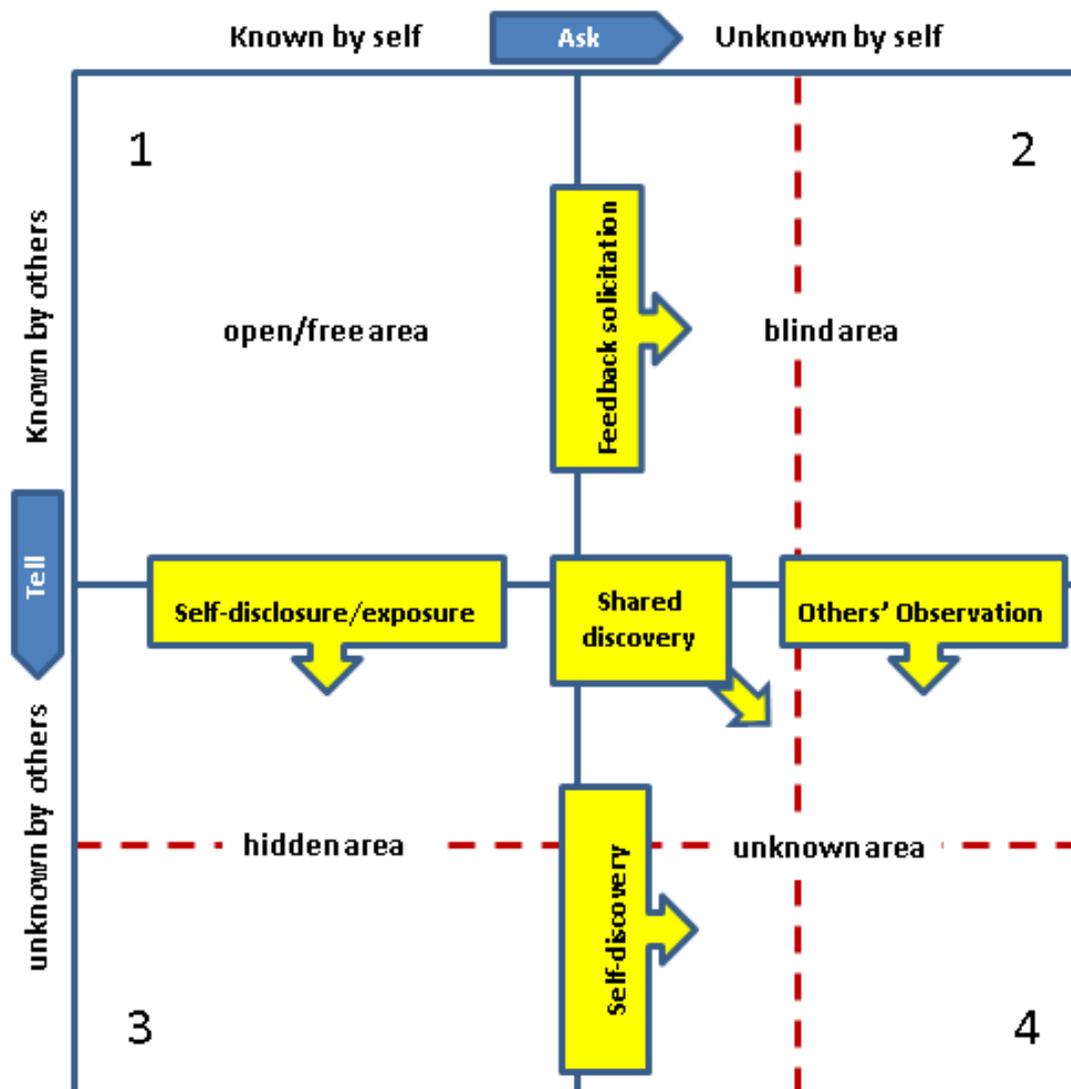
Kamani got a job in an organization. Her co-workers knew a little about her and in this context the unknown and hidden areas will be larger and the open area will be small. As the others don't know much about her the blind spot also will be smaller and the model will be as shown in Figure 1.



Kamani spent most of her free time sketching in the office which was her preferred pastime and her co-workers found her very shy and elusive. With that evaluation she got the idea how she was and tried to be more talkative and interacted more with other co-workers. This helped her to increase her open area and thus making the hidden and unknown areas smaller. (Figure 2). Through the feedback Kamani got from her co-workers she could perform well in the office and her real capacity could be obtained as a result of an

effective interaction among the colleagues.

The balance between the four quadrants can change. You might want to tell someone an aspect of your life that you had previously kept hidden. For example, maybe you are not comfortable contributing ideas in large groups. This would increase your open area and decrease your hidden area.



It is also possible to increase your open area by asking for feedback from people. When feedback is given honestly to you it can reduce the size of your blind area. Maybe you interrupt people before they have finished making their point which can cause frustration. Alternatively people may always want to talk to you because you are a good listener. Sometimes you don't realise these aspects of your character until it is pointed out. By working with others it is possible for you to discover aspects that neither of you may never have appreciated before.

Involve other people and ask for feedback about yourself. Be prepared to seriously consider it. That doesn't mean that you have to do everything that's suggested, but you should at least listen and think about it. Then give the person who provided the feedback some acknowledgement or thanks for making the effort. Depending on how confident you are you might prefer to do this as either a group exercise or on a one to one basis. Remember that giving effective feedback is a skill and some people may be better at it than others. When receiving feedback, be respectful, listen and reflect on what has been said. It may be on receiving feedback you may want to explore it further that can lead to discovery about yourself.

**Notes to trainers:**

- It is one of the few tools out there that has an emphasis on “soft skills” such as behaviour, empathy, co-operation, inter group development and interpersonal development. It's a great model to use because of its simplicity and also because it can be applied in a variety of situations and environments.
- Johari is a very elegant and potent model, and as with other powerful ideas, simply helping people to understand is the most effective way to optimise the value to people. When people really understand it in their own terms, it empowers them to use the thinking in their own way, and to incorporate the underlying principles into their future thinking and behaviour.
- As mentioned above the value in the tool is in the application, encourage participants to explore their unknown areas. This is potential. However, in order to discover the unknown I need to explore the blind area fearlessly.
- Exercise: Print out the 3-5 copies of the JOHARI Window Worksheet. Ask participants to discuss with to 3-5 people you work with that you can trust to give honest yet supportive feedback. With each person, fill out one sheet. Make sure you both mutually agree on the Open/Free Area items. Ask for their thoughts on your Blind Area. Then share, if you feel safe, items for the Hidden Area. For the Unknown Area, ask them to share some thoughts or insights on untapped potential you might have that have yet fully emerge. When all the sessions are complete, combine all the

finding one to one master form and then list 3 actions you can take that will address the significant issues raised during this exercise. Once you actions items are decided, loop back with the people who gave you the data and share with them you action plan.

- The SWOT Analysis widely used for business can also be analyzed for **self** and can be a great tool as a follow up to this session.
- The conflict style assessment can be used as a further tool to help participants understand more about themselves.

## Strategies we use in conflicts: Understanding your style?

Different people use different strategies for managing conflicts. These strategies are learned, usually in childhood, and seem to function automatically. Usually we are not aware at the time of how we act in conflict situations. We do whatever seems to come naturally. But we do have a personal strategy; and because it was learned, we can always change it by learning new and more effective ways of managing conflicts. When you become engaged in a conflict, there are two major concerns you have to take into account:

1. Achieving your personal goals - you are in conflict because you have a goal that conflicts with another person's goal. Your goal may be highly important to you, or it may be of little importance.
2. Keeping good relationship with the other person - you may need to be able to interact effectively with the other person in the future. The relationship may be very important to you, or it may be of little importance.

The importance of these two areas will affect the ways in which you act in any given conflict. From these two concerns it is possible to identify five styles of conflict management:

## Conflict styles questionnaire

The proverbs listed below can be thought of as some of the different strategies for resolving conflict. Read each of the proverbs and using the following scale score how typical each is of your actions when in conflict. Using the scale 1 -5 indicate how typical each proverb is of your action in a conflict. For greater accuracy of results when answering consider only your work setting **or** your home setting and not both when answering the questions. Answer honestly since the results will be based on strictly on your answers. There are 35 proverbs in the questionnaire. Do not overthink the proverb and answer quickly.

- 5 - very *typical of the way I act in a conflict (usually do this)*
- 4 - frequently *typical of the way I act in a conflict (frequently do this)*
- 3 - *sometimes typical of the way I act in a conflict (sometimes do this)*
- 2 - *seldom typical of the way I act in a conflict (seldom do this)*
- 1 - *never typical of the way I act in a conflict (never do this)*

### ASSESSMENT QUESTIONNAIRE

	Proverb	Score (1-5)
1	It is easier to refrain than to retreat from a quarrel	
2	If you cannot make a person think as you do, make him or her do as you think	
3	Soft words win hard hearts	
4	You scratch my back, I'll scratch yours	
5	Come now and let us reason together	
6	When two quarrel, the person who keeps silent first is the most praiseworthy	
7	Might overcomes right	
8	Smooth words make smooth ways	
9	Better half a loaf than no bread at all	

10	Truth lies in knowledge, not in majority opinion	
11	He who fights and runs away lives to fight another day	
12	He hath conquered well that hath made his enemies flee	
13	Kill your enemies with kindness	
14	A fair exchange brings no quarrel	
15	No person has the final answer but every person has a piece to contribute	
16	Stay away from people who disagree with you	
17	Fields are won by those who believe in winning	
18	Kind words are worth much and cost little	
19	Tit for tat is fair play	
20	Only the person who is willing to give up their monopoly on truth can profit from the truths that others hold	
21	Avoid quarrelsome people as they will only make your life miserable	
22	A person who will not flee will make others flee	
23	Soft words ensure harmony	
24	One gift for another makes good friends	
25	Bring your conflicts into the open and face them directly; only then will the best solution be discovered	
26	The best way of handling conflicts is to avoid them	
27	Put your foot down where you mean to stand	
28	Gentleness will triumph over anger	
29	Getting part of what you want is better than not getting anything at all	
30	Frankness, honesty and trust will move mountains	
31	There is nothing so important you have to fight for it	

32	There are two kinds of people in the world, the winners and the losers	
33	When one hits you with a stone, hit him or her with a piece of cotton	
34	When both give in halfway, a fair settlement is achieved	
35	By digging and digging, the truth is discovered	

### SCORING

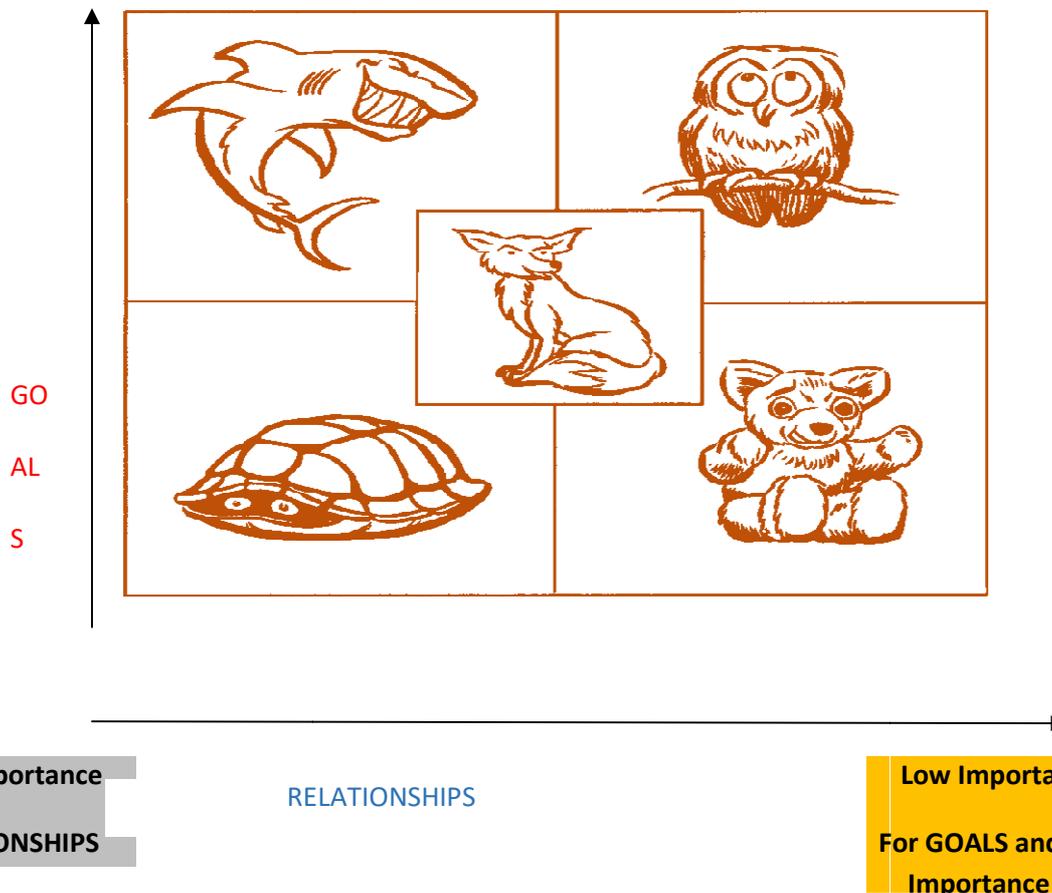
*(The scoring sheet should be given separately only after the 35 questions above have been answered)*

Copy the scorings from the questionnaire into the table below. Total the columns. The higher the total score for each strategy, the more frequently you tend to use that approach based upon your opinions and values.

WITHDRAWING		FORCING		SMOOTHING		COMPROMISING		CONFRONTING	
1		2		3		4		5	
6		7		8		9		10	
11		12		13		14		15	
16		17		18		19		20	
21		22		23		24		25	
26		27		28		29		30	
31		32		33		34		35	
TOTAL		TOTAL		TOTAL		TOTAL		TOTAL	

High Importance for GOALS and  
low importance for  
RELATIONSHIPS

High Importance for  
RELATIONSHIPS  
and GOALS



## Interpretations for trainers

### The Turtle ( WITHDRAWING )

Turtles withdraw into their shells to avoid conflicts. They give up their personal goals and relationships. They stay away from the issues over which the conflict is taking place and from the persons they are in conflict with. Turtles believe it is hopeless to try and resolve conflicts. They feel helpless. They believe it is easier to withdraw (physically and psychologically) from a conflict than to face it.

### The Shark ( FORCING )

Sharks try to overpower opponents by forcing them to accept their solutions to the conflict. Their goals are highly important to them and relationships of minor importance. They seek to achieve their goals at all costs. They are not concerned with the needs of others. They do not care if others like or accept them. Sharks assume that conflicts are either won or lost and they want to be the winner. This gives them a sense of pride and achievement. Losing gives them a sense of weakness, inadequacy and failure. They try and win by attacking, overpowering, overwhelming and intimidating others.

### **The Teddy Bear ( SMOOTHING )**

To teddy bears the relationship is of great importance while their own goals are of little importance. Teddies want to be accepted and liked by other people. They think that conflict should be avoided in favour of harmony and that people cannot discuss conflicts without damaging relationships. They are afraid that if a conflict continues, someone will get hurt and that could ruin the relationship. They give up their goals to preserve the relationship. They like to smooth things over.

### **The Fox ( COMPROMISING )**

Foxes are moderately concerned with their own goals and their relationships with others. They give up part of their own goals and persuade others in a conflict to give up part of theirs. They seek a conflict solution in which both sides gain something - the middle ground between two extreme positions. They compromise; they will give up a part of their goal and relationship in order to find agreement for the common good.

### **The Eagle ( CONFRONTING )**

Eagle's highly value their own goals and relationships. They view conflicts as problems to be solved and seek a solution that achieves both their own and the other person's goals. Eagle's see conflicts as a means of improving relationships by reducing tension between two people. They try to begin a discussion that identifies the conflict as a problem to be solved. By seeking solutions that satisfy everyone, owls maintain the relationship. They are not happy until a solution is found that both satisfies everyone's goals and resolves the tensions and negative feelings that may have been present.

**NOTES FOR TRAINERS:**

- The above tool is great for group learning and can be used to generate great output from the training and impactful learning for the participants.
- If this assessment is being conducted for a team that works together or have some acquaintance, you could write the name of the person on a A4 or a flash card and pass it around the group asking each person to write down how they think the person (as named on the A4 or flash card) acts in a conflict. So finally, everybody in the group get feedback on the perception of others. (this session has to be facilitated and moderated carefully).
- We do change or styles based on whom we work with, this is especially true for the fox(compromise), when they work with a strong shark they tend to focus only on tasks while when they are with strong teddy bear they will focus on relationships.
- When the environment is not conducive and or hostile a fox may resort to withdraw.
- The above styles are not personality styles. These are how we act in conflict based on context, experience and learning. These styles can be easily modified and learned through practise and feedback.
- The word confronting has a negative connotation in our context, however in a business environment confrontation will provide you the best results, since you focus on both areas the tasks and the relationship.

**1. Withdraw/Avoid**

(avoidance, denial or retreat) involves giving up, pulling out or retreating. It also refers to refusal to deal with the conflict. It involves ignoring conflict as much as possible.

This style is appropriate when a “cooling off” period is needed to gain better understanding of the conflict situation and also when the others party involved in the conflicts is both unassertive and uncooperative.

Withdrawal is a passive, stopgap way of handling conflict and generally fails to solve the problem. Therefore, this style should not be used if the conflicts deals with an issue that is of immediate concern or is important to the successful completion of the project. In this conflict resolution technique, you avoid the conflict or simply retreat. You let this issue resolve itself.

**People tend to use this technique in the following cases:**

- When stakes are low.
- The stakeholders involved in the conflict are not important.
- The issue is not worth investing your time.
- The issue will disappear on its own after some time.
- When there is a heated argument among parties and you want to give them some cooling time.
- When there is limited or no information available about the conflict.

**Advantages:**

- This technique saves precious time you can invest in other productive activities.

**Disadvantages:**

- It may weaken your position as a leader and negatively affect your relationships.
- There is a dispute with this conflict resolution technique: Some experts say this is not a conflict resolution technique because when the conflict arises you simply avoid it, no action is taken from your side. Escaping is not a solution.

**2. Smooth/Accommodate**

This is an appeasing approach. It involves emphasizing areas of agreement while avoiding points of disagreement. Smoothing is appropriate to keep harmony and avoid outwardly conflictive situations. It works when the issues are more important than personal positions and aspirations of the parties involved. Since smoothing tends to keep peace only in the short terms, it fails to provide a permanent tends to keep peace only in the short term, it fails to provide a permanent long-term solution to the underlying conflicts. Generally, conflict reappears again in another form. Both smoothing and withdrawing styles incline towards ignoring or delaying tactics, which do not resolves conflict but will temporarily slow down the situation. Entrepreneurs must remember that if the conflict is not handled and the resolved in a timely manner

it will likely leads to more severe and intense conflict in the future. Here, you will find areas of agreement, and try to smooth the situation. This technique helps you avoid a tough discussion. In smoothing, you give more concerns to other parties rather than yours. Here you try to downplay the situation and behave like the problem never existed.

**People tend to use this technique in the following cases:**

- When you are very busy and have no time.
- You need a temporary solution to the problem.

**Advantages:**

- This technique can conciliate the situation, bring harmony, create goodwill, and give you sufficient time to find a permanent solution.

**Disadvantages:**

- Since you're giving more concerns to other parties, they may try to take advantage of it.
- The other disadvantage is that it may weaken your position as an authoritative leader. Therefore, you should avoid using this technique to solve issues.

### 3. **Compromise/Reconcile**

This is primarily “bargaining” – receiving something in exchange for something else. It involves considering various issues, bargaining, using tradeoff negotiations and searching for solutions that bring some degree of satisfaction to both parties involved in the conflict. In this mode, neither party wins but both get some degree of satisfaction out of the situation.

Temporarily, both parties may feel hurt because they had to give up something that was important to them, but compromising usually provides acceptable solutions. A definitive resolution to the conflict is achieved when a compromise is reached and

accepted as a just solution by both parties involved in the conflict. The only problem with compromising in a project situation is that, sometimes, important aspects of the project might be compromised in order to achieve personal objectives. Here you take suggestions from both sides and try to make a compromise. Both parties involved in the conflict gain something, so this solution partially satisfies both parties.

**People tend to use this technique in the following cases:**

- All parties involved in the conflict need to win.
- You have an equal relationship with them.
- When collaborative and forcing techniques do not work.
- When you need a temporary solution to move forward quickly.

**Advantages:**

- This technique brings a faster result, lowers the stress, and keeps all parties cool. In the meantime, you can search for a permanent solution.

**Disadvantages:**

- This technique does not bring trust in the long run, and the conflict could resurface at any time.

**4. Force/Direct**

(using power or dominance) implies the use of position power to resolve the conflict. It involves imposing one viewpoint at the expense of another and is characterized by a win-lose outcome in which one party overwhelms the other. It is used when there is no common ground on which to bargain or negotiate, and when both parties are uncooperative and strong-willed. Entrepreneurs may use it when time is of the essence, an issue is vital to the well-being of the project, and they feel they are right based on the information available. Under such circumstances Entrepreneurs take the risk and simply dictate the action to move things forward. This approach is appropriate when quick decisions are required or when unpopular issues such as budget cuts, fast-tracking or staff cutbacks are essential in a project.

Forcing usually takes less time than compromise and negotiation but it leaves hard feelings because people dislike having others' views imposed on them. Conflict resolved by force may develop again and haunt the enforcers at a later date. Although forcing definitely resolves the conflict quickly, it should be used only as a late resort. Here you agree with one party's viewpoint and enforce their wishes. This is a win-lose situation and risks demoralizing team members.

**People tend to use this technique in the following cases:**

- When stakes are high and you need an immediate solution.
- When you know one party is right and don't have time to investigate.
- The stakeholders involved in the conflict are not very important.
- The relationship with them is not important.

**Advantages:**

- Provides a quick solution to the problem.

**Disadvantages:**

- You may lose the opportunity gained from the opposing party's viewpoint. Also, it may negatively affect your impression on your team members.

## **5. Collaborate/Problem Solve**

This is an effective technique to manage conflict when a project situation is too important to be compromised. It involves incorporating multiple ideas and viewpoints from people with different perspectives. It offers a good opportunity to learn from others. Active collaboration by both parties in contributing to the resolution makes it easier to get their consensus and commitment. Conflict is treated as a problem in this process and both parties are interested in finding a mutually acceptable solution.

This approach requires a give-and-take attitude between the parties, meaning that both parties are somewhat assertive and somewhat cooperative. It involves pinpointing the issue and resolving it objectively by defining the problem, gathering necessary information, generating and analyzing alternatives and selecting the best alternative under the circumstances. Confrontation requires open dialogue between participants, who must be mature, understanding, and competent – both technically and managerially.

In most cases, problem solving may take longer than other techniques, but they provide final solutions by ultimately resolving the underlying problems.

**People tend to use this technique in the following cases:**

- When you want to incorporate multiple views.
- The people involved in the conflict are very influential.
- When a consensus is required.
- When you want to distribute the responsibility equally to all parties.

**Advantages:**

- Brings consensus, commitment, and shared responsibility for the outcome.  
This technique is considered a win-win approach.

**Disadvantage:**

- Takes time and effort, so it cannot be used when you're short on time and need a quick solution.

**Effects of each style in usage;**

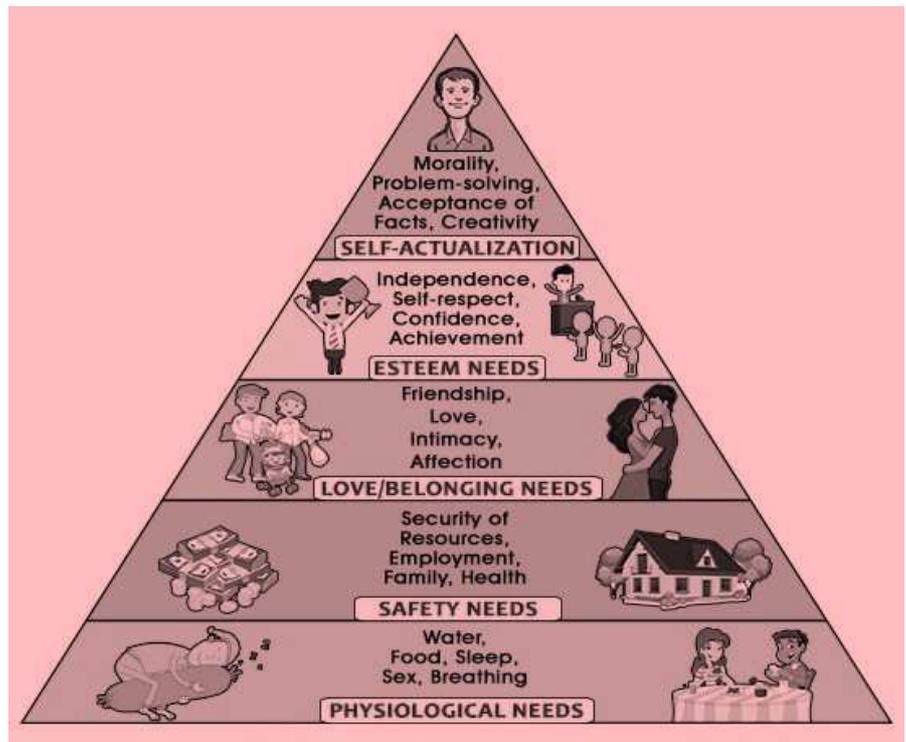
STYLE	DESCRIPTION	EFFECTS
<b>Withdrawing</b>	Retreats from an actual or potential conflict situation	Does not solve the problem
<b>Smoothing/ Accommodating</b>	Emphasizes areas of agreement rather than areas of difference	Provides only short-term solution
<b>Compromising</b>	Searches for the bargains for solutions that bring some degree of satisfaction to all parties	Does provides definitive resolution
<b>Forcing</b>	Pushes one view-point at the expense of others; offers only win-lose solutions	Hard feelings may come back in other forms
<b>Problem Solving</b>	Incorporates multiple viewpoints and insights from differing perspectives; leads to consensus and commitment  Treats conflicts as a problem to be solved by examining alternatives;	Provides long-term resolution

**Although there is no single technique that can be used in all types of conflict, it is generally understood that Collaborate/Problem Solve is a technique which brings greater consensus and commitment and therefore highly recommended**

## Maslow hierarchy of needs

The Maslow hierarchy of needs have been used popularly as well as criticized. However, this tool is suggested to obtain a basic understating of human motivation.

Maslow used the terms "physiological," "safety," "belonging and love," "esteem," and "self-actualization" to describe the pattern through which human



motivations generally move. This means that in order for motivation to occur at the next level, each level must be satisfied within the individual themselves. Furthermore, this theory is a key foundation in understanding how drive and motivation are correlated when discussing human behavior. Each of these individual levels contains a certain amount of internal sensation that must be met in order for an individual to complete their hierarch

The most fundamental and basic four layers of the pyramid contain what Maslow called "deficiency needs" or "d-needs": esteem, friendship and love, security, and physical needs. If these "deficiency needs" are not met – with the exception of the most fundamental (physiological) need – there may not be a physical indication, but the individual will feel anxious and tense. Maslow's theory suggests that the most basic level of needs must be met before the individual will strongly desire (or focus motivation upon) the secondary or higher-level needs.

Maslow spoke clearly about these levels and their satisfaction in terms such as "relative", "general", and "primarily". Instead of stating that the individual focuses on a certain need at any given time, Maslow stated that a certain need "dominates" the human organism. Thus, Maslow acknowledged the likelihood that the different levels of motivation could occur at any

time in the human mind, but he focused on identifying the basic types of motivation and the order in which they would tend to be met.

This is important for an entrepreneur to keep in mind as he works with team members and staff that may be from diverse backgrounds and income levels, therefore motivation will differ on each person's background, while the persons needs will also change as they progress through life.

### Needs Exercise:

Use the following picture to tell them about different levels of need and ask them to write how to deal with (in relation to their business/products/services) customers (relationships strategies) in those levels and ask them to distinguish their different strategies at each level.

Discuss about different strategies and the importance of understanding needs levels.



**Relationship strategies:****Best Relationship strategies:**12

-

## Negotiation

This is a critical area for the entrepreneur and should never be underestimated. There are some very interesting fundamentals and study in this area that participants should be encouraged to explore. When the negotiation is practiced based on negotiation skill you begin to master the art of successful negotiations. Always remember when you start a negotiation it is because there is a common ground, not an agreement but a common ground. Eg. If you are negotiating a deal for 100 million, which the other party is willing to pay 75 million, remember the negotiation is not for 100 million but for 75 million. Since 75 is common ground, while you will not sell it for 75, you already have an agreement for 75 million, so in effect the negotiation starts from that point. Negotiation is not between enemies it is between two parties that have a common interest. If you take the example of a negotiation with your staff, to work extra hours then there is an agreement for a certain amount and what you are negotiating is only for the extra. Both of you want to work together and that is the start of the negotiation. Between parties that have common interest. Some negotiations will subsequently separate us eg. When selling an asset while the other like the employee negotiation will leave us with an ongoing relationship.

Deep down, we're all a little greedy. We all want the best outcome for ourselves. We can't help but consider what's in our own self-interest any time we negotiate a deal. But to become a truly successful negotiator, you have to learn to put aside pure self-centeredness. Because if all you care about is serving yourself, you'll blow the deal before you even start.

Negotiations are a delicate balance of give and take. Learning to strike this balance is necessary for any entrepreneur hoping to build a prosperous business. It takes time and practice and whole lot of patience to hone a winning strategy. And yet each deal is unique and needs to be approached correctly, which is why a one-size-fits-all approach will never work for long.

Here are eight skills an entrepreneur should learn to become a master at negotiations.

### **1. Do your prep work**

Successful negotiations are built on solid prep work. This means you know something about the parties involved, you've done a little background checking, you know about their business and maybe you've even talked to others they've worked with to get an idea of their strengths and weaknesses. The same is true if you are on the other side of the table and are looking to invest in a product or service. You should have a solid understanding of the pros and cons of the commodity they are selling. The bottom line is, you need to have a good idea of who you are dealing with and what they can offer.

You should always go into negotiations with your best foot forward. You should be well rested. You should have eaten something (being "hungry" can swiftly detonate any negotiation). You should show up on time maybe even early, so you aren't walking in feeling rushed. If you've done the above, you should be feeling positive and are going in clear-headed and confident. You will have the stamina and energy to get this deal done.

## 2. Consider all the details of the opening offer.

The opening offer usually acts as an anchor for negotiations. It's also where the details get hammered out, so it's important that it's done carefully and thoughtfully. The basic elements of an offer include the offer price, the work being proposed, what goods or services are included, when it will all be delivered and if there are any performance incentives, warranties or terms and conditions. Obviously, price is a key component to any deal, but keep in mind the other details. They can matter nearly as much in the long run.

If you are the one initiating the opening offer, this is your chance to set the stage for the negotiations ahead and start with the upper hand. You won't get what you don't ask for, so be bold! If you're on the other side of the table, the offer is key to seeing how close together you are. Know your bottom line, what are you willing to accept? And remember to take a close look at the details. What else are you getting for your money and what else are you potentially signing up for?

## 3. Check your ego and emotions at the door.

While you should have confidence and assurance because you've done your prep work, you also have to check your ego at the door. Letting your emotions run the show will never serve you well. In fact, you should be going in feeling as neutral as you can about the situation. Leaving your ego behind will free you to think objectively during intense bargaining. You can then negotiate from a standpoint of flexibility.

To be successful you have to be able to think clearly in stressful situations and be willing to work to find common ground. If you walk in with a middle-of-the-road attitude, you're more likely to strike a balance between getting what you want and not giving away too much.

On the other hand, you don't want to give something away without getting something in return. Losing your ego and putting your emotions aside will help you find right path forward.

**4. Play the game rather than letting the game play you.**

If you're entering into high-stakes negotiations, it may be helpful to run through possible scenarios with a friend or colleague. This will help you feel less nervous, and it may also show you objections to the offer that you hadn't thought of, or help you see a side of the deal that you hadn't considered. Playing through the scenarios, even if it's just in your own mind, may help you feel less attached to the outcome. In order to treat the whole thing as a game, you should care...but not too much!

Having a little apathy will help you stay neutral and keep your feelings in check. And remember, negotiations are like anything else: the more you practice, the better you'll be.

**5. See your strengths and weaknesses clearly.**

Self-awareness is key when you begin negotiations. You are essentially looking for the other side's strengths and weaknesses. Not in a cruel way, but to help you determine your next play. At the same time, you must also be aware of your own strengths and weaknesses, so you don't allow yourself to be exploited. Try to take an honest inventory of your strong points and vulnerabilities.

If your company is small, what is its growth potential? Are you able to be more responsive to the market than a larger company? In short, what can you offer that the other side can't, and what can the other side offer that you can't compete with? Knowing where you stand on the negotiation chessboard will help you determine how to land the best deal.

**6. Know when to walk away.**

When you enter into a negotiation with the knowledge that you are willing to walk away if things don't go as planned, you come from a position of strength. That's why staying neutral is key to a successful negotiation. You can't be bullied into a deal if you just leave. But often we tell ourselves that this deal means everything to us. Our ego is involved, and that weakens our position. It's about mindset. You have to believe that if this deal falls through, you aren't losing an opportunity. You are

keeping that space open so when a better opportunity comes along you can snag it. If you force a bad deal to happen, you are stuck. You are no longer able to grab hold of something better. And there is no shortage of business out there. So, if you are pinning all your hopes on one deal, you may be killing future business.

#### **7. Negotiate in good faith.**

Whether you're negotiating a long-term business deal or setting up a quick sale, it's natural to feel on the defensive when you begin negotiations. We are all protective of our interests and we want to cut the best deal in our favour. But if you are hoping to walk away with your reputation intact, you need to practice negotiating with compassion and good faith. Engage in active listening and really hear what the other side is saying and asking for. What are the issues that are making them hesitant? Then make sure that you relay your own priorities.

This is the basis of a "win-win" solution, when both sides explore each other's positions and walk away feeling heard and comfortable with the deal that was struck. Even if it appears that you are on opposite sides, there's usually common ground to be had. Maybe the other side has a different goal or an opposing position. But if you look for it, you can usually find mutual gains both sides will accept.

#### **8. Know how to close.**

Negotiations may feel like a game of chance, but they're more like a game of chess. A successful negotiation requires a good sense of timing and the ability to sense the other side's next move.

If you've done your prep work and are bargaining in good faith, you should have a solid idea of what they're looking to get out of the deal. And of course, you should have a clear idea of your own bottom line. So, you're either working to bring the sides progressively closer, or the deal is going nowhere.

Ask yourself what the endgame is. Can the difference between both parties be split? If both sides are close but a few numbers are hanging up the process, what will it take to shake things loose?

If you can strike a bargain that makes sense, it doesn't need to be perfect. It just needs to work for both parties involved. If you can get to that point, you have set the stage for the final handshake. If not, you have to be willing to walk away knowing it just wasn't the right time.



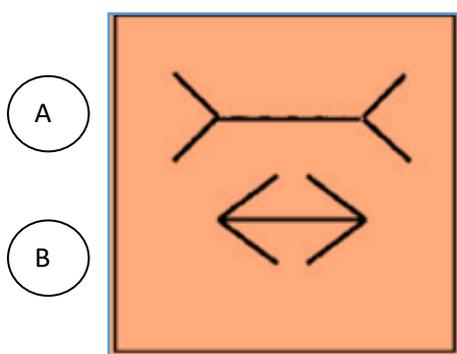
# 5. Decision Making

## Introduction

Every entrepreneur takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in his or her role. Decisions play important roles as they determine both organizational and managerial activities. A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals. Decision making process is continuous and indispensable component of managing any business activity.

### Example

Imagine that you have to take a quick decision about a length of a horizontal line and if you make the right decision, you will be paid Rs. 100,000.00. Look at the following picture and decide which of the following horizontal lines is longer, A or B?



*Muller-Lyer, length of horizontal line, figures with divergent and convergent fins*

Your mind will immediately decide A. That's how your mind takes decisions probably without your clear thinking effort.

This is what we do in day to day decision making and if you are running a business you have already make a loss of Rs. 100,000 by now if you have decided the longest line is A.

Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered.

Employees often work in groups and make decisions that affect the whole company. Moreover, sometimes the complexity of a problem calls for pooling expertise and opinions to make a sound decision. Also, participation improves employee commitment to decisions. Decision-making in groups is not easy; for example, the group may polarize and refuse to

reach consensus or it may form a group think and stick to a familiar mutually acceptable decision without considering better alternatives. Knowledge of group decision-making techniques can help managers effectively steer group decision-making processes.

If you are an entrepreneur, you already know just how difficult it can be to make decisions. Specifically, it can be hard to decide how to make those decisions, in terms of -who you should include,

-what information you gather,

-what options you should consider in the process,

-what logic you have to follow, and more.

Making good decisions is a key to success in business, but you can only make good decisions if you have an appropriate process in place.

No business can consistently succeed in any market without quality decision making. It is the decisions that you make on behalf of your business that chart its course for the future, for better or worse. Great decisions will likely lead you toward your goals, while poor decisions could quickly lead you out of business. When you are faced with a particularly difficult or important decision, it may be necessary to involve some or all of your team members in order to make the right choice.

### Story

A reporter met a successful entrepreneur who made fortunes with big decisions he make in his career. The reporter was curious to know how did he make such big decisions at the tight time?

Reporter: How did you achieve such a great success in your business?

Entrepreneur: From right decisions!

Reporter: Then how did learn to take the right decisions?

Entrepreneur: I learn it from wrong decisions!

## Lead by making decisions

Make sure you know who is leading a business or task and has the final responsibility. But you don't have to worry about your limited knowledge. You can make use of the ability of thinking of others to shape up your decisions.

Firstly you have to lead your internal staff/teams to enrich ideas or to decide which option is better from many options in front of you. It's a way of challenging people's ability to think and at the same time giving them an opportunity to unleash that ability.

Secondly you can use people outside of your business also to help you take right decision or to decide which option you must go for.

### Example

Imagine that you have selected three business ideas in your progress towards starting-up a business. One of those is to start an IT service business and you can call upon 4-5 friends and colleagues in the IT industry to get their support to decide the viability of your business idea. First prepare a set of questions that help you to get their best inspiration and inputs and initiate the discussion to take the right decision. Just serve them with a tea and ask them some questions to measure the viability of your business idea.

### Method

Smart entrepreneurs use the dynamics of groups to make best decisions using the power of both individual thinking and group thinking. They don't believe that other people can contribute and guide him/her in exploring best options. There are several things the leader can do to help a group make decisions more efficiently:

- Clarify the goal of the meeting.
- Create expectations with actionable agenda points.
- Ask tight questions; why? how? when? where?,
- Write down and develop visuals using the information shared,
- When people seem totally blocked and unable to come to a decision, go back to the initial question or purpose and phrase it in other words,
- Let them know where we are in the process from time to time,

A lot of time is consumed while decisions are taken. In a management setting, decision cannot be taken abruptly. It should follow the steps such as

1. Defining the problem
2. Gathering information and collecting data
3. Developing and weighing the options
4. Choosing best possible option
5. Plan and execute
6. Take follow up action

Discussions and consultations are two main tools that support and eventually bring out decisions

## Five group decision making techniques

### Technique # 1. Brainstorming:

Brainstorming may be defined as “a conference technique (by the formation of a group) of solving specific problems, gathering information, and stimulating creative thinking. The basic technique is to encourage unrestrained and spontaneous participation by group members, thus, leading to free association.”

A group technique aids creativity. Group success primarily depends on two psychological phenomena:

- (i) Free association: A process of producing ideas in rapid succession. The group leader presents the original idea which stimulates a chain reaction of additional ideas.
- (ii) Social facilitation: A process in which the productivity of each individual is increased by the stimulation provided by other members of the group.

The technique of brainstorming, developed by Alex F. Osborn, was originally used as an aid to produce ideas for an advertising agency. Since that time, it has been used in many other situations to produce a large number of new solutions to specific problems.

In order to develop the desired quantity of ideas, an atmosphere conducive to free association is developed. The group leader announces the objective and cautions participants against being critical of their own or others' ideas. The leader encourages freewheeling, uninhibited thinking.

The goal is to generate as many ideas as possible. This technique doesn't provide a solution or decision itself. Instead, it produces a list of ideas that will later be considered, discussed, and evaluated when it is time to reach a final decision.

The ground rules of brainstorming include the following:

- **Don't judge.** Whether an idea is good or bad doesn't matter. Judging and criticizing isn't good for the mood and creative flow. People shouldn't feel afraid to speak up. Empower your co-workers.
- **Assign a moderator.** Although the entire point of a brainstorm involves a free flow of ideas, you can quickly get off track. Choose a moderator who knows the project and can drive conversations toward original thought and successful teamwork.
- **Change physical environment.** Switching environments can influence the way your brain works and what kind of ideas come to mind. Stimulate your brain by brainstorming outside or in another room.
- **Independently prepare.** Give everyone about ten minutes to come up with their own ideas before you discuss them together. This way you'll make sure you won't get stuck with common suggestions but you'll probably have more diverse ideas to begin with.
- **Identify goals.** You don't want to waste time endlessly writing down ideas. Clearly state the goal of the brainstorming session so that everyone stays focused. For example: "Identify ten possible ways to get more employee happiness."

- **Set a time limit.** By setting a time limit, you know that the agreed upon goals must be met by a certain time. This will encourage you to stay on track and come up with as many ideas as possible within the timeframe.
- **Avoid groupthink.** Groupthink occurs when people in groups seek to eliminate conflict entirely. Positive reinforcement and agreements are great, but shouldn't stand in the way of critical thinking, creativity, and quality.
- **Write everything down.** Every idea, good or bad, should be briefly put down on paper or a whiteboard because you won't remember everything. You don't want to end up scratching your head because you forgot all those great ideas.
- **Work together.** Don't get attached to your own ideas. Everyone will have good and bad ideas, but in the end it's all about the best ideas that solve the problem. So, help develop other people's ideas too.
- Do not dispute any ideas/suggestions (This hinders flow of new/novel ideas).
- Jot down ideas even if they are repetitions (whole or part).
- Do not evaluate ideas (good or bad).
- Repeat ideas are fine.
- Using and adding to someone else's idea is comfortable.
- Silence does not necessarily signify the end of the 'creative process'; it is generally the precursor to 'Generation of New Ideas'.
- Having a broad range of ideas is better than restricting these to a chosen few.

When a problem is relatively simple and specific but requires an original solution, brainstorming may provide the answer. Brainstorming technique has certain drawbacks too. It is time consuming. It sometimes produces only superficial ideas. It again requires time to evaluate the ideas generated. Nonetheless, it aids creative thinking.

## Technique # 2 Nominal Group Technique

This group decision making technique is similar to brainstorming except that it's more structured. The nominal group technique involves the following steps:

- **Write down ideas in private.** After the problem at hand is defined and understood, members silently generate their ideas in writing without discussion with each other.
- **Share ideas.** Take turns reporting your ideas to the group, one at a time, while a facilitator writes them on a flip chart or whiteboard. Again, no group discussion occurs. This listing continues until each member has no more ideas to share.
- **Discuss ideas.** The next step is discussing all ideas. The purpose of this discussion is to clarify, criticize, or defend the stated ideas.
- **Vote on ideas.** Each person privately and anonymously prioritizes the ideas according to a rank-ordering system.
- **Calculate the group decision.** The final decision is calculated mathematically, based on the votes of the previous step.

After voting, the group discusses results and generates more ideas. The idea generation, voting and discussion cycle can continue until a satisfactory decision is reached.

## Technique # 3 Decision Making Using Multi-Voting

If you are making an organization decision that involves a number of people, you may have to take a vote at some point in the process. But how do you take that vote? What if the topic at hand is not a simple 'for or against' kind of proposition? If you would like to use voting to help make important organizational decisions from time to time, you may wish to employ the popular Multi-voting method. With this method, you can select the most popular options from a list in order to get an idea about the consensus of the group. Multi-voting is not always the right solution when trying to make a decision, but it can be perfect in specific circumstances.

Multi-voting is a smart choice when you need to narrow down a list. That is the strength of this kind of decision making – to take a large list and pare it down to the options on the list that are the most popular among the group. For instance, let's say your business needs to

undertake new marketing efforts in order to regain some lost market share. If that is the case, you may find that your team has come up with a long list of ideas for new marketing ventures. However, you likely won't be able to use them all, so you will need to find a way to narrow down that list of ideas based on the consensus of the group. By using Multi-voting, you can quickly figure out which ideas are the most popular in the eyes of the team, and you can get started with your new marketing concepts right away.

### **First Steps**

If you would like to use the Multi-voting method, the first thing you need to do is develop a list of ideas that are going to be the subject of your vote. Ask the team that is working on this project to collaborate on a list. At first, you can put any idea that is presented onto the list, but you will want to slightly narrow down and 'clean up' that list before it goes to the vote. If there are multiple ideas that are basically the same, for example, you can bring those ideas together to consolidate the list. Before any vote can take place, all team members should have the opportunity to ask questions about the ideas on the list. It is important that everyone involved has a clear understanding of what it is that is being voted upon.

After a period of brainstorming and discussion has passed, a final list should be assembled. This list can be as long or as short as is appropriate for the situation. Once the team agrees on all of the points on the list, that list should be numbered and distributed to everyone involved for a final review. If there are no remaining questions or concerns about the list being used, the process can move on to the actual vote.

### **Taking the Vote**

Before taking the vote, you will want to decide on exactly how many votes each individual is going to be given. Generally speaking, each person should be allowed to vote for roughly 1/3<sup>rd</sup> of the ideas on the list. So, given a list of 15 items, each person would be allowed to place five votes (thus the name 'Multi-voting'). Of course, you are free to alter the number of votes allotted as you see fit, but the 1/3<sup>rd</sup> rule is a good place to start. With the number of votes decided, you will need to actually take the vote, either by a show of hands or by secret ballot. As the vote progresses, you will tally the votes for each idea until all votes have been

cast and the process is complete. Once the votes are tallied, the results can be presented to the group for discussion. How are the votes distributed? Are there a few ideas which stand out from the crowd, or are the votes evenly distributed from top to bottom? By talking about the results of the vote as a group, you can quickly begin to interpret the results. (I often use sticker papers cut into squares as votes that makes it easy for people to paste it on the idea paper/flash card. Now that you are down to ten ideas, the voting process will be repeated, with only three votes allowed for each person during this second round. When the second voting round is over, the top three or five ideas (or however many you choose) may be declared the winners. It won't always be necessary to repeat a Multi-vote, but that is a good option to have in mind if you are dealing with a big problem or have a surplus of ideas coming from your team members. The idea here of course is to 'take the temperature' of your team in order to figure out which are the most popular ideas on the table. While it is possible to take a public vote, you may wish to complete your Multi-vote by secret ballot in order to avoid any bias or peer pressure. As a decision making model, Multi-voting is extremely simple and easy to use. However, don't let that simplicity trick you into thinking that this model is not a powerful way to make choices. A quick Multi-vote can help you to accurately identify the ideas that your team is the most confident in taking forward, and that information is extremely valuable to you. It won't take long to go through a round or two of Multi-voting, and the outcome just may have the power to change your organization going forward.

### Key Points

- Multi-voting makes it possible to take a vote when the topic at hand is not a simple 'for or against' proposition.
- It is ideal where there is a large list of options that needs to be pared down to those that are the most popular among the group.
- The list of options should be drawn up by the group making the decision with similar options grouped together to make the number of options manageable.
- The number of votes given to each group member is variable but us typically one third of the number of items on the list.

- By talking about the results of the vote as a group, you can quickly begin to interpret the results.
- It can be a good idea to use this system iteratively in order to accurately identify the ideas that your team is the most confident in taking forward.

## Technique # 4 Hartnett's CODM Model

As you already know, it can be difficult – if not impossible – to come to a consensus when working with a team of individuals. Everyone in your group is going to have their own opinions on a given topic, and while there is bound to be some overlap in those opinions, there is going to be some disagreement as well.

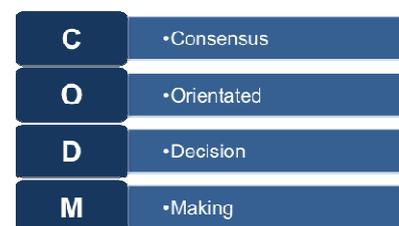


As a manager or business owner, it is your job to sort through the disagreements and use all of the opinions at hand to come to a decision

that is in the best interest of the organization.

To make it easier for you to figure out where the consensus of the group may lie, you might want to consider using Hartnett's CODM Model. The CODM in the title of this model stands for 'consensus-oriented decision making', which should tell you all you need to know about the goal of this model and how it is designed to work.

This is a model that is designed to be used in group settings when a decision needs to be made that all can support.



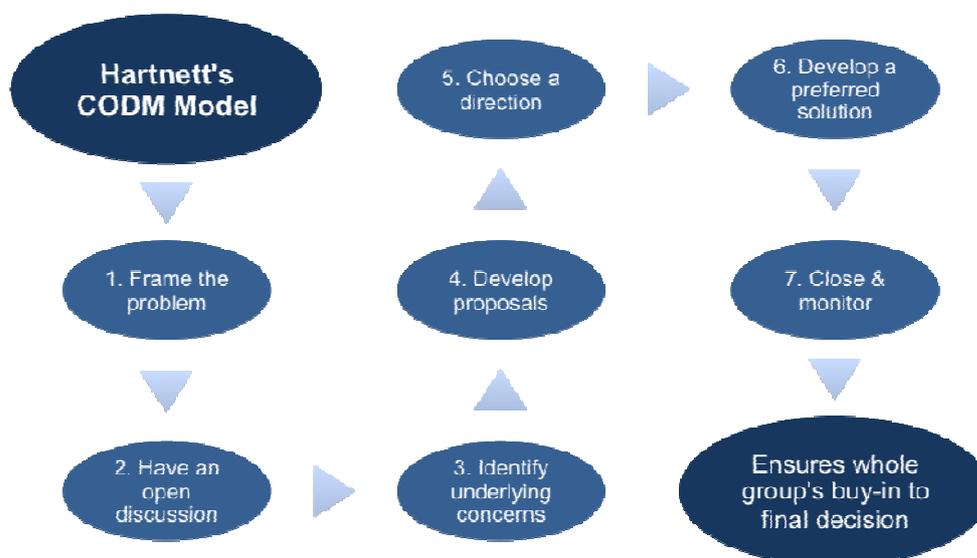
## Calling on a Group

Of course, you aren't going to use group decision making for every problem that you face in your organization. For one thing, there wouldn't be time to always use a group decision making model – you would be stuck in one meeting after the next with no end in sight. Also, it simply isn't necessary to create a team to solve every small problem that comes up. Many of the day-to-day choices that need to be made can be handled by you as the manager or owner without any meaningful input from staff members.

However, there are going to be important decisions that come along which call for the formation of a team. These are the decisions that are going to impact your organization in a significant way going forward, and they are choices that you can take some time to make.

Before you begin you need to understand the concept of a decision rule. This is the level of agreement necessary to finalize a decision, for example: unanimous agreement, unanimous agreement minus X votes, super majority thresholds (percentage), simple majority, executive committee decides, or leader decides.

If you would like to use Hartnett's CODM Model to solve such a problem, use the seven steps below to move through the model from start to finish.



## **Framing the Problem**

You can't accurately solve a problem if you don't know what the problem is in the first place. Make sure that everyone on the team is well-informed as to the specifics of the problem, why it is a problem, and what the ideal solution is going to accomplish. At this stage, you need to identify the problem, ensure that the right people, information, resources and stakeholders are involved and also to set the decision rule.

## **Having an Open Discussion**

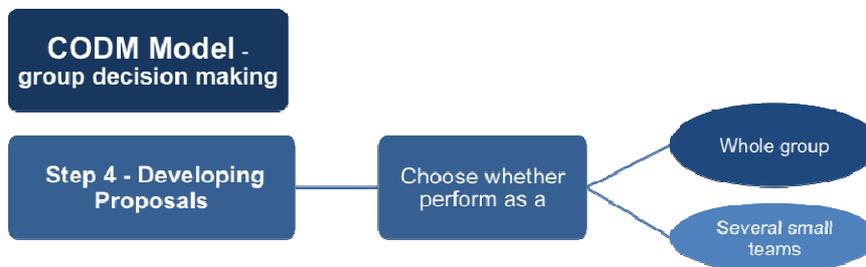
Once all involved are clear on what the problem is, the next step is to have an open and casual discussion about that problem. At this point, there aren't going to be any grand plans established, and there certainly won't be any decisions made on how to move forward. Think of this stage as laying the 'groundwork' for future discussions and meetings which will come to more concrete solutions.

## **Identifying Underlying Concerns**

One of the benefits of your initial meeting is the fact that you are likely to uncover 'hidden' problems that weren't really considered initially. As your team discusses the main problem at hand, it may be that other issues pop up along the way. It is at this point that you should highlight those underlying concerns, and figure out what measures can be taken to mitigate their significance.

## Developing Proposals

By the time you have reached this fourth step, things are going to begin to get more organized. You will now put together some formal proposals on a solution for the problem at hand.



You can either work together with the entire team to develop a few different proposals, or you can

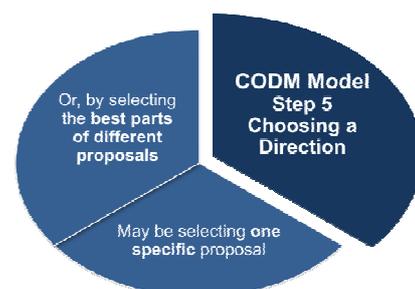
choose to break the team up into groups in order to have each craft their own proposal. The latter option can be attractive when you have a ‘divided room’ – in other words, a meeting that is split into two or three different groups who view the issue in different ways.

## Choosing a Direction

With the proposals created and on the table, it will be time to sort through them in order to make a decision. It is important to remember that you don’t necessarily have to pick one specific proposal in order to move forward – it may be that the best option for your needs is to use a combination of ideas from two or more proposals.

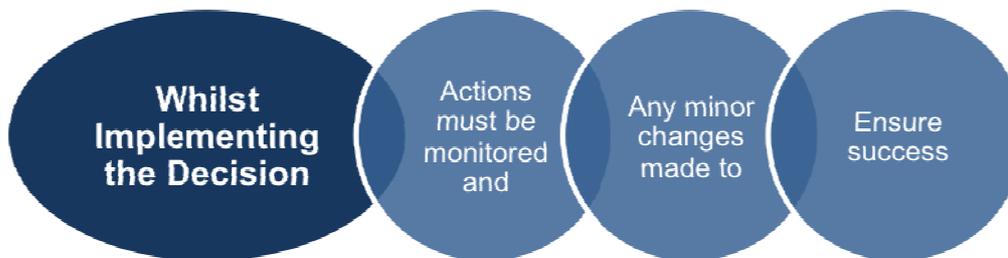
## Developing a Preferred Solution

The time has come to make the final decision and to put that decision into action. There will have been no point to going through this process if the final decision isn’t going to be enacted, so make sure there are steps which will ‘get the ball rolling’ on the decision as soon as it is approved and finalized.



## Closing

As you know, there is no such thing as a decision in business that you can just forget about and move on from. You should be monitoring the decision after it is made to make sure that it has had the desired effect. Most likely, you will need to tweak minor things about the decision in order to make sure it is as successful as possible over the short and long term.



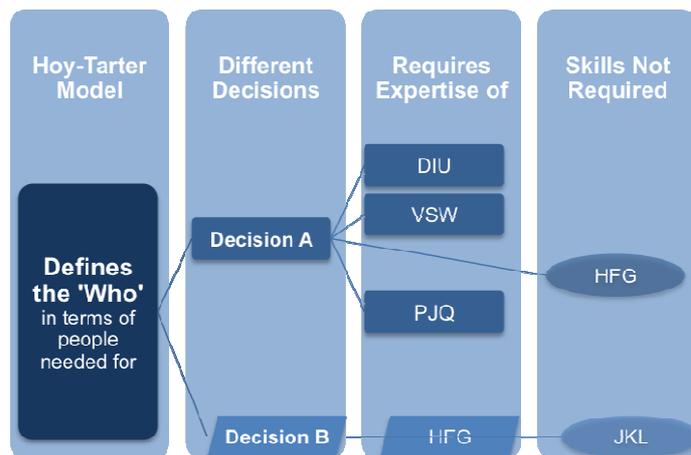
It is likely that your team will appreciate using this decision making model as they will have a chance to make sure their voice is heard along the way. Even if you don't have a true consensus in terms of everyone on the team totally agreeing with the final decision, at least you will have given everyone involved a chance to provide their input. It is important to the health of your organization to make sure that no one feels marginalized in terms of their role in the business, and using things like the CODM Model are great for just such concerns. You may not have to use group decision making on a frequent basis within your organization, but when the time does come to form a team in order to make an important choice, you can turn to the CODM Model for assistance.

## Key Points

- Hartnett's Consensus Oriented Decision Making (CODM) model is a seven step process that facilitates group based decision making on a consensus basis.
- It can be used in any group situation, regardless of whether the final decision-making power rests with a single person or or the whole team. The Steps are:
- Identify the problem, ensure that the right people, information, resources and stakeholders are involved, and set the decision rule.
- Have an open discussion to generate as many initial ideas or solutions to the problem as possible.
- Identify the issues and stakeholders who will be affected by this decision.
- Develop proposals that address the problems identified in the previous step.

- Decide on the best proposal to take forward.
- Develop and improve the final proposal further.
- You should have a solution that passes the decision rule.

## Technique # 5 The Hoy-Tarter Model of Decision Making



Originally created for use within a school system, the Hoy-Tarter Decision Making Model can actually be applied in a number of different settings. If you are the owner or manager of any kind of organization, you already know just how difficult it can be to make decisions. Specifically, it

can be hard to decide how to make those decisions, in terms of who you should include, what you should consider in the process, and more. Making good decisions is a key to success in business, but you can only make good decisions if you have an appropriate process in place.

In this model, the main goal is to figure out exactly who should be included in the decision-making process. Different decisions are going to require different inputs from various people, so determining who should be included in making the decision (and who should be left out) is a key step not to be overlooked. Including the wrong people, or failing to include the right people, is a mistake that can have serious consequences.

### The Matrix

The first step in the process of using this model is to think about each of your team members in reference to a four-quadrant matrix that will help you determine whether or not each person should be included. Two questions are used, each with a yes or no answer, to form this matrix. On one side of the matrix is the question of how much of a personal stake each

team member has in the decision that needs to be made. Does this decision matter to the individual, or it is something that does not affect them in a significant way? You are going to answer this with a yes or no – yes if the decision does affect the team member, and no if it does not.

Hoy-Tarter Model		Does it matter or significantly affect the individual?	
		Yes	No
Does the individual have a skill / expertise that is needed?	Yes		
	No		

On the other side of the matrix is the question of expertise. Does the team member in question have a particular skill set or expertise that is going to help you make a good decision? Again, here, it is a yes or no answer that is going to help you place the team member inside one of the four quadrants. You will answer yes if a particular team member possesses expertise that you feel would be helpful, while a no answer is indicative of someone who is not bringing much to the table in terms of experience or knowledge (with regard to this specific decision).

### The Four Options

Obviously, when you have two questions with two potential answers each, you will have four possibilities for each team member that you evaluate as part of this process. Those four outcomes are as follows.

#### Expertise – Yes, Personal Stake – Yes.



If the team member receives a yes response for both questions, they should almost certainly be included in the decision-making process. They are going to bring expertise that should be helpful in the process of making

your decision, and they are going to work hard on the problem because they have a personal stake in the outcome. This is exactly the kind of person that you will want to have working for you when trying to make an important decision, so it is obvious that they should be included.

### Expertise – No, Personal Stake – Yes.

This is a person who should be considered for a marginal role in the decision making

process. On one hand, they don't really have the expertise to help you make the right choice from a technical perspective. However, on the other hand, they are interested in the outcome and will likely work hard to steer the company in the right direction.

While this is likely not the kind of person that you would want to have playing a significant role in the decision making process, they may be considered for a partial role to help you come to the right conclusion. This person may be especially useful if you already have a team made up of people with plenty of expertise but minimal personal stake in the matter.



### Expertise – Yes, Personal Stake – No.

This is another category of individual who

should be considered, but only needs to be included if their expertise is something that can make a big imprint on the decision making process. Do they have knowledge and experience that doesn't exist otherwise on your team?

If so, they should absolutely be included in some form or fashion. Otherwise, they may need to be left out, as their lack of a personal stake is going to limit their motivation and drive on the project.



### Expertise – No, Personal Stake – No.

It probably isn't a surprise to find that this

is a category of team member which should be left out of the decision-making process. If they aren't going to offer anything from an expertise standpoint, and they don't have a personal stake in the decision, they really have no business being involved. You don't want



to unnecessarily crowd the process with too many voices, so keep people like this away from your meetings. While there are more steps to this process that can be used, it is this initial line of thinking that is particularly important for business managers and owners. You want to make sure that your decisions are being made as intelligently as possible, and a big part of working toward that goal is using the right members of your team to help make the choice.

Do you think you have been including the right people in your decision making meetings, or are you going to make some changes in light of the thinking that this model presents? It is hard to move an organization into the future without making smart decisions, and it is hard to make smart decisions without having the right people working together with you on the project. Use the Hoy-Tarter Model when applicable to pick out the right team members for a decision making process and your choices should be better for the effort.

### Key Points

- Hoy-Tarter Decision-Making Model is designed to help you decide to what extent you should involve subordinates in the decision-making process.
- The first step in the process of using this model is to think about each of your team members in reference to a four-quadrant matrix.
- On one side of the matrix is the question 'Does this decision matter to the individual in a significant way?'
- On the other side of the matrix is the question 'Does the team member have particular expertise that is going to help you make a good decision?'
- If the team member receives a yes response for both questions, they should almost certainly be included in the decision-making process.
- Obviously, anyone without expertise or a personal stake should be excluded.
- Where someone has either expertise or a personal stake, but not both, then the decision is more nuanced.
- This model can help to give you a shortlist of who should be included in the decision-making process and to justify your choice objectively.

## Ten Business Financial decision - making techniques (Quantitative)

### Decision-Making: Technique # 1. **Marginal Analysis:**

This technique is used in decision-making to figure out how much extra output will result if one more variable (e.g. raw material, machine, and worker) is added. In his book, 'Economics', Paul Samuelson defines marginal analysis as the extra output that will result by adding one extra unit of any input variable, other factors being held constant.

Marginal analysis is particularly useful for evaluating alternatives in the decision-making process.

### Decision-Making: Technique # 2. **Financial Analysis:**

This decision-making tool is used to estimate the profitability of an investment, to calculate the payback period (the period taken for the cash benefits to account for the original cost of an investment), and to analyze cash inflows and cash outflows. Investment alternatives can be evaluated by discounting the cash inflows and cash outflows (discounting is the process of determining the present value of a future amount, assuming that the decision-maker has an opportunity to earn a certain return on his money).

### Decision-Making: Technique # 3. **Break-Even Analysis:**

This tool enables a decision-maker to evaluate the available alternatives based on price, fixed cost and variable cost per unit. Break-even analysis is a measure by which the level of sales necessary to cover all fixed costs can be determined. Using this technique, the decision-maker can determine the break-even point for the company as a whole, or for any of its products. At the break-even point, total revenue equals total cost and the profit is nil. Businesses want to make money. The objective of the break-even analysis is to decide the optimum break-even point, that is, where profits will be highest. In making decisions, businesses must pay a great deal of attention to the profit opportunities of alternative courses of action. This obviously requires that the cost implications of those alternatives are assessed. An important aspect of such cost analysis is that made between fixed and variable costs.

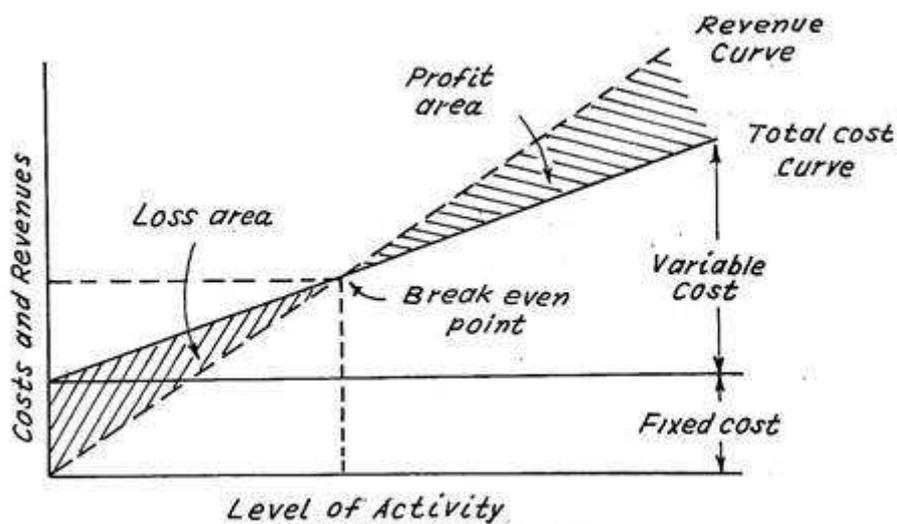
A cost can be classified as being fixed or variable in relation to changes in the level of activity within a given period. (In the long run, of course, all costs are variable). Fixed costs are those which remain fixed irrespective of the volume of production or sales. For example, a managing director's salary will not vary (change) with the volume of goods produced during any year. Road tax payable for a car will not vary with its annual mileage covered. Insurance premiums, rent charges, R&D costs are a few other typical examples of fixed costs.

Variable costs vary or change in response to changes in, say, volume of production or sales or any other similar activity. Sales commissions in relation to sales levels, petrol costs in relation to miles travelled and labour, costs in relation to hours worked are obvious examples.

Mixed costs are of hybrid nature, being partly fixed and partly variable. An example is found in telephone charges – the rental element is a fixed cost, whereas charges for calls made are a variable cost. Separating fixed and variable costs.

The total cost at any level of operations is the sum of a fixed cost component and a variable cost component. The importance of separating variable costs from fixed costs stems from the different behaviour patterns of each, which have a significant bearing on their control. Variable Costs must be controlled in relation to the level of activity, whilst fixed costs must be controlled in relation to time.

From a decision-making point of view, it is also important to know whether or not a particular cost will vary as a result of a given decision. By adding graphically variable cost to the fixed cost for different levels of activity (e.g. number of goods produced), a total cost curve can be drawn.



#### Decision-Making: Technique # 4. Ratio Analysis:

It is an accounting tool for interpreting accounting information. Ratios define the relationship between two variables. The basic financial ratios compare costs and revenue for a particular period. The purpose of conducting a ratio analysis is to interpret financial statements to determine the strengths and weaknesses of a firm, as well as its historical performance and current financial condition.

#### Decision-Making: Technique # 5. Linear Programming:

Linear programming is a quantitative technique used in decision-making. It involves making an optimum allocation of scarce or limited resources of an organization to achieve a particular objective. The word 'linear' implies that the relationship among different variables is proportionate.

The term 'programming' implies developing a specific mathematical model to optimize outputs when the resources are scarce. In order to apply this technique, the situation must involve two or more activities competing for limited resources and all relationships in the situation must be linear. Some of the areas of managerial decision-making where linear programming technique can be applied are:

- Product mix decisions
- Determining the optimal scale of operations
- Inventory management problems

- Allocation of scarce resources under conditions of uncertain demand
- Scheduling production facilities and maintenance.

#### Decision-Making: Technique # 6. **Waiting-line Method:**

This is an operations research method that uses a mathematical technique for balancing services provided and waiting lines. Waiting lines (or queuing) occur whenever the demand for the service exceeds the service facilities.

Since a perfect balance between demand and supply cannot be achieved, either customers will have to wait for the service (excess demand) or there may be no customers for the organization to serve (excess supply).

When the queue is long and the customers have to wait for a long duration, they may get frustrated. This may cost the firm its customers. On the other hand, it may not be feasible for the firm to maintain facilities to provide quick service all the time since the cost of idle service facilities have to be borne by the company.

The firm, therefore, has to strike a balance between the two. The queuing technique helps to optimize customer service on the basis of quantitative criteria. However, it only provides vital information for decision-making and does not by itself solve the problem. Developing queuing models often requires advanced mathematical and statistical knowledge.

#### Decision-Making: Technique # 7. **Game Theory:**

This is a systematic and sophisticated technique that enables competitors to select rational strategies for attainment of goals. Game theory provides many useful insights into situations involving competition. This decision-making technique involves selecting the best strategy, taking into consideration one's own actions and those of one's competitors.

The primary aim of game theory is to develop rational criteria for selecting a strategy. It is based on the assumption that every player (a competitor) in the game (decision situation) is perfectly rational and seeks to win the game.

In other words, the theory assumes that the opponent will carefully consider what the decision-maker may do before he selects his own strategy. Minimizing the maximum loss

(minimax) and maximizing the minimum gain (maximin) are the two concepts used in game theory.

#### Decision-Making: Technique # 8. **Simulation:**

This technique involves building a model that represents a real or an existing system. Simulation is useful for solving complex problems that cannot be readily solved by other techniques. In recent years, computers have been used extensively for simulation. The different variables and their interrelationships are put into the model.

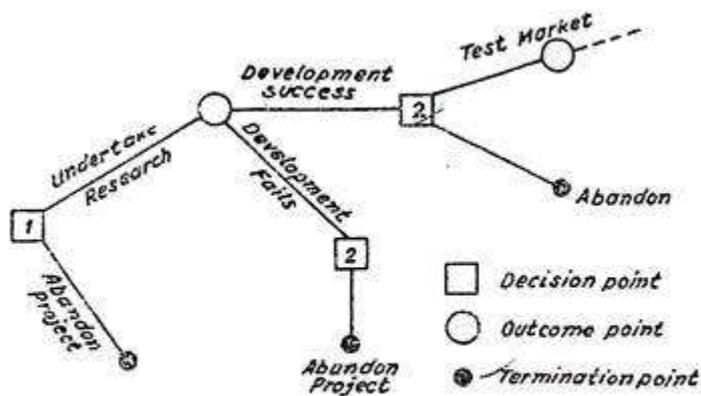
Simulation techniques are especially applicable to what if problems, in which a manager or technician wants to know, If we do this, what will happen. Simulation can, of course, be conducted by the manipulation of physical models. For example, one might have a physical model of a machine and actually keep on increasing its speed to determine at what point it would begin to jam, fly apart or walk across the floor.

With no loss, one may, instead, use a mathematical model in which each of the terms represents one of the variables, and observe the effect on the others when different values are given to one or more of the terms. With the help of a computer, it is possible to examine what will happen in an enormous number of cases-without spending a prohibitive amount of time.

#### Decision-Making: Technique # 9. **Decision Tree:**

*This is an interesting technique used for analysis of a decision. A decision tree is a tool that enables a decision-maker to consider various alternative courses of action and select the best alternative. A decision tree is a graphical representation of alternative courses of action and the possible outcomes and risks associated with each action.*

This is basically a conceptual map of possible decisions and outcomes in a particular situation. It is useful in cases where a manager is required to make a number of sequential decisions i.e., where earlier decisions will affect later ones.



The above diagram focuses attention on outcomes or consequences as well as decisions. These outcomes can be further elaborated in terms of their probability and their anticipated pay off. It is also possible to add a time dimension to the whole diagram, so that, for example in the above Figure the period from decision point 1 to decision point 2 could be one year. These additional features help to make the use of decision trees a salutary exercise for managers.

The decision making tree is one of the better known decision making techniques, probably due to its inherent ease in visually communicating a choice, or set of choices, along with their associated uncertainties and outcomes. Their simple structure enables use in a broad range of applications. They can be drawn by hand to help quickly outline and communicate the critical elements in a decision. Alternatively, a decision tree's simple logical structure enables it to be used to address complex multiple decision scenarios and problems with the aid of computers.

#### Technique # 10. Cost-Benefit Analysis:

In this technique, an effort is made to identify all costs and benefits, not only those that may be expressed in rupees, but also the less easily calculated effects of a given decision.

In general, this technique is advocated for use in decisions on public projects, in which social costs and social benefits as well as actual out-of-pocket costs should be taken into account. What counts as a benefit or loss to one part of the economy—to one or more persons or groups- does not necessarily count as a benefit or loss to the economy as a whole.

And in cost-benefit analysis we are concerned with the economy as a whole, with the welfare of a defined society and not any smaller part of it. But cost-benefit analysis may also be applicable to a single company, for in many cases, it is advisable to place a value on costs and benefits that are not ordinarily expressed in rupees.

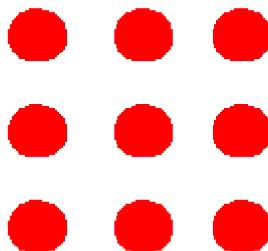
Somewhat similar to cost-benefit analysis is the cost-effectiveness analysis, which is analysis to determine the least expensive way of reaching an objective or of obtaining the greatest possible value from a given expenditure.

### Activity - The nine dot problem

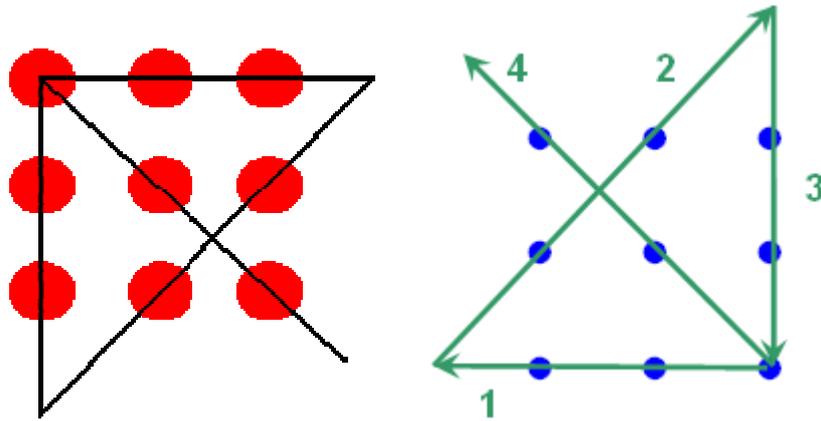
The nine dot problem is a classic lateral thinking exercise that gained widespread popularity in the 1970's and 80's. Participants are presented with a set of dots arranged in a 3x3 grid and challenged to connect all nine dots, without lifting their pencil from the paper, using the fewest possible number of straight lines. **Ask people not to assume anything.**

Copy the simple diagram below onto a piece of paper and give the puzzle a try for yourself before reading any further.

The best hint, in my view, is to mention that often, when solving a problem, we implicitly impose constraints that have not come with the problem. One classical example is where nine dots are arranged on the sides and the center of a square as in the picture below.

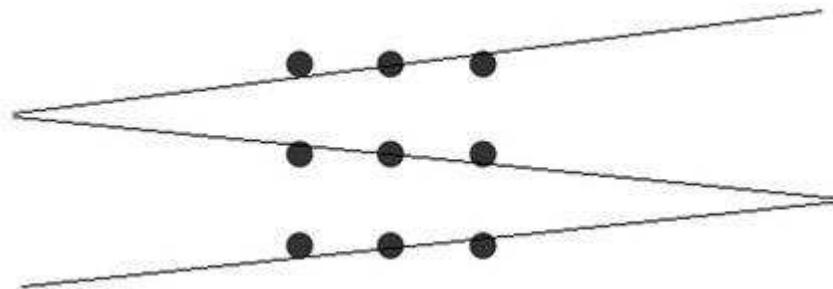


The problem is to connect the dots with no more than 4 straight lines without lifting your hand from the paper. First attempts are always frustrating. For one always comes up with 5 lines instead of 4. The solution lies in the observation that it's permissible to cross square boundaries.

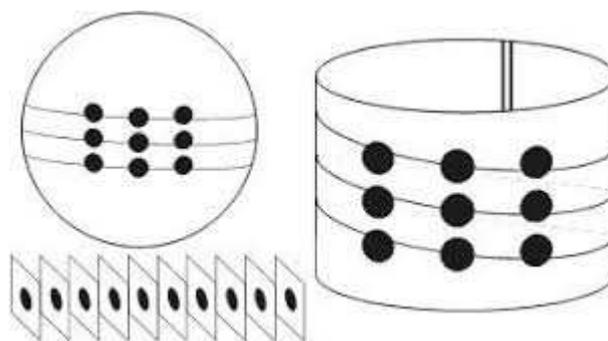
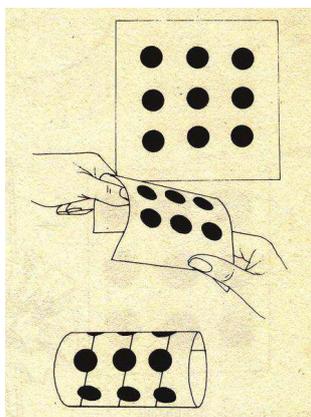


Now, try to think of a restriction you imposed on yourself which was not inherent to the problem.

Clearly, this solution requires one to "think outside" the "box" that is formed by the nine dots but if we are to fully embrace the idea of "outside the box" thinking, why stop there? Here's a way to solve the puzzle using only three straight lines.

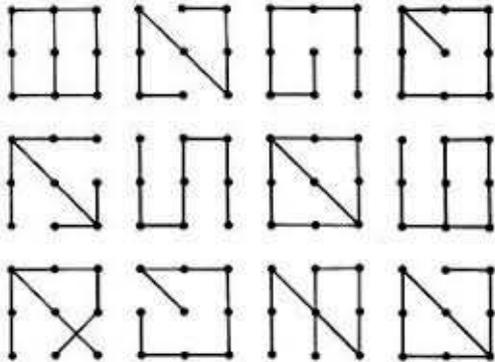


This solution is even further "outside the box" than the first. But what if the box is not the square described by the nine dots but rather, the piece of paper the puzzle is printed on? If we think outside of THAT box, it is possible to solve the puzzle using only one straight line.



Key learnings (make sure to debrief well)

You can display some attempts where the people have stayed within the box



1. In order to solve the puzzle, we needed to go outside the box
2. We made several assumptions which may include the following
  - a. The dots are tiny and cannot be intersected in the middle/end
  - b. The line has to be narrow/thin (the puzzle could also be solved with one fat(broad) line)

In our business we need to be sure that the assumptions we are making are actually accurate. Eg. People will only buy because it is cheap. You can only sell what people need. Market size, production quality, production time etc

Because if we make the wrong assumptions we will struggle to break through.

### Example – 1996 world cup Champions

When Sanath Jayasuriya and Romesh Kaluwitharana changed the way openers batted in a 50 over game in the 1996 world cup, did they break any rules? No. What did they do. They broke the assumptions and rewrote the history books and changed the game forever. Let us look at this closely. The great cricket thinking of the day was that the early overs during the swing that you should protect your wickets, and the most important think at that time was that you should always hit along the ground, that would eliminate the risk of you getting out. Then towards the end over you would take the risks with more wickets in hand. The Sri Lankan openers and the management completely changed this thinking upside down and

took the risk early and went about in a different way. No rules were broken but assumptions were defied, and what people said you could not do they did it, The result is that cricket has changed forever.

We see similar examples from the wright brothers that defied the known laws of physics by attempting to fly. Their father who was a priest told the boys that only angels were meant to fly. Today flying has become a norm and a routine matter. We do not even question.

Society has always been thrust forward by people who defied the known logic, assumptions and practices. Think of recent business models like Uber, Pickme, Airbnb, booking. com. They do not own any assets yet have the largest fleet of vehicles, hotels etc. The business model has changed. Walmart did it for retail shops. And history abounds with stories of people who found solutions where no man has ever thought before. That is what makes you as a business person unique you have the potential to change the world.

## Personality Types

A hugely debated but a widely used tool by organizations and business around the world. There are many psychometric tests and assessments. The Myer-Briggs Type Indicator (MBTI) with 16 variants and the Disc Assessment with four categories and the others are The Winslow Personality Profile, Process Communication Model, The Holtzman Inkblot Technique, Hexaco Personality Inventory, The Revised Neo Personality Inventory (Neo Pi-R) and The Personality Assessment System. While some have very specific assessments various other test use, colours and shapes and simple statements to bring out the differences.

The key aspect in all of this is that every individual has his own characteristic way of behaving, responding to emotions, perceiving things and looking at the world. In a broad sense most of these tests split us into four main areas and then the variants. The key learning is that all of us have strengths based on our used style and weaknesses.

What an individual sees in his childhood days and most importantly his/her growing days form his personality. How an individual is raised plays an important role in shaping his/her personality. Personality is considered as the aggregate conglomeration of memories and

incidents in an individual's entire life span. Environmental factors, family background, financial conditions, genetic factors, situations and circumstances also contribute to an individual's personality.

Personality also influences what we think, our beliefs, values and expectations. What we think about others depends on our personality. In a layman's language personality is defined as the personal qualities and characteristics of an individual. Personality is how we interact with others. Personality is a sum of characteristics of an individual which makes him different from the others. It is our personality which makes us unique and helps us stand apart from the crowd.

### **Determinants of Personality**

*Following are the factors which help in shaping one's personality:*

1. **Heredity** - Heredity refers to factors that are determined once an individual is born. An individual's physique, attractiveness, body type, complexion, body weight depends on his/her parents' biological makeup.
2. **Environment** - The environment to which an individual is subjected to during his growing years plays an important role in determining his/her personality. The varied cultures in which we are brought up and our family backgrounds have a crucial role in shaping our personalities.
3. **Situation** - An individual's personality also changes with current circumstances, including age, stress situations and major changes.

The following two pages taken from the DISC profile giving a summary is provided as an example and not suggested for usage. The actual implementation of the DISC profile requires certification and training from the institute.

## MBTI Personality types (SAMPLE ONLY)

	<p><b>Extroverts</b> are energized by people, enjoy a variety of tasks, a quick pace, and are good at multitasking.</p>		<p><b>Sensors</b> are realistic people who like to focus on the facts and details, and apply common sense and past experience to come up with practical solutions to problems.</p>
	<p><b>Introverts</b> often like working alone or in small groups, prefer a more deliberate pace, and like to focus on one task at a time.</p>		<p><b>Intuitives</b> prefer to focus on possibilities and the big picture, easily see patterns, value innovation, and seek creative solutions to problems.</p>
	<p><b>Thinkers</b> tend to make decisions using logical analysis, objectively weigh pros and cons, and value honesty, consistency, and fairness.</p>		<p><b>Judgers</b> tend to be organized and prepared, like to make and stick to plans, and are comfortable following most rules.</p>
	<p><b>Feelers</b> tend to be sensitive and cooperative, and decide based on their own personal values and how others will be affected by their actions.</p>		<p><b>Perceivers</b> prefer to keep their options open, like to be able to act spontaneously, and like to be flexible with making plans.</p>

<p><b>ISTJ</b></p> <p><b>"DOING WHAT SHOULD BE DONE"</b></p> <p>Organizer • Compulsive Private • Trustworthy Rules 'n Regs • Practical</p> <p><b>MOST RESPONSIBLE</b></p>	<p><b>ISFJ</b></p> <p><b>"A HIGH SENSE OF DUTY"</b></p> <p>Amiable • Works Behind the Scenes Ready to Sacrifice • Accountable Prefers "Doing"</p> <p><b>MOST LOYAL</b></p>	<p><b>INFJ</b></p> <p><b>"AN INSPIRATION TO OTHERS"</b></p> <p>Reflective/Introspective Quietly Caring • Creative Linguistically Gifted • Psychic</p> <p><b>MOST CONTEMPLATIVE</b></p>	<p><b>INTJ</b></p> <p><b>"EVERYTHING HAS ROOM FOR IMPROVEMENT"</b></p> <p>Theory Based • Skeptical • "My Way" High Need for Competency Sees World as Chessboard</p> <p><b>MOST INDEPENDENT</b></p>
<p><b>ISTP</b></p> <p><b>"READY TO TRY ANYTHING ONCE"</b></p> <p>Very Observant • Cool and Aloof Hands-on Practicality • Unpretentious Ready for what Happens</p> <p><b>MOST PRAGMATIC</b></p>	<p><b>ISFP</b></p> <p><b>"SEES MUCH BUT SHARES LITTLE"</b></p> <p>Warm and Sensitive • Unassuming Short Range Planner • Good Team Member In Touch with Self and Nature</p> <p><b>MOST ARTISTIC</b></p>	<p><b>INFP</b></p> <p><b>"PERFORMING NOBLE SERVICE TO AID SOCIETY"</b></p> <p>Strict Personal Values Seeks Inner Order/Peace Creative • Non-Directive • Reserved</p> <p><b>MOST IDEALISTIC</b></p>	<p><b>INTP</b></p> <p><b>"A LOVE OF PROBLEM SOLVING"</b></p> <p>Challenges others to Think Absent-minded Professor Competency Needs • Socially Cautious</p> <p><b>MOST CONCEPTUAL</b></p>
<p><b>ESTP</b></p> <p><b>"THE ULTIMATE REALIST"</b></p> <p>Unconventional Approach • Fun Gregarious • Lives for Here and Now Good at Problem Solving</p> <p><b>MOST SPONTANEOUS</b></p>	<p><b>ESFP</b></p> <p><b>"YOU ONLY GO AROUND ONCE IN LIFE"</b></p> <p>Sociable • Spontaneous Loves Surprises • Cuts Red Tape Juggles Multiple Projects/Events Quip Master</p> <p><b>MOST GENEROUS</b></p>	<p><b>ENFP</b></p> <p><b>"GIVING LIFE AN EXTRA SQUEEZE"</b></p> <p>People Oriented • Creative Seeks Harmony • Life of Party More Starts than Finishes</p> <p><b>MOST OPTIMISTIC</b></p>	<p><b>ENTP</b></p> <p><b>"ONE EXCITING CHALLENGE AFTER ANOTHER"</b></p> <p>Argues Both Sides of a Point to Learn Brinkmanship • Tests the Limits Enthusiastic • New Ideas</p> <p><b>MOST INVENTIVE</b></p>
<p><b>ESTJ</b></p> <p><b>"LIFE'S ADMINISTRATORS"</b></p> <p>Order and Structure • Sociable Opinionated • Results Driven Producer • Traditional</p> <p><b>MOST HARD CHARGING</b></p>	<p><b>ESFJ</b></p> <p><b>"HOST AND HOSTESSES OF THE WORLD"</b></p> <p>Gracious • Good Interpersonal Skills Thoughtful • Appropriate Eager to Please</p> <p><b>MOST HARMONIZING</b></p>	<p><b>ENFJ</b></p> <p><b>"SMOOTH TALKING PERSUADER"</b></p> <p>Charismatic • Compassionate Possibilities for People Ignores the Unpleasant • Idealistic</p> <p><b>MOST PERSUASIVE</b></p>	<p><b>ENTJ</b></p> <p><b>"LIFE'S NATURAL LEADERS"</b></p> <p>Visionary • Gregarious • Argumentative Systems Planners • Take Charge Low Tolerance for Incompetency</p> <p><b>MOST COMMANDING</b></p>

SAMPLE - MBTI

SAMPLE DISC Personality style

<b>ACTIVE STYLES</b>	
<p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>TASK ORIENTED STYLES</b></p>	<div style="border: 1px solid black; padding: 10px;"> <p style="font-size: 2em; font-weight: bold; text-align: center;">D</p> <p style="text-align: center;"><b>Dominant • Driver</b></p> <p><b>General Characteristics</b> Direct; Decisive High Ego Strength Problem Solver Risk Taker; Self-Starter</p> <p><b>Value To Team</b> Bottom-line organizer Places high value on time Challenges the status quo Innovative</p> <p><b>Possible Weaknesses</b> Oversteps authority Argumentative attitude Dislikes routine Attempts too much at once</p> <p><b>Greatest Fear</b> Being taken advantage of</p> </div>
	<div style="border: 1px solid black; padding: 10px;"> <p style="font-size: 2em; font-weight: bold; text-align: center;">I</p> <p style="text-align: center;"><b>Influencing • Inspiring</b></p> <p><b>General Characteristics</b> Enthusiastic Trusting; Optimistic Persuasive; Talkative Impulsive; Emotional</p> <p><b>Value To Team</b> Creative problem solver Great encourager Motivates others to achieve Positive sense of humor Negotiates conflicts; peace maker</p> <p><b>Possible Weaknesses</b> More concerned with popularity than tangible results Inattentive to detail Overuses gestures and facial expressions Tends to listen only when it's convenient</p> <p><b>Greatest Fear</b> Rejection</p> </div>
	<div style="border: 1px solid black; padding: 10px;"> <p style="font-size: 2em; font-weight: bold; text-align: center;">S</p> <p style="text-align: center;"><b>Stable • Steady</b></p> <p><b>General Characteristics</b> Good Listener; Team Player Possessive Steady; Predictable Understanding; Friendly</p> <p><b>Value To Team</b> Reliable and dependable Loyal team worker Compliant towards authority Good listener; patient and empathetic Good at reconciling conflicts</p> <p><b>Possible Weaknesses</b> Resists change Takes a long time to adjust to change Holds a grudge; sensitive to criticism Difficulty establishing priorities</p> <p><b>Greatest Fear</b> Loss of security</p> </div>
	<div style="border: 1px solid black; padding: 10px;"> <p style="font-size: 2em; font-weight: bold; text-align: center;">C</p> <p style="text-align: center;"><b>Compliant • Correct</b></p> <p><b>General Characteristics</b> Accurate; Analytical Conscientious; Careful Fact-Finder; Precise High Standards; Systematic</p> <p><b>Value To Team</b> Perspective: "The anchor of reality" Conscientious and even tempered Thorough in all activities Defines situations; gathers, criticizes and tests information</p> <p><b>Possible Weaknesses</b> Needs clear-cut boundaries for actions/relationships Bound by procedures and methods Gets bogged down in details Prefers not to verbalize feelings Will give in rather than argue</p> <p><b>Greatest Fear</b> Criticism</p> </div>
	<p><b>PASSIVE STYLES</b></p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>PEOPLE ORIENTED STYLES</b></p>	

## SAMPLEDISC Personality style

## Enhancing Communication

<p><b>D</b> The primary D loves it when you...</p> <ul style="list-style-type: none"> <li>• Are brief, direct, and to the point when explaining yourself</li> <li>• Ask "what" not "how" questions</li> <li>• Focus on the results (remember they desire results)</li> <li>• Give them the "bottom line" when describing a situation</li> <li>• Suggest ways to help them solve problems</li> <li>• Highlight the benefits when telling them about your ideas</li> <li>• Agree with facts rather than emotions when agreeing with them</li> <li>• Discuss a problem in light of how it will slow results</li> </ul> <p><b>But has difficulty understanding when you...</b></p> <ul style="list-style-type: none"> <li>• Ramble or repeat yourself</li> <li>• Focus on problems instead of solutions</li> <li>• Make generalizations</li> <li>• Make statements without support</li> </ul>	<p><b>I</b> The primary I loves it when you...</p> <ul style="list-style-type: none"> <li>• Give them an opportunity to talk about their ideas, other people, and their emotions</li> <li>• Assist them in developing ways to transfer talk into action</li> <li>• Share your ideas and experiences with them</li> <li>• Recognize them for their accomplishments</li> <li>• Give them the opportunity to motivate &amp; influence others</li> <li>• Show them that you accept them</li> <li>• Explain the details, but don't dwell on them</li> <li>• Communicate with them in a friendly &amp; light manner</li> </ul> <p><b>But has difficulty understanding when you...</b></p> <ul style="list-style-type: none"> <li>• Do all the talking</li> <li>• Eliminate their social time</li> <li>• Ignore their ideas and accomplishments</li> <li>• Tell them what to do without asking their input</li> <li>• Give them the "detail" work</li> </ul>
<p><b>C</b> The primary C loves it when you...</p> <ul style="list-style-type: none"> <li>• Support your ideas with accurate information</li> <li>• Are specific when explaining yourself</li> <li>• Are patient, persistent, and diplomatic while providing explanations</li> <li>• Agree with facts rather than emotions when agreeing with them</li> <li>• Allow them their space and independence</li> <li>• Tell them up front your expectations of them</li> <li>• Give them the pros and cons of an argument</li> </ul> <p><b>But has difficulty understanding when you...</b></p> <ul style="list-style-type: none"> <li>• Refuse to explain the details</li> <li>• Answer questions vaguely or casually</li> <li>• Surprise them with new information</li> </ul>	<p><b>S</b> The primary S loves it when you...</p> <ul style="list-style-type: none"> <li>• Express a genuine interest in them as a person</li> <li>• Give them answers to "how" questions</li> <li>• Clearly define your goals, a procedure, or their role in the overall plan</li> <li>• Are patient with them</li> <li>• Give them your sincere appreciation</li> <li>• Give them time to adjust to changes</li> <li>• Present ideas or changes in a nonthreatening manner</li> <li>• Provide them with feedback</li> </ul> <p><b>But has difficulty understanding when you...</b></p> <ul style="list-style-type: none"> <li>• Are pushy or overly aggressive</li> <li>• Are demanding</li> <li>• Are confrontational</li> </ul>



# 6. Counselling Skills

- For Non-Counselling Professionals

## Introduction

Counselling is a learning-oriented process, which occurs usually in an interactive relationship, with the aim of helping a person learn more about the self, and to use such understanding to enable the person to become an effective member of society.

### Counselling is not advising or providing guidance.

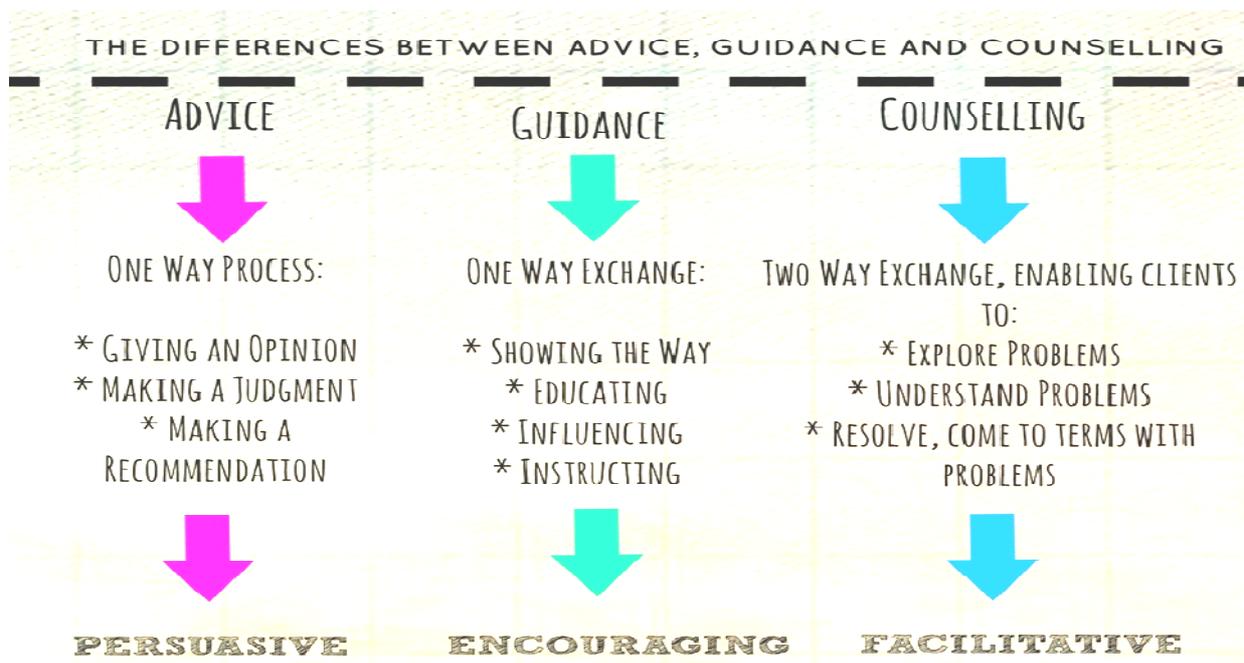


Figure 6 Comparison of three approaches

There are some misconceptions about counselling and guidance. But they serve totally different purposes and the techniques used are not the same.

## GUIDANCE VERSUS COUNSELLING

GUIDANCE	COUNSELLING
Advice or instructions on general problems, given by someone more experienced or qualified	Professional advice given by a counsellor based on personal or psychology related problems of the individuals
Has a broader scope such as educational guidance, career guidance, financial guidance, health guidance, etc.	Essentially covers personal and psychological assistance
Anyone who has good experience and knowledge can give effective guidance to others	Needs to be done with a professional counsellor with a recognized license to practice as a counsellor
	Visit <a href="http://www.PEDIAA.com">www.PEDIAA.com</a>

Figure 7 Counselling Vs Guiding

***Everyone you meet is fighting a battle you know nothing about.***

***So, be kind.-Unknown***

***Your life does not get better by chance, it gets better by change***

***-Jin Rohn***

## Understanding Counselling

Counselling is a process by means of which the helper expresses care and concern towards the person with a problem, and facilitates that person's personal growth and brings about change through self-knowledge.

Counselling is a relationship between a concerned person and a person with a need. This relationship is usually person-to-person, although sometimes it may involve more than two people. It is designed to help people to understand and clarify their views, and learn how to reach their self-determined goals through meaningful, well-informed choices, and through the resolution of emotional or interpersonal problems. It can be seen from these definitions that counselling can have different meanings.

Counselling is provided under a variety of labels. For example, there are instances where counselling is offered when a relationship is primarily focused on other, non-counselling concerns. The beneficiary or businessman may use a trainer or facilitator as a person with whom it is safe to share worries. In such a situation, the trainer uses counselling skills, but does not engage in an actual counselling relationship. The trainer counsels but is not a counsellor.

## Purpose of Counselling

The aims of counselling are broad. They may depend on the situation and the environment, and on training. The basic aims of counselling include the following:

1. To help needy individuals, in this case potential and existing entrepreneurs with issues (we can call them beneficiaries), gain an insight into the origins and development of emotional difficulties, leading to an increased capacity to take rational control over feelings and actions.
2. To alter maladjusted behaviour.
3. To assist them to move in the direction of fulfilling their potential, or achieve an integration of conflicting elements within themselves.
4. To provide beneficiaries with the skills, awareness and knowledge, which will enable them to confront social inadequacy.

## Benefits of Counselling

According to recent socio-psychological studies, you are going to meet nearly 4 out of 10 trainees in the classroom with counselling needs. There can be many. As trainers, it is your responsibility to observe and understand such needs during;

- Pre-Training
- During Training and
- Post-Training stages of your project.



Figure 8 Benefits of Counselling

It is the trainer's or facilitator's sole responsibility to be aware about the specific needs of the trainee groups they deal with. Training need assessment activity in the pre-training phase might provide relevant information of individuals in need of counselling. Following benefits in Figure 3, can be shared among the people in need if the trainer offers proper counselling during the course.

## Business Counselling

Business counselling is a highly effective process that enables small and medium scale business owners and senior managers to work through, and explore possibilities on the issues affecting their business. Technically this is not a type of counselling method that uses complicated psychological techniques but it is the counselling approach which is quite similar to business mentoring.

The person who is conducting business counselling is not aiming at serious personality issue of the beneficiary like in real counselling. It is a process that requires the



trainer/business counsellor and business owner to delve into the core of the business and to work together to explore the issue/s of focus and to develop a plan of action that will guide both business owner forward.

Business counselling can be very productive when the business owner decides and seek for assistance of someone trustworthy to discuss. This is why post-training stage or follow-up period becomes the most important phase for business counselling.

### Tool to identify Business Counselling Need

Situations/Issues	Magnitude of the Issue (1 to 10)
1. Business owner is uncertain of the next steps of business start-up or improvement process,	
2. Potential entrepreneur is having issues on selecting a business idea or preparing business plan,	
3. Business owner is facing a critical financial issue or issues,	
4. Business owner is facing a legal issue and subsequent emotional imbalance,	

5. Business owner is having family issues or influence by family members during start-up,
  6. Having personal issue of not having clear focus on ongoing business activates and eventually failed,
  7. There are situations uncertain to the person or the business,
  8. Entrepreneur is being forced to close down the business.
  9. Regulatory issue has stopped the start-up or existing business
  10. Unable to find the seed capital for the business
  - 11.
  - 12.
- Total

**Instructions** - During your interview with the entrepreneur, firstly try to identify any issue mentioned in the above table or any other issue. Secondly discuss with him/her about how influential the issue on business operations. Magnitude of the Issue is to be ranked from 1 to 10 and 10 represents the highest and 1 is explains lowest level of magnitude.

Business counselling or mentoring can be a valuable tool for young people and women who are facing vulnerable situations as they navigate a route for the business that they are entrusted with.

## Vocational Counselling

Vocational counselling is defined as individual contacts with those counselled, in order to facilitate career development towards job market or business start-up. Students from vocational training institutions are the main target. They are not experience business people and their focus is to find a job. This definition and category encompasses counselling situations such as these:

- Helping students become aware of the many occupations to consider
- Interpreting an occupational interest inventory to a student
- Assisting a teenager to decide what to do after school
- Helping a student apply to a college or university
- Role-playing a job interview in preparation for the real thing

- Making aware students about the possibilities and opportunities in the field of entrepreneurship.

## Psychological Side of Counselling

In our society individuals specially young people face many difficulties and problems which may be expressed in the following ways:

- withdrawal,
- unhappiness,
- disappointment due to relationships,
- annoyance,
- anger, frustration
- inability to meet needs,
- lack of knowledge,
- partial or total failure,
- inability to realize aspirations,
- anxiety and hyperactivity,
- occupation or business related challenges,
- mental pressure due to unemployment,
- stress due to over borrowing.

Added to these is the problem of family issues and other relationship related issues for which a great deal of psychological support maybe required for those who comes to you particularly those already loss his/her loved ones.

Counselling is important at this stage, because this is when individuals develop positive attitudes towards their own life, business and people around them. It is when students begin to understand who they are and how they can contribute to healthy relationships. They start to develop attitudes of respect toward members of the opposite sex, and see how each community member can contribute to development.

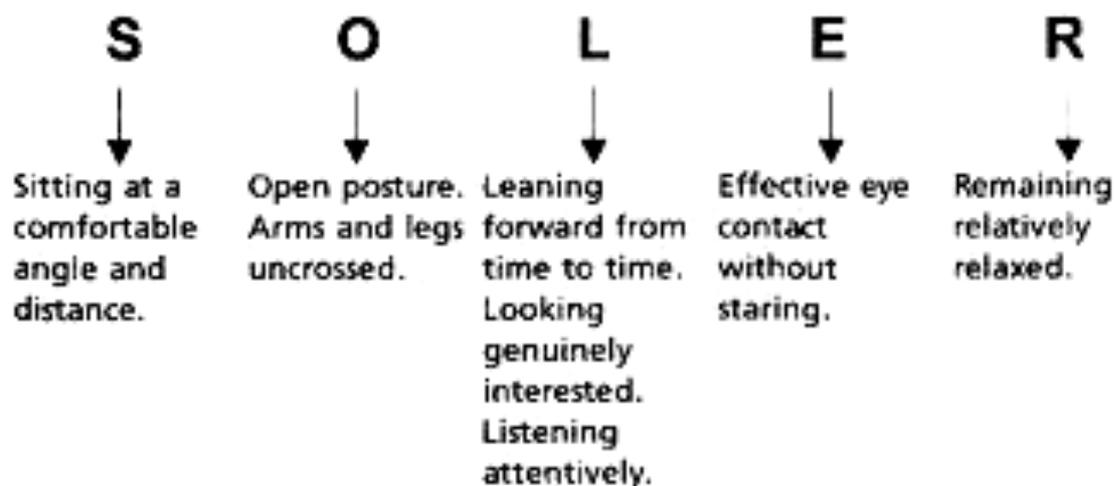
Women in Sri Lankan society also face special situations and they are forced to be submissive throughout their lives. The self-image of a girls in rural Sri Lanka are that of a

passive, submissive person, who remains in the background and needs approval from many others around. Generally these girls have a negative self-image and a feeling of inferiority. This personality issues also need to be considered by the trainers and facilitators. Specially in occasions such as making crucial decisions and becoming active in wealth creation women has less power and her decisions are simply influenced by domination males in their families. Personal and social counselling should also assist in awakening young girls and women to business and vocational opportunities.

Specially, personal counselling empowers rural youth, and teaches them to develop positive attitudes towards themselves, and is marked by an ability to acknowledge areas of expertise and to be free to make positive choices.

## Use SOLER to Prepare Yourself

When you are starting up a conversation or facilitating a counselling sessions there are very specific instructions you have to follow. These instructions would guide you to initiate and engage in a productive and meaningful session. These instructions are give in the following formula called SOLER. SOLER stand for five following important instructions that help for counsellors to organize themselves.



Counsellor behaviour is the determinant factor that builds open and trustworthy setup where the client may feel very comfortable and inviting. Make sure that you follow SOLAR when you are ready to welcome a client for a session.

## Important Elements of Counselling

Three main elements of counselling are explained in the figure below and unlike the training workshops the facilitators who are about to deliver counselling session have to ensure an exceptional interplay of counsellor, counselee and counselling environment.

**Counsellor** – means the role of the expert who is capable of facilitating result focused session. He/She should possess relevant qualifications to facilitate such sessions and in this case the counsellor needs to have a certain level of business knowledge too. His/Her positive attitude towards counselling also plays a crucial role and it is a very sensitive human to human engagement.

**Counselee** – Is the person who is going to be benefited from the counselling session. He/She must be aware of the purpose of counselling session and willing to receive the assistance from the assigned counsellor. His/her readiness and willingness are the most vital aspects of any counselling session that is to be taken place.

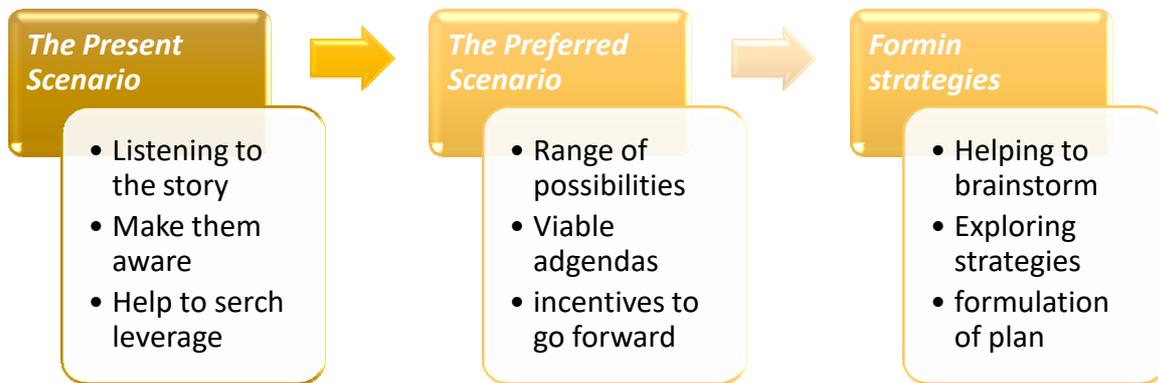
**The environment** – The environment needs to be pleasant and calm place that enable the counselee to come and initiate dialogue. Two separated spaces, proper lighting, chairs, a small table, drinking water, any writing material necessary and proper ventilation are basic needs of counselling environment.

### Elements of Counseling

- **The counselor**
  - a person who is professionally capable to extend help.
- **The counselee**
  - the person who seeks help and lets himself/herself be subjective for counseling.
- **The counseling environment**
  - a place to facilitate counseling.

## Process - Three Main Stages of Counselling

This three step simple but comprehensive process will guide you to develop a clear path towards reasonable solution in any counselling effort.



### 1. The Present Scenario

#### a) *Open the space to unfold their stories.*

Make them comfortable and open enough to share their side of the story. In telling the story, clients reveal and discuss their problems and missed opportunities. Some clients are articulate while others may be mute. Some will be reluctant to reveal everything that is bothering them, while others do so easily. The story needs to be told either at the beginning of the helping process, or in bits and pieces.

For this to happen, counsellors need to develop an effective helpful relationship with clients. They need to assess rather than judge their clients. They need to assess such things as the nature and severity of the problem, other problems that are not discussed the impact of the clients' environment on problems, the personal and interpersonal resources available to clients.

#### b) *Help clients become aware of, and overcome their blind spots and develop new perspectives about themselves and their problems.*

Many people fail to deal with problems, or fail to exploit opportunities, because they do not see them from new perspectives. They lock themselves in self-defeating patterns of thinking and behaviour.

Using imagination and brainstorming as a means of problem management and opportunity development is one way in which counsellors can empower clients.

Challenging blind spots is not the same as telling them that what they are doing is wrong. It is helping them to see themselves, others, and the world around them, in a more creative way.

***c) Help clients search for leverage.***

Clients should be helped to identify and work on problems, issues, concerns or opportunities that make a difference. Leverage includes three related activities.

First, the cost of the problem has to be considered in terms of the effort and time spent on it. Secondly, if clients, when telling stories, reveal a number of problems at the same time or if the problem is complex, then criteria are needed to determine which concern is to be dealt with first. Lastly, the problem, issue, and concerns, need to be clarified in terms of specific experiences, behaviour and affects (feelings, emotions).

## ***2. The Preferred Scenario***

***a) Help clients develop a range of future possibilities.***

If a client's state of affairs is problematic and unacceptable, then he/she needs to be helped to imagine, conceptualize, or picture, a new state of affairs, that is more acceptable. Ask future-oriented questions like:

**'What would this problem look like if I managed it better?'**

**'What changes in my present life style would make sense?'**

**'What would it look like if it were better?'**

Clients should be helped to find appropriate and realistic models. Another way could be to review better times or become involved in new experiences. The use of writing fantasy and guided imagery has also proved beneficial for many clients.

***b) Help clients to translate possibilities into viable agendas.***

The variety of possibilities constitutes the possible desired outcomes of the helping process. The client is helped to choose the possibilities that make the most sense, and turn them into an agenda, i.e. a set of goals that need to be accomplished.

***c) Help clients identify the kinds of incentives that enable them to commit themselves to the agendas they prepare.***

Many of the clients are able to find an appealing agenda. If not, then the incentives for commitment need to be discovered. The goals that are set in the agenda need to be accepted and appeal to the client. It is better if they are chosen from among a number of options. The focus should be on those that reduce crisis or pain. Challenging goals should not be avoided. The counsellor can help clients see ways of managing the obstacles that stand in the way of goal attainment. Contracts can help clients to commit themselves to choices, and the client needs to be helped to identify strategies for accomplishing goals.

***3. Strategies (Getting There)******a) Help clients brainstorm various strategies for implementing their agenda.***

Clients are helped to ask themselves questions like, 'How can I get where I want to go?' Strategies tend to be more effective when chosen from among a number of possibilities. A strategy is the action needed to achieve a goal. If the strategy is complex, then it needs to be divided into a number of interrelated outcomes or accomplishments. Each of these sub-goals then has its own set of strategies. This divide and conquer process can lead to the achievement of what once seemed impossible. One reason why people fail to achieve goals is that they do not explore the different ways by which a goal can be reached. Brainstorming plays a role by suspending judgement, producing as many ideas as possible, using one idea leading to others, removing constraints to thinking, and producing more ideas by clarifying items on the list.

***b) Help clients choose a set of strategies that best fits their environment and resources.***

'Best' here means one strategy, or a combination of strategies, that best fits the clients 'needs, preferences, and resources, and that is least likely to be blocked by the factors present in the client's environment. They should be clear and specific, tied to the desired goal, realistic, effective, accepted by the client, and in keeping with his or her values.

***c) Help clients formulate a plan, a step-by-step procedure for reaching each goal.***

A plan has strategies for reaching goals, divides them into workable bits, puts the bits in order, and prepares a time-table. Formulating plans helps clients find useful ways of reaching goals, that is, even better strategies. Plans provide an opportunity to evaluate the realism and adequacy of goals. They tell clients something about their strategies. Clients are also helped to discover obstacles to the reaching of goals.

## Connecting with the Client-Techniques

There is no second chance to make that first impression and first impression matters a lot in connecting the client emotionally as well as in building credibility. There are several ways you can connect the client in front of you and make use them carefully during the course of counselling session.



### **Make Sure the Focus is on the Client**

It's arguably the most important to maintain the focus on the person in need and that requires a high level of attention. The beginning, middle and end of every session should be about the client's thoughts, feelings and actions. Keep the spotlight on the client. You accomplish this by honing your listening ear and being very careful about the few words you say. Be sure to clear your own head before a session to stay focused and give your client the attention they deserve. If it is a business matter focuses on his/her business to and it demonstrates your interest on the problem. That obviously motivates the client to actively engage in the discussion.

**Walk the Line between Pushy and Coddling**

Maintain the course and clients need to know you accept them and respect their right to make their own decisions. Neither coddling your client nor being too insensitive to their readiness to open up will be productive. You must find the median

line that intersects these two extremes. Be sensitive to where your client is at, but know when to give the extra little encouragement to reveal more or to think deeper. Sometimes, it's that push that helps the client arrive at their ultimate goal.

**Stay Confidential**

How do you show that you are a trustworthy person? Trust is the most valuable facet of the counsellor/client partnership. Without trust, the client won't be comfortable opening up to let you listen and begin the journey to health and healing. This includes keeping all information about the client and the sessions to yourself and yourself only. Sometimes,

making sure your client knows that you have the rule of confidentiality can help you manage resistant clients. Start your work with clients by explaining what confidentiality means and the ways you ensure their privacy.

**Ask for Clarification**

Never do priming and get out of the judgemental mode. Work hard to understand the client – start with the idea you cannot know the client's world without listening carefully. Ask what words mean; for example ask what family means and who is theirs. Do not assume your idea of anything matches theirs. It's your job to assess

the situation carefully and correctly. If you develop a misconception about your client's situation, you could complicate things for the client and impede progress towards your client's goal.

### **Master Your Questions and Use Questions to Enable**



Questions are the tools to build up the path of exploration. Asks open-ended questions to understand the most from their interviewees, a counsellor should ask open-ended questions to assess more detail from the discussion. For example, if you ask “Are you happy about what happened,” You may receive a “yes” or

“no” response. But, if you ask, “How do you feel about what happened,” the question is an open-ended tool for conversation and further understanding.

## Useful Tools

### 1. Examples of Open Ended Questions

- How would you...?
- What would result if...?
- How would you describe...?
- How does...compare with...?
- What is the relationship between...?
- What would happen if...?
- How could you change...?
- How would you improve...?
- How do you feel about...?
- Why do you believe...?
- What is your opinion of...?
- What choice would you have made...?
- What would you do differently?
- Why do you feel...?
- How would you go about solving the problem...?
- If you were in this position what would you do?
- Why do you/don't you support...?
- What could improve...?

## 2. Active Listening Skills

- Be attentive – Use your body language gesture and posture mirroring the responses of the client
- Ask open ended questions – To keep momentum and to motivate the client
- Ask probing questions – To emphasize/validate and to get back on track when the discussion goes off track
- Request clarification – To neutralize emotional moments and to show your agreement on certain issues/activities
- Paraphrase – To be empathetic and to demonstrate the appreciation of feelings
- Be attuned – To keep the momentum and emphasize the purpose of discussion
- Summarize – To connect the dots and keep tracking



### 3. Do's and Don'ts of Counselling

If you are someone who is running counselling sessions for small business people, please be aware about the following do's and don'ts.

#### Do's

- Ensure the privacy and confidentiality of information shared
- Appreciate his intention and action to come forward
- Never compare his/her situation with someone else
- Use listening skills
- Be empathetic and encourage to be open
- Ask more open ended questions
- Negotiate for realistic options and plans
- Use suitable environment with privacy
- Do follow through the story unfolding and try to connect the dots
- Be empathetic

#### Don'ts

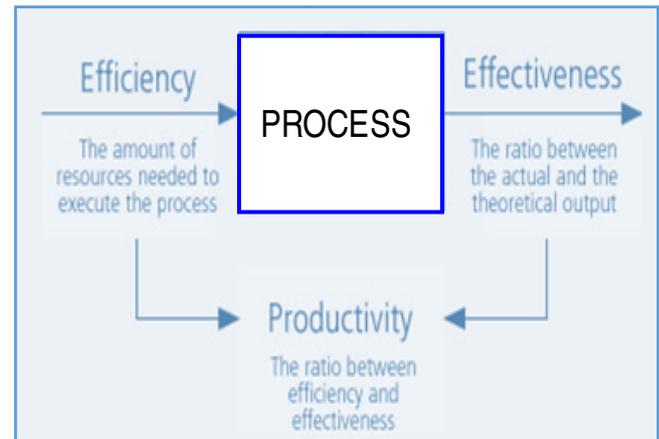
- Never initiate conversation without explaining the purpose and rules
- Never use "I'm going to give you a solution" kind of language
- Compare his/her own progress between past and present
- Talk less and less in the first half of the discussion
- Never criticise actions, perceptions and results
- Limit close ended questions
- Never order or force to do something
- Don't start the discussion in common places and places which might feel unsafe
- Don't focus only on specific incidents and events
- Don't be sympathetic



# 7. Productivity and Time Management

## Introduction

Business is a process of getting the optimum level of output-productivity from the inputs used. Efficiency is about getting more things done. Effectiveness is about getting the right things done. Peter Drucker, the well-known management consultant, once encapsulated the idea by writing, “There is nothing so useless as doing efficiently that which should not be done at all.”



In other words, making progress is not just about being productive. It's about being productive on the right things.

If you ensure productivity in your business process, Growth is already there.

**Working Definition:** Productivity is commonly defined as a ratio between the output volume and the volume of inputs. In other words, it measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output.

## Useful Tools - 5 S Method

With the ever-changing economic climate, many organizations are periodically adjusting their resources to align with business strategy. This often results in the need to achieve more work with fewer resources. In order to remain successful, businesses must become more efficient, reduce waste and thereby reduce cost. We must find ways to do what we are currently doing in less time and at a lower cost. One way



we can accomplish this is through the use of 5S Principles. The 5S Principles are very effective at identifying and eliminating waste and increasing efficiency.

### What is 5S?

The 5S Method is a standardized process that when properly implemented creates and maintains an organized, safe, clean and efficient workplace. Improved visual controls are implemented as part of 5S to make any process non-conformance's obvious and easily detectable. 5S is often one element of a larger Lean initiative and promotes continuous improvement. The 5S list is as follows:

Seiri / Sort: Separating of the essential from the nonessential items

Seiton / Straighten: Organizing the essential materials where everything has its place

Seiso / Shine: Cleaning the work area

Seiketsu / Standardize: Establishing a system to maintain and make 5S a habit

Shitsuke / Sustain: Establishing a safe and sanitary work environment (Safety)

The 5S Principles are recognized in many industries as effective tools for improving workplace organization, reducing waste and increasing efficiency. Organizations should be careful to not allow the 5S Principles to become viewed as the whole of the company's improvement efforts. Otherwise it could become the end goal of your company's improvement process instead of a key part of a larger continuous improvement journey. The greatest benefit from using 5S is realized when it is part of a larger initiative and the entire organization has adopted its principles. 5S is more than a system; it is a business philosophy and should be integrated into the organization's culture.

## Why Implement 5S?

There are many benefits to implementing the 5S Methods into a work area on the production line or in the business office. To not only survive but thrive in business today, cost must be controlled and waste must be avoided or eliminated. The 5S steps, when implemented properly, can identify and reduce many forms of waste in any process or workstation. An organized work area reduces excessive motion and wasted time looking for the right tool. The visual aspect of the 5S Methodology is also very effective. When everything has a place, it is easier to spot something missing or misplaced. A clean work area helps draw attention to possible problems or safety hazards. A clean floor helps spot any leaks or spills could indicate machine maintenance and prevent slips and falls. Furthermore, encouraging people to watch for and address problems can result in a positive change to an organizations culture. Therefore, the 5S Principles implemented as part of a larger Lean initiative or as a standalone tool can reduce waste, improve quality, promote safety and drive continuous improvement. The five areas of the 5S model for implementation is given below;

### 1. Sort (Seiri)



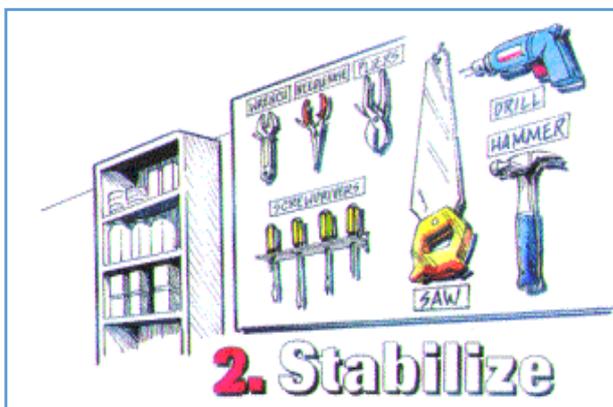
The first step in 5S is sorting. During sorting the team should go through all items in the work area including any tools, supplies, bulk storage parts, etc. The 5S team leader should review and evaluate every item with the group. This will help to identify which items are essential for getting the job done effectively and efficiently. If the item is essential for everyday operations it should be tagged and catalogued. If the item is not essential, determine how often it is used in the performance of work in that area. If it is a bulk item, decide the proper amount to be kept in the area and move the remaining quantity to storage. Excess inventory is one form of waste and should be eliminated during the 5S activities.

**Goals:**

- Reduce time loss looking for an item by reducing the amount of items.
- Reduce the chance of distraction by unnecessary items.
- Simplify inspection.
- Increase the amount of available, useful space.
- Increase safety by eliminating obstacles.

**Implementation:**

- Check all items in a location and evaluate whether or not their presence at the location is useful or necessary.
- Remove unnecessary items as soon as possible. Place those that cannot be removed immediately in a 'red tag area' so that they are easy to remove later on.
- Keep the working floor clear of materials except for those that are in use to production.

**2. Stabilize (Saiton)**

Designate a place or address for all items that remain in the work area. Put all items in their designated location. An often referenced quote is “A place for everything and everything in its place”. During the stabilizing step, look for ways to reduce or eliminate waste. One form of waste in a process is unnecessary workers motion or

movement. Therefore, frequently used tools and supplies should be stored in the immediate work area close to the worker/operator. One effective method commonly used to avoid wasted time searching for the correct tool is constructing shadow boards for all essential tools. Items that are not used as often should be stored based on their frequency of use. All parts bins should be properly labelled. The label should include part number, part description, storage location and the recommended min / max quantities. A properly

straightened or stabilized work area allows the operator to quickly review and verify that they have everything they need to successfully perform their task at hand.

**Goal:**

- Make the workflow smooth and easy.

**Implementation:**

- Arrange work stations in such a way that all tooling / equipment is in close proximity, in an easy to reach spot and in a logical order adapted to the work performed. Place components according to their uses, with the frequently used components being nearest to the workplace.
- Arrange all necessary items so that they can be easily selected for use. Make it easy to find and pick up necessary items.
- Assign fixed locations for items. Use clear labels, marks or hints so that items are easy to return to the correct location and so that it is easy to spot missing items.

### 3. Shine (Seiso)



The next step is to clean everything in the area and remove any trash. To be effective we must keep the area and any related equipment clean. Dirty process equipment can actually increase the potential for process variability and lead to equipment failure. Lost time due to equipment failure is considered waste and non-value-added time. A dirty area can also contribute to safety issues that have the

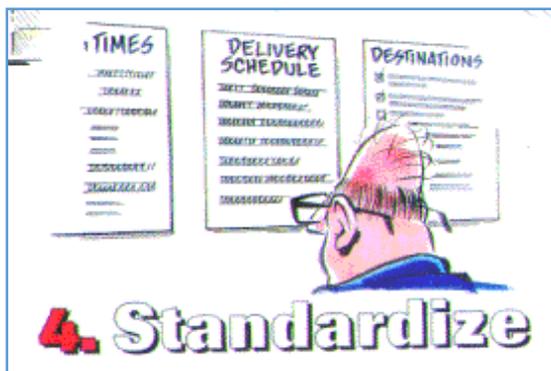
potential to cause a worker to be injured. Operators should clean their areas at the end of each shift. By doing this they will likely notice anything out of the ordinary such as oil or lubricant leaks, worn lift cables, burnt out bulbs, dirty sensors, etc. The purpose is to reduce waste and improve operator safety and efficiency.

**Goals:**

- Prevent deterioration.
- Keep the workplace safe and easy to work in.
- Keep the workplace clean and pleasing to work in.
- When in place, anyone not familiar to the environment must be able to detect any problems within 50 feet in 5 sec.

**Implementation:**

- Clean the workplace and equipment on a daily basis, or at another appropriate (high frequency) cleaning interval.
- Inspect the workplace and equipment while cleaning

**4. Standardize (Seiketsu)**

The fourth step has been called the most important step in the 5S Process. In this step we must develop the standards for the 5S system. They will be the standards by which the previous 5S steps are measured and maintained. In this step, work instructions, checklists, standard work and other

documentation are developed. Without work instructions or standard work, operators tend to gradually just do things their own way instead of what was determined by the team. The use of visual management is very valuable in this phase. Colour coding and standard colours for the surroundings are sometimes used. Photos of the area in the standard 5S configuration are often posted for easier identification of non-conformances. The operators are trained to detect non-conforming conditions and correct them immediately. Schedules should also be developed for regular maintenance activities in each area.

**Goal:**

- Establish procedures and schedules to ensure the repetition of the first three 'S' practices.

**Implementation:**

- Develop a work structure that will support the new practices and make it part of the daily routine.
- Ensure everyone knows their responsibilities of performing the sorting, organizing and cleaning.
- Use photos and visual controls to help keep everything as it should be.
- Review the status of 5S implementation regularly using audit checklists.

**5. Sustain (Shitsuke)**

This step in the 5S Process can sometimes become the most challenging of all the five steps. Sustaining is the continuation of the Sort, Straighten, Shine and Standardize steps. It is the most important step in that it addresses the need to perform 5S on a consistent and systematic basis. During this step a standard audit system is usually developed and implemented. The goal of the sustain step is to ingrain the 5S process into

the company culture. The company must strive to make 5S a way of life so the benefits gained through the exercise can be maintained. 5S is not a one-time exercise. Following the 5S Process must become a habit.

**Goal**

- Ensure that the 5S approach is followed.

**Implementation:**

- Organize training sessions.
- Perform regular audits to ensure that all defined standards are being implemented and followed.
- Implement improvements whenever possible. Worker inputs can be very valuable for identifying improvements.

- When issues arise, identify their cause and implement the changes necessary to avoid their recurrence.

## 6. 5S + 1

Some organizations have added an additional step and titled their process 5S + 1. The additional step being applied is safety. The goal of adding this step is to foster a culture that enhances safety by identifying any workplace hazards and removing them. In addition, tools and workstations are selected or designed with proper ergonomics in mind. The emphasis being that in each of the other 5S steps the motto is “Safety First”.

Many companies have implemented 5S into all areas of their business. The greatest benefits are usually realized when 5S is implemented as part of a larger Lean initiative within the organization. If implemented properly, 5S can help drive your company’s lean initiatives and be a powerful stimulus for developing a continuous improvement culture.

## The 8 Forms of Waste

As previously stated, 5S Principles are effective tools for reducing waste, improving quality, increasing efficiency, promoting safety and encouraging continuous improvement.



When applying 5S and other productivity methods you should always remember the various forms which waste can take:

1. **Overproduction** – Producing more product than required or producing parts faster than the downstream processes can utilize it. Strive to produce the proper amount at the proper time.
2. **Excessive Inventory** – This can be a direct result of overproduction or it could be due to poor purchasing practices. Over purchasing supplies because we got a great deal sometimes is no deal at all. Excessive or unneeded inventory can propagate other forms of waste.
3. **Inappropriate or Non Value Added Processing** – Waste is incurred through use of the wrong tool, performing needless operations or not using the most efficient processes or tools for the job. Beware of the phrase “Because we have always done it this way”. The right process and the correct tools can reduce waste in your process.
4. **Waiting** – Time and resources are wasted when waiting on parts, supplies or information.
5. **Transportation** – Excessive travel or movement of materials is waste. Proper planning and process layout can help reduce or eliminate excess transportation. The use of value stream mapping can help the team visualize exactly how much the material is travelling.
6. **Unnecessary Motion** – Any movement or motion performed by the operator that does not add value is waste. During your 5S exercise examine the motions required to perform the task. Organize the workstation so all tools and supplies are easily located and within easy reach. In some cases, re-sequencing certain process steps can reduce excessive and redundant movement or motion by the operator. By reducing or eliminating the waste of excess motion you are also creating a more ergonomic workstation. Always consider safety first.

7. **Defects** – This form of waste is one of the worst of all. Producing non-conforming parts or assemblies increases scrap, reduces process efficiency, wastes machine, process or assembly time and causes non-value added tool wear. Defects can also create additional waste in the form of wait time when the downstream operations run out of usable parts.
  
8. **Untapped Employee Creativity (potential)** – Many companies are now realizing that their best asset is their employees. Companies must create an atmosphere where ideas are encouraged. Some of the most successful organizations have created a culture where employee's ideas are really heard and evaluated. When their good ideas are implemented, the employee is recognized and rewarded. You never know where the next great idea is going to come from.

When you are implementing your 5S program or other lean tools watch out for the various forms of waste. Take action to eliminate waste in your processes. Get the team members involved and encourage them to provide ideas for improvements. When teams work together to recognize, address and eliminate waste and improve their workplace, they will take ownership of the process. They are more likely to spot any non-conformance's in the future. The 5S Principles will gradually become a habit. Then you will begin to foster a culture of continuous improvement.

## Process Mapping

Process mapping is used to visually demonstrate all the steps and decisions in a particular process. A process map or flowchart describes the flow of materials and information, displays the tasks associated with a process, shows the decisions that need to be made along the chain and shows the essential relationships between the process steps. Process mapping is a real picture of the current state of a process so that you can understand it completely and use this understanding to consider ways to improve it.

Creating a process map helps organize processes and makes information visible to everyone.

## Creating a process map

Step 1: Identify the problem:

- What is the process that needs to be visualized? Type its title at the top of the document.

Step 2: Brainstorm all the activities that will be involved:

- At this point, sequencing the steps isn't important, but it may help you to remember the steps needed for your process. Decide what level of detail to include. Determine who does what and when it is done.

Step 3: Figure out boundaries:

- Where or when does the process start?
- Where or when does the process stop?

Step 4: Determine and sequence the steps:

- It's helpful to have a verb begin the description. You can show either the general flow or every detailed action or decision.

Step 5: Draw basic flowchart symbols:

- Each element in a process map is represented by a specific flowchart symbol, which together represent process mapping symbols:
  - Ovals show the beginning or the ending of a process.
  - Rectangles show an operation or activity that needs to be done.
  - Arrows represent the direction of flow.
  - Diamonds show a point where a decision must be made. Arrows coming out of a diamond are usually labelled yes or no. Only one arrow comes out of an activity box. If more than is needed, you should probably use a decision diamond.

- Parallelograms show inputs or outputs.

#### Step 6: Finalize the process flowchart

- Review the flowchart with other stakeholders (team member, workers, supervisors, suppliers, customers, etc.) to make sure everyone is in agreement.
- Make sure you've included important chart information like a title and date, which will make it easy to reference.
- Helpful questions to ask:
  - Is the process being run how it should?
  - Will team members follow the charted process?
  - Is everyone in agreement with the process map flow?
  - Is anything redundant?
  - Are any steps missing?

Process maps provide valuable insights into how a businesses or an organization can improve processes. When important information is presented visually, it increases understanding and collaboration for any project.

You can create a flowchart by hand or in a software program like Microsoft Word, Microsoft Excel, Microsoft Visio or Microsoft PowerPoint; however, there are other software programs specifically built for creating a process flowchart. Following these basic steps to creating process maps will make them easier to build and to understand. However, if there is a possibility you could use post it notes on a large wall or white board and start the process, the advantage is that you could move the post it notes. It is important through this exercise to see and understand areas of duplication, delays, overlaps, bottlenecks, repeated approvals, customer interactions. You should be able to identify the number of steps to complete a particular transaction. Eg. If it is a loan, from the application point you can see how many times a customer needs to come physically, or the time taken if all the steps are taken or when refused the flow of the application etc. Large organizations have been able to

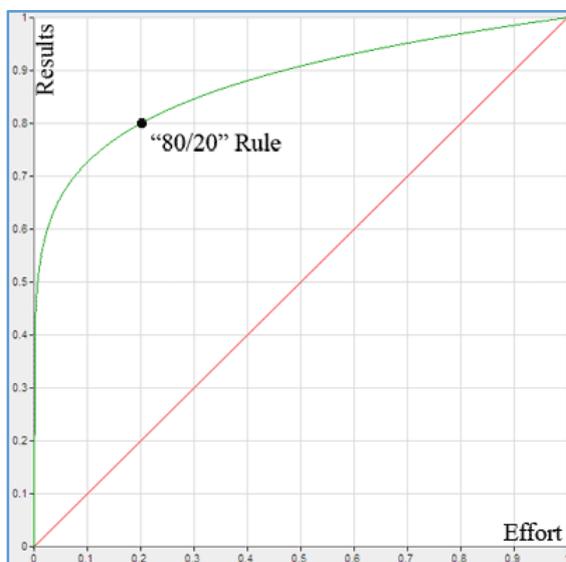
save millions and make it quicker for customers to access products and services and clear the clog in their service in the process. This is very revealing mostly for organizations that have been established or in operation for some time. Anomalies, delays, and bottlenecks should be singled out. Just as critical activities and those that add more value should be identified. Finally, one should pay close attention to the activities which come into direct contact with the end customer and ensure that they have the best possible experience.

There are some important aspects that should be considered when conducting a project improvement strategy. They are:

- Bottlenecks that taper and cause delay in operation
  - Where does the client or employee get frustrated?
  - Where is rework happening?
- Points of contact with customers
- Risky activities that can paralyze operations
- Activities which add the most value (improve them as much as possible)
- Activities which do not add value (automate them or delete them).

## Pareto Principle

The 80/20 Rule is one of the most helpful of all concepts of time and life management. It is also called the Pareto Principle after its founder, the Italian economist Vilfredo Pareto, who first wrote about it in 1895. Pareto noticed that people in his society seemed to divide



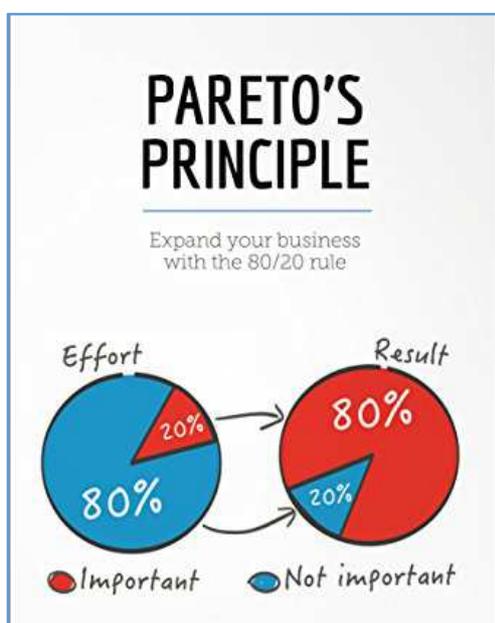
naturally into what he called the “vital few,” the top 20% in terms of money and influence, and the “trivial many,” the bottom 80%. He later discovered that virtually all economic activity was subject to this Pareto Principle as well. For example, this rule says that 20% of your activities will account for 80% of your results. 20% of your customers will account for 80% of your sales. 20% of your products or services will account for 80% of your profits. 20% of your

tasks will account for 80% of the value of what you do, and so on.

This means that if you have a list of ten items to do, two of those items will turn out to be worth as much or more than the other eight items put together.

Here is an interesting discovery. Each of these tasks may take the same amount of time to accomplish. But one or two of those tasks will contribute five or ten times the value as any of the others.

Often, one item on a list of ten things that you have to do can be worth more than all the other nine items put together. This task is invariably the one that you should do first.



The most valuable tasks you can do each day are often the hardest and most complex. But the payoff and rewards for completing these tasks efficiently can be tremendous. For this reason, you must adamantly refuse to work on tasks in the bottom 80% while you still have tasks in the top 20% left to be done.

Before you begin work, always ask yourself, "Is this task in the top 20% of my activities or in the bottom 80%?"

The hardest part of any important task is getting started on it in the first place. Once you actually begin work on a valuable task, you seem to be naturally motivated to continue. There is a part of your mind that loves to be busy working on significant tasks that can really make a difference. Your job is to feed this part of your mind continually.

The Pareto Principle is the observation (not law) that most things in life are not distributed evenly. It can mean all of the following things:

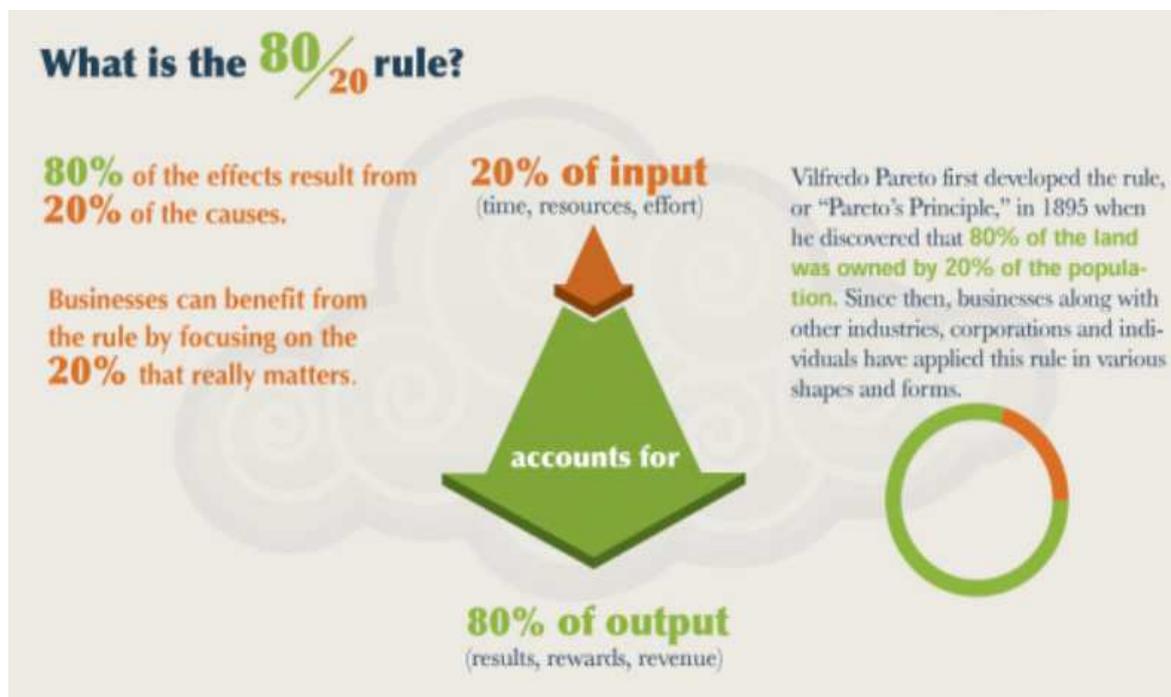
- 20% of the input creates 80% of the result
- 20% of the workers produce 80% of the result
- 20% of the customers create 80% of the revenue

Remember that the 80/20 rule is a rough guide about typical distributions. Also recognize that the numbers don't have to be "20%" and "80%" exactly. The key point is that most things in life (effort, reward, output) are not distributed evenly – some contribute more than others.

The key point is that each unit of work (or time) doesn't contribute the same amount.

Lastly, don't think the Pareto Principle means only do 80% of the work needed. It may be true that 80% of a bridge is built in the first 20% of the time, but you still need the rest of the bridge in order for it to work. It may be true that 80% of the Mona Lisa was painted in the first 20% of the time, but it wouldn't be the masterpiece it is without all the details. The Pareto Principle is an observation, not a law of nature.

When you are seeking top quality, you need all 100%. When you are trying to optimize your resources, focusing on the critical 20% is a time-saver. See what activities generate the most results and give them your appropriate attention.



## Time Management

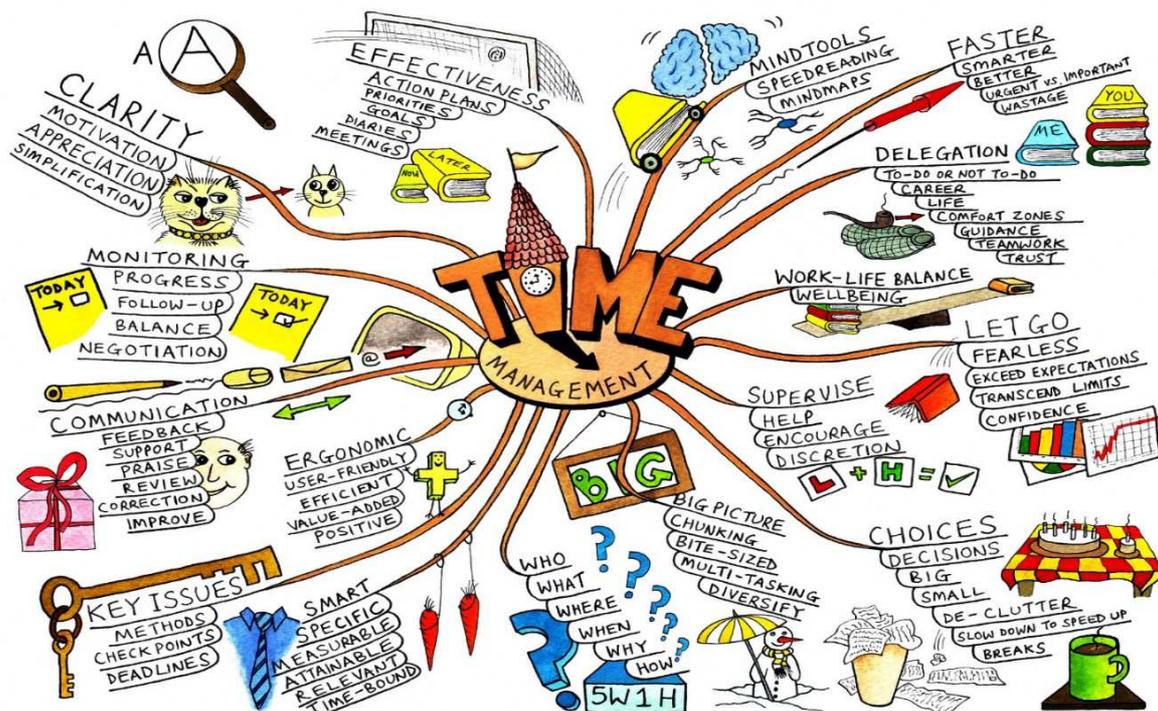
Time management is really life management, personal management. It is really taking control over the sequence of events. Time management is control over what you do next. And you are always free to choose the task that you will do next. Your ability to choose between the important and the unimportant is the key determinant of your success in life and work. Effective, productive people discipline themselves to start on the most important task that is before them. They force themselves to eat that frog, whatever it is. As a result, they accomplish vastly more than the average person and are much happier as a result.

**Working Definition:** The process of planning and exercising conscious control of time spent on specific activities, especially to increase effectiveness, efficiency or productivity.

## Mind Map of Time Management

### Time the Most Important Resource

Time is the most precious resource for human beings, one can never stop or reuse time. Why we need time management is to save time by doing things faster and as early as possible.



There has to be a reflection on a person's own strengths, weaknesses, comfort zones, habits, practices in order to understand your peak times, productive zones.

The goal would be making the most of the highly productive times to get the most critical things that are suited for that time slot to be done.

Self motivation is necessary to practices and change in the behavior not to use time but to invest time effectively and efficiently.

Setting goals was an important aspect to internally motivate yourself and keep relentlessly forging ahead. Goal setting is a key to gather momentum for productivity.

Ensure to plan to make sure that you work SMART instead of working hard.

## Common Time Wasters

Time is there to achieve goals in your business/job, serve your for family, improve your professional worth, serve the community, improve health, rest and relax, spirituality and hobbies and joy. But we never notice that there are lots of time wasters, keeps eating up our time. Be honest and evaluate your daily activities and measure the actual time wasters in your life. Use day format with 24 hours in a day or in a full week with 168 hours.

Daily Activities	Time Spent	Time Wasted
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		

10.

## Eisenhower Matrix (Urgent/Important Matrix)

Eisenhower's strategy for taking action and organizing your tasks is simple. Using the decision matrix below, you will separate your actions based on four possibilities.

1. Urgent and important (tasks you will do immediately).
2. Important, but not urgent (tasks you will schedule to do later).
3. Urgent, but not important (tasks you will delegate to someone else).
4. Neither urgent nor important (tasks that you will eliminate).

### The Matrix

	URGENT	NOT URGENT
IMPORTANT	<b>DO</b> <i>Do it now.</i> Write article for today.	<b>DECIDE</b> <i>Schedule a time to do it.</i> Exercising. Calling family and friends. Researching articles. Long-term biz strategy.
NOT IMPORTANT	<b>DELEGATE</b> <i>Who can do it for you?</i> Scheduling interviews. Booking flights. Approving comments. Answering certain emails. Sharing articles.	<b>DELETE</b> <i>Eliminate it.</i> Watching television. Checking social media. Sorting through junk mail.

We react to urgent matters. We spend our time doing things that are not important. That means that we neglect Quadrant II(DECIDE), which is the actually most crucial of them all.

If we focus on Quadrant I (DO) and spend our time managing crises and problems, it keeps getting bigger and bigger until it consumes us. These leads to stress, burnout, and constantly putting out fires.

If we focus on Quadrant III(DELEGATE), we spend most of our time reacting to matters that seem urgent, when the reality is their perceived urgency is based on the priorities and expectations of others. This leads to short-term focus, feeling out of control, and shallow or broken relationships.

If we focus on Quadrant IV (DELETE), we are basically leading an irresponsible life. This often leads to getting fired from jobs and being highly dependent on others.

Quadrant II (DECIDE) is at the heart of effective personal management. It deals with things like building relationships, long-term planning, exercising, preparation -- all things we know we need to do but somehow seldom get around to actually doing, because they don't feel urgent.

In order to focus our time in Quadrant II(DECIDE), we have to learn how to say “no” to other activities, sometimes ones that seem urgent. We also need to be able to delegate effectively. Plus, when we focus on Quadrant II, it means we're thinking ahead, working on the roots, and preventing crises from happening in the first place! This helps us implement the Pareto Principle -- 80% of your results come from 20% of your time. We should always maintain a primary focus on relationships and results, and a secondary focus on time.

Eisenhower Matrix is particularly useful because it pushes us to question whether an action is really necessary, which means we are more likely to move tasks to the “Delete” quadrant rather than mindlessly

## 8 THINGS HIGHLY SUCCESSFUL PEOPLE DO BEFORE BEDTIME

1. Bill Gates: read for an hour over different topics
2. Arianna Huffington: unplug from electronics to block out distractions
3. Steve Jobs: reflect on what is done in the daytime
4. Ellen DeGeneres: write down feelings and thoughts to improve communication skills
5. Oprah Winfrey: meditate to reduce stress
6. Joel Gascoigne: take a late night walk to unwind after a stressful day
7. Vera Wang: brainstorm for new ideas
8. Kenneth Chenault: plan for the next day

repeating them. And, if you simply eliminated all of the things you waste time on each day then you probably wouldn't need any tips on how to be more productive at the things that matter.

It can be hard to eliminate time wasting activities if you aren't sure what you are working toward. In my experience, there are two questions that can help clarify the entire process behind the Eisenhower Box.

Those two questions are...

- What am I working toward?
- What are the core values that drive my life?

Answering these questions will help clarify the categories for certain tasks. Deciding which tasks to do and which tasks to delete becomes much easier when you are clear about what is important to you.

Time Management is really a misnomer – the challenge is not to manage time, but to manage ourselves.

The key is not to prioritize what's on your schedule, but to schedule your priorities – Stephen Covey

## Personal Productivity - How Well Organized Are You?

Answer the following questions to measure how organized you are?

		often	sometimes	never
1	Do you write a 'To Do' list at the start of each day?			
2	Do you know which items you must do during the day?			
3	Do you make sure that you finish the urgent items on your 'To Do' list before moving on to other items?			
4	Do you use your best work times			

- to tackle major tasks?
- 5 Do you get to meetings on time?
- 6 Can you easily find items in your files?
- 7 Do you meet deadlines with time to spare?
- 8 Do you ever say 'No' when asked to do something?
- 9 Are you able to delegate tasks to your colleagues rather than doing them yourself?
- 10 When you really want something, are you able to make good case to others for it?
- 11 Do you check with colleagues on how they are managing their time?
- 12 Are you able to handle these staff who are long-winded and likely to waste your time?
- 13 Do you arrange to have some quiet time during which you can work undisturbed every day?
- 14 Have you been able to match your daily work with your medium and long- term aims?
- 15 Do you spend time planning what you will be doing in your career in five years' time?
- 16 Do you see crises on the horizon and get to them before they explode?
- 17 Does your work team meet to set medium and long-term goals?
- 18 Do you make work and personal objectives that keep up to date?

- 19 Do you celebrate when you complete a task?
- 20 Are you calm and rational in the face of pressures?
- 21 Do you let colleagues know how you are feeling about things at work?
- 22 Can you relax during your leisure time without worrying about school/college?
- 23 Do you feel happy about the way you are using your time?
- 24 When work planning gets difficult does your heart sink?
- 25 Are you infuriated when you or your colleagues are unable to complete a project on time?

## SCORING

The Overall score from the questionnaire will indicate broadly how well you are managing your time and specific questions will prompt you to think about particular ways of organising yourself.

- For each OFTEN score give 2
- For each SOMETIMES score give 1
- For each NEVER score give 0

## TOTAL SCORE COMMENTS

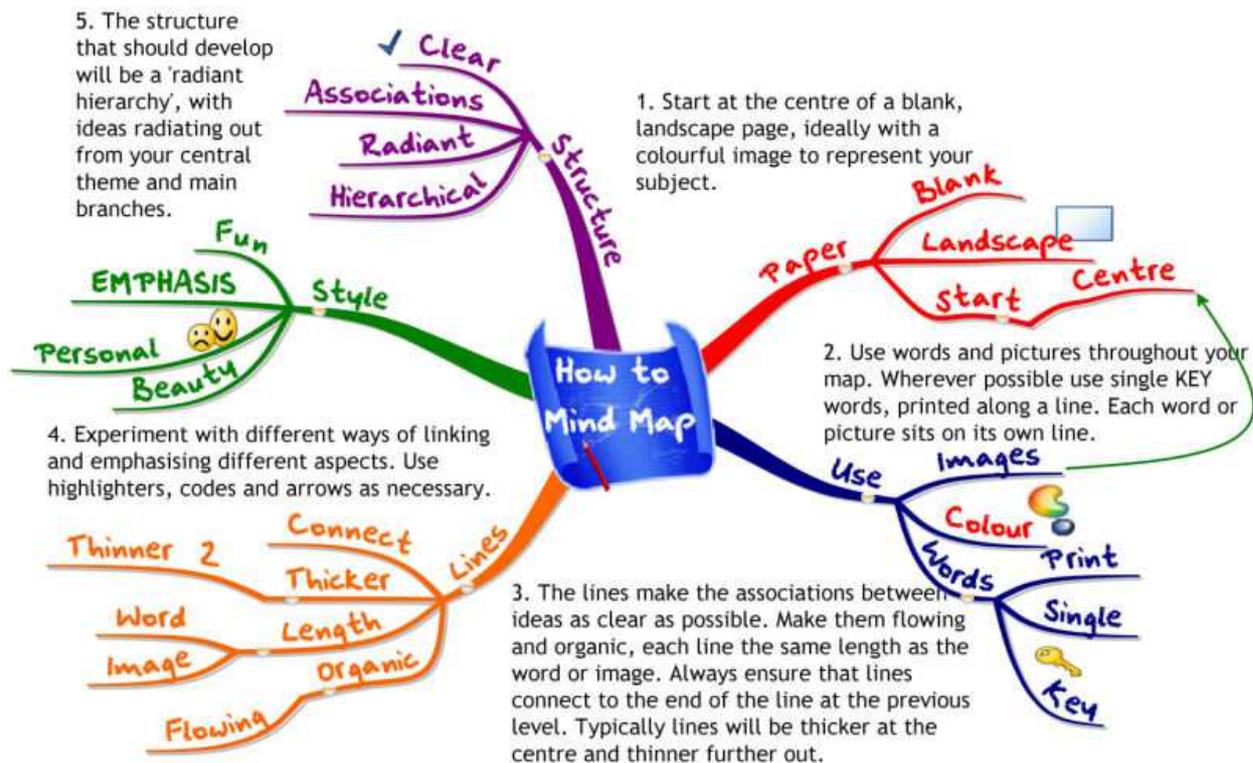
- 0-10 Time management is a major area for concern for you. Use your mentor, a supportive colleague and the time management materials in this manual to give you help as quickly as possible. Adopt the basis of good time management and build from there.

- 11-25 You are probably under-achieving with this level of control over your time. You may be getting through your work but you know that you could be doing more. Identify your strengths and build on these, to become more effective in your work.
- 26-40 Your score suggests that you are handling your time reasonably well. Look at the questionnaire and the notes below to identify those areas in which you could improve. Working on these will make a significant difference to your performance.
- 40-50 You are managing your time competently and likely to be achieving well in work. There may be a few gaps in your handling of time but the message is basically that you could look at other skills for your development.

## Mind Mapping

Mind Mapping is a method of capturing information invented by Tony Buzan. It is proven to boost your productivity, creativity and memory. Mind mapping is used as a technique to consolidate ideas created through individual brainstorming sessions into a single map to reflect commonality and differences in understanding and to generate new ideas. In the examples given below we see the commonality is requirements and requirements category and different specific requirements are grouped. This helps to think the team to further add to these categories.

This versatile technique is already used by over 250 million people worldwide for a variety of tasks including brainstorming, identifying new opportunities, organising, managing projects, teaching, studying, communicating information and much more...



A Mind Map is a visual thinking tool that can be applied to all cognitive functions, especially memory, learning, creativity and analysis. Mind Mapping is a process that involves a distinct combination of imagery, colour and visual-spatial arrangement. The technique maps out your thoughts using keywords that trigger associations in the brain to spark further ideas.

### Step 1 - Create a Central Idea

- The central idea is the starting point of your Mind Map and represents the topic you are going to explore.
- Your central idea should be in the centre of your page and should include an image that represents the Mind Map's topic. This draws attention and triggers associations, as our brains respond better to visual stimuli.
- Taking the time to personalise your central idea, whether it's hand drawn or on the computer, will strengthen the connection you have with the content in your Mind Map

### Step 2 - Add branches to your map

- The next step to get your creative juices flowing is to add branches. The main branches which flow from the central image are the key themes. You can explore each theme or main branch in greater depth by adding child branches.
- The beauty of the Mind Map is that you can continually add new branches and you're not restricted to just a few options. Remember, the structure of your Mind Map will come naturally as you add more ideas and your brain freely draws new associations from the different concepts



### Step 3 - Add keywords

- When you add a branch to your Mind Map, you will need to include a key idea. An important principle of Mind Mapping is using one word per branch. Keeping to one word sparks off a greater number of associations compared to using multiple words or phrases.
- For example, if you include 'Birthday Party' on a branch, you are restricted to just aspects of the party. However, if you simply use the keyword 'Birthday', you can

radiate out and explore the keyword, party, but also a wide variety of different keywords such as presents, cake etc.

- One word per branch also works well for chunking information into core topics and themes. The use of keywords triggers connections in your brain and allows you to remember a larger quantity of information. This is supported by Farrand, Hussain and Hennessy (2002) who found that medical students who adopted Mind Mapping experienced a 10% increase in their long-term memory of factual information.

#### Step 4 - Colour code your branches

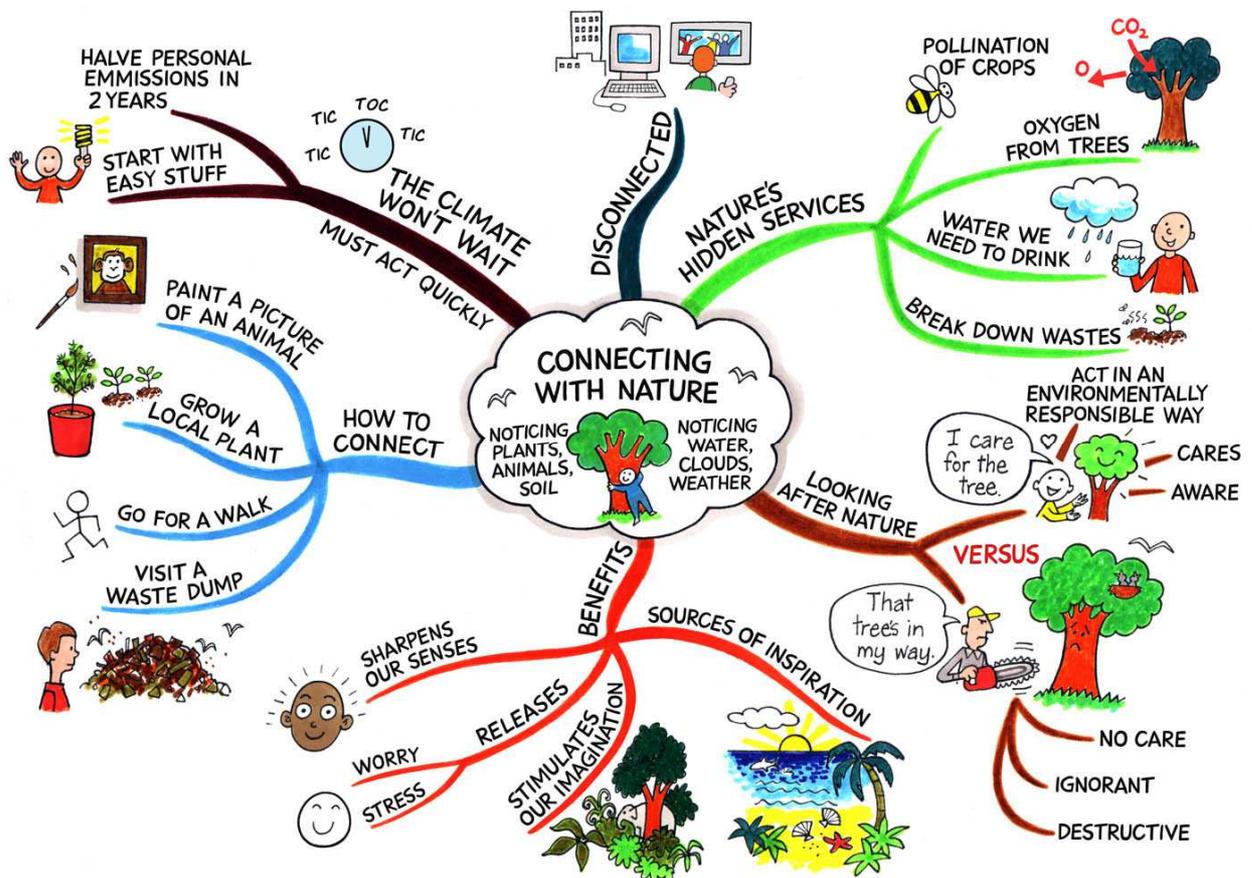


- Mind Mapping encourages whole brain thinking as it brings together a wide range of cortical skills from logical and numerical to creative and special.
- The overlap of such skills makes your brain more synergetic and maintains your brain's optimal working level. Keeping these cortical skills isolated from one another does not help brain development which the Mind Map seeks to do.
- One example of whole brain thinking is colour coding your Mind Maps. Colour coding links the visual with the logical and helps your brain to create mental shortcuts. The code allows you to categorise, highlight, analyse information and identify more connections which would not have previously been discovered.

- Colours also make images more appealing and engaging compared to plain, monochromatic images

**Step 5 - Include images**

- Images have the power to convey much more information than a word, sentence or even an essay. They are processed instantly by the brain and act as visual stimuli to recall information. Better yet, images are a universal language which can overcome any language barrier.
- We are intrinsically taught to process images from a young age. According to Margulies (1991), before children learn a language, they visualise pictures in their



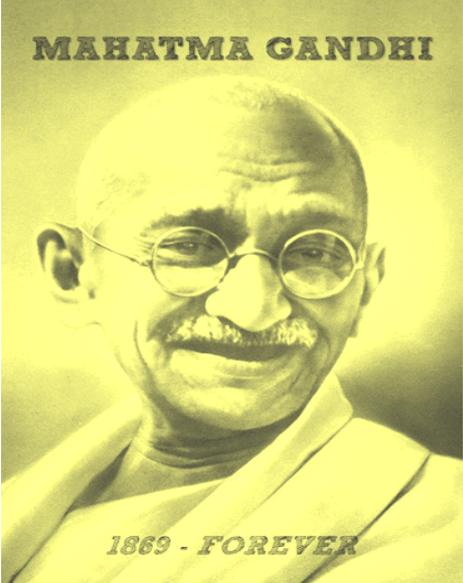
minds which are linked to concepts. For this reason, Mind Maps maximize the powerful potential of imagery.

**The story of Ivy Lee**

By 1918, Charles M. Schwab was one of the richest men in the world. Schwab was the president of the Bethlehem Steel Corporation, the largest shipbuilder and the second-largest steel producer in America at the time. The famous inventor Thomas Edison once referred to Schwab as the “master hustler.” He was constantly seeking an edge over the competition. One day, in his quest to increase the efficiency of his team and discover better ways to get things done, Schwab arranged a meeting with a highly-respected productivity consultant named Ivy Lee. Lee was a successful businessman in his own right and is widely remembered as a pioneer in the field of public relations. As the story goes, Schwab brought Lee into his office and said, “Show me a way to get more things done.”

“Give me 15 minutes with each of your executives,” Lee replied. “How much will it cost me,” Schwab asked. “Nothing,” Lee said. “Unless it works. After three months, you can send me a check for whatever you feel it's worth to you.” During his 15 minutes with each executive, Ivy Lee explained his simple daily routine for achieving peak productivity: At the end of each work day, write down the six most important things you need to accomplish tomorrow. Do not write down more than six tasks. Prioritize those six items in order of their true importance. When you arrive tomorrow, concentrate only on the first task. Work until the first task is finished before moving on to the second task. Approach the rest of your list in the same fashion. At the end of the day, move any unfinished items to a new list of six tasks for the following day. Repeat this process every working day.

The strategy sounded simple, but Schwab and his executive team at Bethlehem Steel gave it a try. After three months, Schwab was so delighted with the progress his company had made that he called Lee into his office and wrote him a check for \$25,000 (in 1918).



**MAHATMA GANDHI**

**THE GREATEST MARKETER  
OF ALL TIME**

**"A customer is the most important  
visitor on our premises.**

**He is not dependent on us. We are  
dependent on him. He is not an  
interruption in our work. He is the  
purpose of it. He is not an outsider in our  
business. He is part of it. We are not  
doing him a favour by serving him. He is  
doing us a favour by giving us an  
opportunity to do so."**

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## 8. Customer Care

## Introduction

The person on the receiving end of your company's product and service is often referred to as "customer," "guest," "client," "tourist," and "visitor." One thing is certain; these people are looking for a quality experience from the beginning. In fact, they are expecting it! If their expectations are not met, they become disappointed and often take their business elsewhere. So we can clearly see that quality does have value

Quality is a process. There are performance standards that must be in place. These must be communicated and implemented at all levels in the establishment. They require leadership from the manager or owner. These customer service standards need to be monitored, reviewed, and updated regularly. Customer expectation must be recognized and acted upon. Ask yourself if your definition of quality is the same as what the customer expects. Our customers are educated, perceptive and demanding. When they make a reservation, order a meal, book a guided trip, or check into a room, they have certain expectations. You must identify whether you are falling short, meeting or exceeding their expectation of quality.

## What does Customer Service Mean?

Customer service means providing a quality product or service that satisfies the needs/wants of a customer and keeps them coming back. Good customer service means much more – it means continued success, increased profits, higher job satisfaction, improved company or organization morale, better teamwork, and market expansion of services/products. Think about it places where you enjoy doing business – stores, petrol stations, suppliers, banks, etc. Why, aside from the actual product or service they provide, do you like doing business with them? You probably find them courteous, timely, friendly, flexible, interested, and a

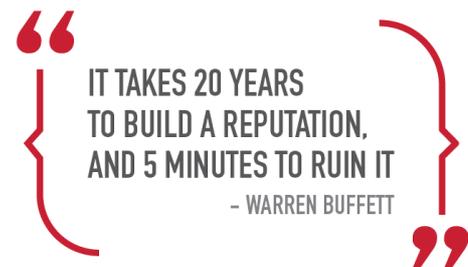
*"There is only one boss, and whether a person shines shoes for a living or heads up the biggest corporation in the world, the boss remains the same. It is the customer! The customer is the person who pays everyone's salary and who decides whether a business is going to succeed or fail. In fact, the customer can fire everybody in the company from the chairman (CEO) on down, and he can do it simply by*

series of other exemplary qualities. They not only satisfy your needs and help you in your endeavours but make you feel positive and satisfied. You come to rely on their level of service to meet your needs and wants.

Customer service has to be a team effort and not just the responsibility of employees who deal with the public directly.

Providing good customer service is a vital part of managing a business. Most customers have the option to go elsewhere if the quality of customer service is lacking. On the other hand, good customer service is a source of competitive advantage.

Good customer service leads to customer satisfaction. Satisfied customers are more loyal and profitable. Dissatisfied customers take their money elsewhere – and tell their friends about the poor service they have received. Customer service is a cliché used around all business and often people feel that they do no what to do, but a quick interaction with these businesses will show us the remarkable distance between serving customers and true customer satisfaction. Customer loyalty is often taken for granted, pricing seems to be the majority idea we have to attract a customer (a terrible one at that) in the SME sector. Small business staff are rarely trained in customer service, and customer service is left to be decided based on each individual personality, character, temperament, principles and ideas. Rarely do small businesses focus on intentional customer care that results in exceeding customer satisfaction resulting in true brand and product/service loyalty.



The goal of customer care and customer service is to ensure customer satisfaction. Customer care is not the goal, it is a means to the goal. That is why it is important for every business to identify whether your customer is satisfied or not, it is not about who well rounded and perfect your customer service programme is. it is about customer satisfaction. You need to listen to your customers actively and consistently since the demands are constantly changing, processes and practices are changing, technology is swiftly moving and the customer is evolving through age, knowledge, status, spending capacity and preferences even country economies are not stagnant. So, when everything is changing around, you need to listen to your evolving customer and cater to him accordingly. It pays to

please - We like companies that treat us well, and some people will even pay more to obtain this. Initiative is the difference between adequate customer service and customer service that wins you a customer for life. Everyday examples of simple customer service:

- Taxi driver who opens the door for you or waits at night for you to safely get into your destination.
- Computer technician who does computer work and then calls back a week later to make sure your IT is functioning well.
- The petrol station attendant who washes your window or checks your oil.
- Supermarket assistant who gladly helps you select or identify products and apologizes for any “brown outs” or “black outs.”

### **Customer Service: *Is an ATTITUDE not a Department***

None of these customer service people had to make this extra effort or go to this trouble. These “goodwill initiatives” are beyond the call of duty and make the customer beyond satisfied. They make the customer remember the transaction or occasion.

#### **Here are some recent statistics that prove the point**

- People spend up to 10 percent more for the same product with better service
- When people receive good service, on average, they tell 10-12 people
- When people receive poor service, on average, they tell up to 20 people
- There is an 80 percent chance that customers will repurchase from a company if their complaint is handled quickly and pleasantly
- If the service is really poor, 90 percent of customers won't come back

### **Customer Journey:**

***The complete sum of experiences that customers go through as they interact with a company/brand across multiple touch points over time***

## Benefits of quality customer service

- Higher income (more sales, repeat business, referred business)
- Recognition
- Personal satisfaction & fulfilment
- Less stress
- Higher self-awareness and self-control
- Greater authenticity
- Happier life at work
- Happier life outside work
- Organizations
- More repeat business
- More referred business
- Fewer returns
- Better reputation
- Higher morale, happier employees
- Lower employee turnover
- Fewer complaints
- Higher productivity
- Better work environment
- Higher inventory turnover
- Higher profits

## Simple mistakes in Customer Service

Every day customer service representatives face situations when what they say makes or breaks a service interaction. Below are ten phrases that should never be used because they frustrate and anger customers.

- “No.”
- “I don’t know.”
- “That’s not my job./That’s not my department.”
- “You are right – that is bad”
- “Calm down.”

- “I’m busy right now.”
- “Call me back.”
- “That’s not my fault.”
- “You need to talk to my supervisor.”

**No:** Everyone hates the word “no”. It is de-motivating, discouraging, and disinteresting. You will hear this word throughout your life as a customer and as a service provider. “No” is tantamount to “bad service.” “No” is easy, cheap, unproductive and negative – it means failure. Unfortunately, “no” is the word we most often hear when a new idea, request or concept is introduced. Admittedly, there are times when you will have to say “no,” but focus on what you can do for the customer (accentuate the positive) and not the negatives of the situation. Better to say “What I can do is…” and demonstrate that you care and want to provide quality service despite your current limitations.

**I don’t know:** Good service means never saying, “I don’t know.” When a customer hears “I don’t know,” they hear, “I don’t feel like finding the information you need.” Better to say, “I’ll find out” or “Let me look into this and get back to you ASAP.”

**That’s not my job/That’s not my department:** When a customer asks you to do something that you do not know how to do or do not have the authority to do, become a catalyst by leading the customer to the person or department who can help him/her solve the problem. Better to say, “Let me transfer to the person who can immediately help you with this problem.”

**You’re right – that is bad:** Many inexperienced customer service representatives think by sympathizing with the customer’s plight, he/she will win over the customer rather than actually doing something to solve the customer’s problem. If a customer expresses annoyance or frustration, do not make it worse by commiserating with him/her. Empathize with the customer but seek to solve the problem. Likewise, it does not do your company or organization any good to criticize co-workers or other departments within the company or to the customers. All interested parties end up looking unprofessional and inept. Rather try your

best to accommodate the customer. Do not promise anything you cannot deliver but do try to serve the customer well. Better to say, “I understand your frustration, let’s see how we can solve this problem.”

**Calm down:** When customers are upset or angry let them vent (within reason) and they will eventually calm down. Telling them to “calm down” is belittling, and often serves only to infuriate them further. Better to say, “I’m sorry.” This is one of the ideal phrases for customer service – it helps to placate the angriest of customers and allows you to begin the process of solving a customer complaint or request and “meet him/her half way.” Apologizing does not mean you agree with the customer but it is a means to empathize and move beyond the emotion of the moment and negative impact.

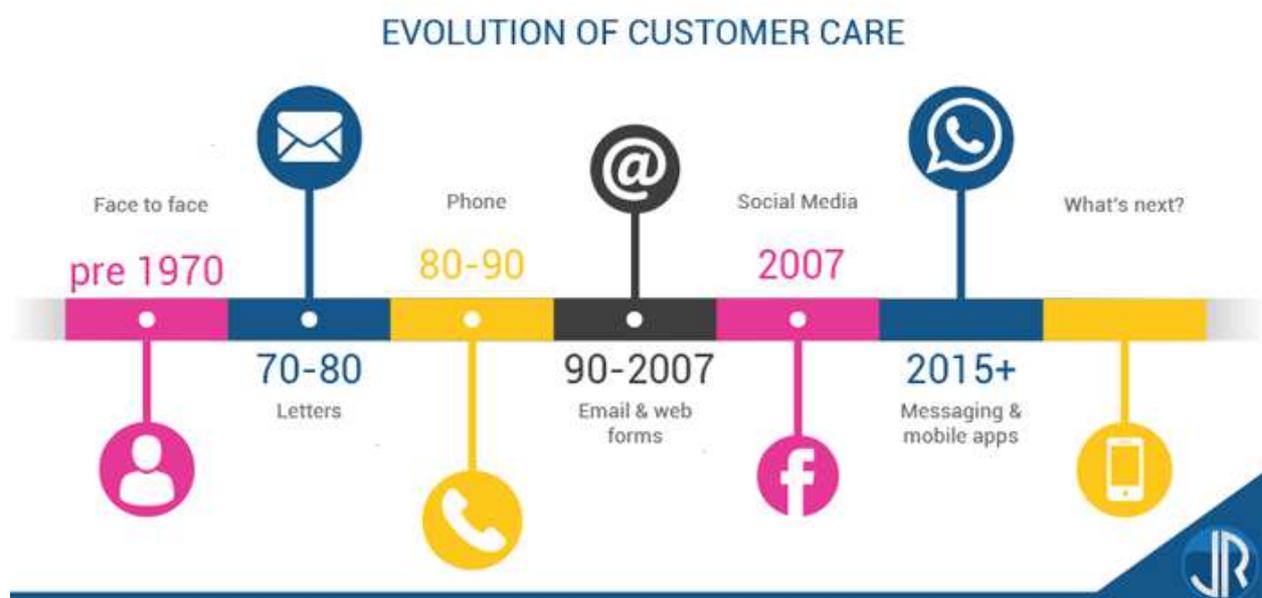
**I’m busy right now:** It is not easy to juggle customers. You are often helping one customer when another calls or visits your service area. Asking a customer to be patient or politely asking them to wait is very different than putting them off and saying you are too busy to help. Leaving them standing there or on hold are two of the mortal sins of customer service. “Being too busy” is tantamount to saying that you do not care and they are not important. Let the customer know they are important and you are aware of their presence. Better to say, “I’ll be with you in one moment” or “Please hold and I’ll be right with you.”

**Call me back:** This expression conveys little interest on the part of the customer relation’s employee for the needs and wants of the customer. You should always call the customer back because you want their business and are responsive to their requests. Being proactive is part of good customer service.

**That’s not my fault:** If an angry customer accuses you of creating a problem, rightly or wrongly, the natural reaction is to defend oneself. However, this is not the best course of action. The customer has a problem that needs to be solved. By resisting the need to defend yourself, and focusing on the needs of the customer, you can resolve the problem faster and

with less stress and confrontation. Better to say, “Let’s see what we can do about this problem.”

**You Need to Talk to My Supervisor:** This cliché of bad customer service has angered and frustrated customers decades. Customers often ask for things outside the scope of your work or authority – maybe even outside the services/products provided by your company. While passing off these requests to your manager is a tempting option, it is better if you attempt to solve the problem yourself or directly go to the supervisor yourself and get a solution. You become a service hero for the customer and the supervisor. Better to say, “Let me find that out for you.”



## Case Study – What Is Customer Care?

*I had just moved to a new apartment and dropped in for the first time at a nearby mall hoping to buy a box of razor blades.*

*I did not know where the blades were located. None of the well-dressed sales people offered me help. I hesitated to ask the sales people for help because I*

*was dressed poorly. I was embarrassed and felt as if all the sales people were watching me. After searching the shelves, I finally found the blades.*

*I wanted to shop some more but the looks from the sales people made me go straight to the cashier and quickly leave the mall. The cashier ignored me as I paid. I only spent 500 Rs. I don't know what other products the mall has. I will never go there again.*

*When I arrived back at my apartment building, Nimal, the owner of the supermarket on the ground floor, waved to me as if we were old friends*

*He said 'You have just moved in, so you do not know much about my market. It is rather small, but it has everything. Is there anything you need?'*

*I bought several products from him that I probably would have gotten at the mall. I spent 3,000 Rs at his shop. Nimal quickly and carefully packaged my items. He smiled and said "If you ever need something I don't have, let me know. I will get it for you at a fair price."*

*Which is better? The mall or Nimal's market? Why?*

**Activity - Lifetime Value of a Customer** (ask participants to write or give the answers to the following questions. -The answers are given below)

Jayanath is a loyal customer of "Big Deal" supermarket, and he shops at the market once each week. On average, he spends 2,500.00 Rs each time he visits the market.

1. Calculate the annual income Jayanath contributes to Big Deal, assuming that his shopping habits remain constant through the year.
2. If Jayanath continues to purchase goods from Big Deal at the same rate for the next ten years, how much income would Big Deal expect to generate from him in this timeframe?

## Lifetime Value of a Customer – Answer Key

Jayanath is a loyal customer of “Big Deal” supermarket, and he shops at the market once each week. On average, he spends 2,500.00 Rs each time he visits the market.

1. Calculate the annual income Jayanath contributes to Big Deal, assuming that his shopping habits remain constant throughout the year.

$$2,500 \text{ Rs} \times 52 \text{ weeks} = 130,000 \text{ Rs}$$

2. If Jayanath continues to purchase goods from Big Deal at the same rate for the next ten years, how much income would Big Deal expect to generate from him in this timeframe?

$$130,000 \text{ Rs} \times 10 \text{ years} = 1,300,000 \text{ Rs}$$

## Customer Service Qualities

### Listen to Your Customers

Another important aspect to do is to listen to what the customer is saying. If people do not understand what is motivating the customer, they will not be successful in handling them. Do research on customers, their habits, and what they want and expect. Most customer service is defined by how a company or organization treats “external customers,” but there is



“internal customer service” as well. While this manual mainly addresses “external customers,” expanding your definition of customer service to include coworkers will lead toward even greater success. Remember, the internal customer chain is just like the external, we are all customers both inside and outside the company or organization. As a Wall Street Journal article succinctly put it, “Poorly Treated Employees Treat Customers Just as Poorly.”

### Develop a Customer Friendly Approach

One commonality among all companies or organizations that provide good service is the development of a system and attitude promoting customer friendly service. By “customer friendly” we mean viewing the customer as the most important part of your job. The cliché,

“The customer is always right” is derived from this customer friendly environment. Two critical qualities to the “Customer Friendly Approach”:

- Communications
- Relationships

The two main tasks of successful customer relations are to communicate and develop relationships. They don't take a huge effort, but don't happen instantaneously either. Positive dialogue/communication with your customers and developing ongoing relationships with your customers are perhaps the two most important qualities to strive for in customer service.

Customer Service = Accountability + Delivery

**Professional Qualities** -Professionals who constantly deal with customers (inside and outside the company) need to strive for certain qualities to help them answer customer needs. The professional qualities of customer service to be emphasized always relate to what the customer wants. After years of polling and market research, it turns out customers are constantly internalizing their customer service experience. What this means is they are grading your customer service during each transaction but you rarely know it. While there are a multitude of customer needs, six basics needs stand out:

- Friendliness – the most basic and associated with courtesy and politeness.
- Empathy – the customer needs to know that the service provider appreciates their wants and circumstances.
- Fairness – the customer wants to feel they receive adequate attention and reasonable answers.
- Control – the customer wants to feel his/her wants and input has influence on the outcome.
- Information – customers want to know about products and services but in a pertinent and time-sensitive manner.
-

It is also very important for customer service employees to have information about their product or service. Service providers who answer, “I don’t know” or “It is not my department” are automatically demeaned and demoted in the mind of the customer. These employees can end up feeling hostile as well as unequipped. Customers want information, and they disrespect and distrust the person who is supposed to have information but does not.

### **Good Information is Often Good Service**

Employees need to be empowered to satisfy customers. Employees will give bad service to customers if they themselves receive bad service and little feedback from their managers and supervisors. Remember: external customer service starts with internal.

## **Communicating with the Unsatisfied Customer**

How many times have you as a customer run into the problem of excuses. There is a problem and the sales person, technician or customer service representative is making lame excuses, namely:

- It is the fault of the computer.
- It is the fault of the other sales clerk.
- It is the fault of the chief of the department.
- It is the fault of the system.
- It is the fault of the Government.
- It is just the way it is.

Sometimes it feels as if nothing is anybody’s fault or is in anybody’s department. This is poor customer service. Good customer service means accountability, responsibility and taking action to satisfy the customer. Having discussed the importance of knowing how the customer feels and WHAT NOT TOSAY, let’s address the notion of how to communicate with an unsatisfied customer.

If your customer is unsatisfied (for just or unjust reasons), you will have to use some of the many techniques of the customer service professional to win their support and continued loyalty. When coming into contact with a customer, communicating with him/her, or

analyzing problems, do not forget to use the following methods or qualities of the customer service professional:

**Listen:** It is of primary importance when dealing with an unsatisfied or complaining customer to listen attentively to his/her complaint, gripe, frustration or grievance. Be patient, attentive, and friendly.

**Express you are sorry:**

‘We are sorry for this mistake/problem.’

“We are terribly sorry for this inconvenience.”

“How can we work to solve this problem together?”

“I can imagine how frustrated you are.”

**Do not argue and do not interrupt:** This will only worsen the situation, especially if the customer is angry. Let him speak before you try to discuss with him what has happened.

**Do not lose your self-control:** If you stay relaxed, customers will calm down.

**Point out facts:** Listen carefully – and write everything down. Do not make any comments until the customer is finished talking.

**Admit the problem:** If you can suggest a solution, do it. If not tell the customer what actions you will take and what actions will follow. Never make the mistake of promising something you are not able to do.

**Involve the customer in problem solving:** Suggest the customer alternative solutions, if they exist. Customers appreciate the opportunity to choose the ways of problem solving.

**Follow-up:** Make sure that the promised measures are taken. If you do not fulfil what was promised and ignore the customer’s complaint, the problem will grow. Next time it will be more difficult to solve.

**Give the customer a “way back”:** Sometimes customers are wrong. You should let them leave with dignity, without feeling embarrassed.

**Do not question the customer's correctness:** From the very beginning you should believe that the customer may be right. Always be open minded toward the customer's opinion, make them feel they deserve to be listened to.

### **Solving the Customer's Problems**

When you listen to the customer's complaint you take responsibility to solve the problem.

- Listen without interruption and with full attention.
- Behave without aggression, and without arguing.
- Do not extend excuses for the problem, and thank the customer for drawing their
  - attention to it and helping solve it.
- Express sympathy and full understanding.
- Customer service problem solving involves:
- Ask necessary questions to get more complete information and completed picture of a
  - situation
  - Find out exactly what the customer needs you to do for them
  - Explain first what you can do, and then gently add what you cannot do
  - Discuss in detail all opinions, and then decide what needs to be done
  - Undertake immediately what was discussed
  - Check the result to make sure the customer is completely satisfied
  - Follow -Up with the Customer

### **Activity – How many customers is one customer.**

A simple but powerful exercise that you could do in a class room setting. The idea is that when I enter a store I am not just one customer I am a customer that is interconnected to a chain of people with buying power, I am easily more than one. The exercise details are given below.

## One is more than one

1. Tell participants that you are the owner of a supermarket and your sales have declined recently.
2. Ask a volunteer to come forward and explain that he is your customer.
3. Then ask the class: “How many customers are standing here with me?” The expected answer is “1”.
4. Ask the volunteer how many family members, relatives, friends and neighbours he has.
5. Ask the volunteer how many family members, friends, and neighbors those people have.
6. Ask the class to keep the count until the total number of people reaches 100.
7. Ask the class, how many people could potentially find out about one customer’s shopping experience?

- When it comes to customer care, one is not equal to one.
- One person can be a network of people.
- Every customer possesses his/her own network of people who share ideas, experiences and information.
- So in effect one customer can be 100 or more

## Case study for discussion

Raj and Kumar are the owners of two well-known supermarkets. Raj has many customers who only shop at his store because they love his wide-variety of dairy and meat products. These customers are willing to pay high prices because of the variety of products at Raj’s store. Raj always tries to keep his customers satisfied by having the latest products available.

Kumar has many different types of customers. They come to his store for a variety of reasons, including just buying basic items, such as milk and bread. Kumar treats all his customers well and does his best to serve them regardless of how difficult the work is or how much they spend at his store.

Whenever Raj gets a customer complaint, he assigns one of his employees to solve it. He often shouts at his staff in front of customers. In a similar situation, Kumar takes full responsibility and then asks his employees to investigate the situation.

## Questions for discussion

In addition to their personalities (hot-tempered vs. composed), what are the behaviors of these two owners that influence their actions toward customers?

Discuss in your group for 5 minutes and then choose a group representative to present your answers.

## Approaches for Measuring Customer Satisfaction

<u>Approach</u>	<u>How Used/Purpose</u>
Transactional/ "Point of Sale" Surveys	<ul style="list-style-type: none"> <li>• Collects immediate feedback on customer's experience</li> <li>• Provides feedback for specific individuals</li> <li>• Enables trending and performance monitoring</li> </ul>
Periodic Comprehensive Surveys	<ul style="list-style-type: none"> <li>• Measures satisfaction across all service areas and dimensions</li> <li>• Provides insight on awareness and importance</li> <li>• Enables trending over time</li> </ul>
Focus Groups	<ul style="list-style-type: none"> <li>• Provides input to key service issues that can be used to design surveys</li> <li>• Captures in-depth information on key issues that emerge from other surveys/feedback</li> </ul>
Other Feedback Sources (complaints, escalation logs)	<ul style="list-style-type: none"> <li>• Identifies immediate service concerns</li> <li>• Highlights potential process problems</li> <li>• Enables trending over time</li> </ul>

# CUSTOMERS

What do you think your customers and users value?



## Activity – Customer service

- 1) Print this page.
- 2) Cut each statement separately.
- 3) Fold them and put them in a small box for the Activity 1 – The importance of customers.
  - a. Ask a participant to select one piece of paper from the box.
  - b. Ask a participant to read the statement to the class.
  - c. Ask other participants to give their opinion about the statement.
  - d. Repeat the same procedure with different participants pulling a statement from the envelope until all statements have been read.

Finally, sum up the participants' opinions

Customers decide the sustainability of a business.
All businesses are established to satisfy their customers' needs.
Without customers, no business exists.
Without you, the market is still operating.
If there are one hundred sellers, there will be ten thousand buyers.
It is not necessary to satisfy a customers' every demand.
If I provide good products at a cheaper price, customers are bound to come to me.
Customers need only low-priced products, good customer service is not important to them.
You can mistreat customers if you have a special product not available elsewhere.

Customer care is important only for businesses that provide poor-quality products.

### Activity – responding to difficult customers

<b>Process</b>	<ol style="list-style-type: none"> <li>1. Ask the participants to appoint one person to play the role of a ‘tough customer’ and invite that ‘tough customer’ to sit on a chair in front of the class.</li> <li>2. Divide the class into two groups. Ask each group to choose a representative.</li> <li>3. Explain to the groups that they must quickly find solutions and handle the challenges posed in a series of five customer situations that you will read from Teaching Material 3.             <ol style="list-style-type: none"> <li>a. Read the first situation aloud.</li> <li>b. The groups will each discuss a solution and then submit it to the trainer.</li> <li>c. The trainer will read the solutions to the ‘tough customer.’</li> <li>d. The ‘tough customer’ will think carefully about the suggested solutions. If the tough customer accepts the solution, the representative from the group who submitted it will take one-step towards the customer.</li> </ol> </li> <li>4. The activity continues until each of the situations has been discussed and resolved. The group whose representative gets the closest to the tough customer wins.</li> <li>5. NOTE: The solutions of the groups may not be identical to the answer key, but you need to ensure that the groups’ solutions are appropriate to each context,</li> </ol>
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Difficult situations when working with customers

1. **Customers want to change a product they bought, but they have used it and it is not in the same condition as when they bought it. Therefore, you have to say 'no'.**

*Answer Key: Give an excuse, if appropriate, and tell them what else you can do for them.*

*Explain why you must refuse.*

2. **Customers' requests are more than what the company pledges.**

*Answer Key: Emphasize what the company pledges to do for customers.*

3. **Customers show that they do not believe in your promise to solve their problem quickly.**

*Answer Key: Provide them with references from other satisfied clients or ask your superiors to back your promise.*

4. **Customers get angry irrationally.**

*Answer Key: Answer customers calmly and respect their emotions.*

5. **Customers refuse to give you the necessary information.**

*Answer Key: Explain the reason why you need this information and ask them to reconsider.*

## Useful tips for front end customer service staff

The following are good tips that help provide acceptable service levels in the area of telephone/voice mail and inquiry management. They pertain to any small business as well as home-based operations.

### First Impressions – You Only Get One

Every salesperson in every business knows the importance of making a positive first impression. Sales people know their success and livelihood will depend on how their potential customer perceives them in the first 30 seconds of interaction. Good salespeople develop an almost instantaneous rapport with potential customers. Customers like them, follow their advice and then buy their product.

The reality is that we prefer doing business with those we like and trust. Impressions are the key to developing trust and confidence in the customer. As the old saying goes, "You will

never get a second chance to make a first impression.” This is why the first impression is extremely important and can set the tone for all future transactions. Here are some ways of creating positive impressions, some of which have already been discussed:

- **A genuine smile**– there is nothing like a smile and pleasant face to greet a customer, especially if he/she has a complaint. A smile and polite conversation can immediately disarm a disgruntled customer. Facial expression sets a positive tone before you even begin speaking. A relaxed or pleasant facial expression is the ideal most of the time.
- **Neatness** - personal grooming has a big impact on your customers. Dirty hands, messy hair and poor dress can mean the loss of an otherwise happy customer. When interacting with customers, dress neatly and in a professional manner so as to command respect and to let customers know you take seriously your position.
- **Eye contact** – always look into your customer’s eyes. Directly address customers.
- **Be attentive** - when listening to a customer, slightly lean towards your customer and nod your head ever so slightly to indicate you are listening.
- **Tone of voice** – always convey friendliness and amicability. Do not raise your voice in frustration or anger no matter how difficult or tiresome a customer may behave.
- **Personal space** – this is the distance that feels comfortable between you and another person. If another person approaches you and invades your personal space, you automatically move back without thought. You are uncomfortable. Leave adequate distance between you and your customer. Adequate space is important to making customers feel secure and unthreatened.

- **Posture** – slumping in a chair or leaning against a wall while interacting with a customer are sure signs you are not interested in the customer. Your pose or posture should express attention, friendliness, and openness. Lean forward, face the customer and nod to let them know you are interested.
- **Observation** - notice how your customer behaves and what he/she reacts positively to while you are providing service
- Offering immediate assistance
- Friendliness
- Using customer's name in a conversation
- Polite and courteous manners

Here are some factors that create a negative impression:

- Using your phone while talking to a customer
- Making the customer wait
- Not answering the phone promptly
- Not saying “please” and/or “thank you”
- Speaking loudly or condescendingly to customers or colleagues
- Making faces, frowning, acting distant, not smiling
- Looking dishevelled or like you do not care about your appearance
- A poor handshake
- Focusing on another task while addressing or servicing a customer.

Remember, impressions stay with those you meet, especially customers, and once registered; negative impressions are difficult to overcome.

Remember, the little, interpersonal actions noted above mean a great deal in the area of customer relations. They can change customer perceptions and ultimately affect the success of your customer relations efforts.

## Conversations Over the Telephone

- It's Not What You Say, It's How You Say It

The moment you pick up a telephone, body language and visual perceptions disappear and your tone of voice becomes dominant. Almost the entire message you project to the customer over the phone is derived from tone of voice and attitude.

For example:

- A flat tone of voice says to the customer, "I don't like my job and would rather be elsewhere."
- Slow pitch and presentation say, "I am sad and lonely – do not bother me."
- A high pitch, rapid voice says, "I am enthusiastic and excited!"
- A loud voice says, "I'm angry and aggressive."
- 

## Telephone Etiquette

Telephone etiquette, unlike more varying body language, can be uniform and is not culturally based. The telephone is often the first or last place a customer comes in contact with an organization or company. Being telephone friendly is one of the least expensive and cost effective ways to deliver better customer service.

## Answering the Telephone

How a company answers the phone can tell the whole story of how they treat customers and employees. The correct phrase said in the right order in a positive tone leaves a good impression and starts the customer-client relationship off on the right foot.

- Pick up the phone in three rings. More than three rings signals chaos in your office or inattentiveness on the part of your company or organization.
- Greet the caller, e.g. "hello", "good morning". Good manners shows you respect the caller.

- Give your name, e.g., “Hi, my name is Kamal”. This is a courtesy that serves to personalize the customer service experience as well as allowing the customer to hold you accountable for your level of service. He/she now has a point of reference and someone to contact when he/she calls back.
- Ask the customer if or how you can help. Asking to help tells the customer you are there to serve his/her needs and to solve his/her problems. This also leaves the customer with a positive impression.

## Troubleshooting

Some things which may upset a customer are simply unavoidable. Here are some tips on how to best handle these situations.

- “Putting a Customer on Hold” - Ask the customer if you can put them on hold; wait for them to say “yes” or “no” and then explain it will only be for a short period of time. Explain to customers why you are putting them on hold. Thank customers for holding.
- “Transferring a Call” - Ask the customer if they mind being transferred; wait for them to say “yes” or “no” and explain why they are being transferred and to whom.
- “Taking a Message” - Explain your co-workers absence in a positive light but do not be too specific. Explain that your co-worker is in a meeting, conference, briefing, or training. Do not say he or she is gravely ill, is too hung over to come to work, never called in today, can’t be found, that you do not know where he or she is, or that he or she “was just here”. Give a reasonable estimate of when the co-worker will return.
- Offer to help the caller, take a message or transfer to another staff member.

## “Ending the Call”

This is the final step in good telephone etiquette. A good customer service representative ends the call on a positive note, repeating any actions agreed to be taken and what is going to be done to help or serve the customer.

### **Respond to your business email quickly!**

Answering your business email promptly should be a priority for all business. Not only is email an important communication line with your customers, it is often used by them to gauge that your trustworthy. If a customer sends you an e-mail with a simple question, and you take forever to answer it, what does that say about the rest of your operation?

Business email should be answered within 24 hours max. No exceptions. At that rate, your doing a lot better than a lot of other businesses. If you really want your customer service to shine, you should consider answering your business email twice a day with a 12 hour interval. It is even better to check out your direct competition by sending them an e-mail as if you are a potential customer. Send them more than one on several days. Especially check out Mondays, Fridays and weekends. Track the time it's taking them to answer, and implement a procedure to beat them at the business email game.

OK, I understand that for small businesses, resources are limited. But your stream of business email is most likely to be a lot less than for big guns. And if you check and answer e-mail regularly, numbers of e-mails to answer are usually very easy to handle.

## **Twelve Keys to Developing Good Customer Service Standards**

1. Start at the top Management and ownership not only have to ensure that the service ideology is reflected in the mission statement, but they must first and foremost lead by example and be visible on a daily basis. Their words and actions must correspond accordingly that the line staff can model implementation based on their clear example.
2. Measure First Before embarking on a major customer service safari, assess your current service level and identify what needs attention and improvement. Traditional data such as customer letters, complaints, feedback and surveys are tools to get you started. Don't forget to approach your staff because they have firsthand experience in the matter.

3. Make training and skill building part of your strategic plan Goals related to customer service need to be a foundational component of short and long-term strategy. They are usually set out as core values in mission statements and make their way to the training floor. Make service a priority in your business.
4. Train management and make them accountable Since most managers work in a customer service environment and are involved in the day-to-day, hands-on scheme of things, they play a critical role in the service challenge and are responsible for providing leadership. Managers must be of the mind and skill set to deliver this, and also be present and visible during peak service activity to support the process.
5. Choose the right program Whether you design your own, or adopt and outside provider, a training program meant to improve your service should include proven standards.
6. Launch Get behind it from the beginning and make it an exciting priority. An effective launch will probably fail!
7. Deliver Quality not Quantity Facilitation is paramount. You may or may not have someone on staff that is trained or capable of leading the training. A boring, rambling or insincere lecture will be of no value.
8. Identify your barriers to excellent service during training When staff and management go through a training process, participation and spirited discussion will occur. Issues will arise that will not be resolved during the training. Staff are not shy in giving their feedback once encouraged to do so. To properly address these issues, keep a record of the comments on a flipchart or blackboard as they come up so that staff can see that their views are being considered for evaluation.
9. Measure Results Usually, improvements will be observed immediately following the training. Your employees and the work environment should appear more positive. The true test of results is the level of staying power of the changes implemented.

10. Create a Process Improvement Team Acquire a volunteer or assign a staff member to handle the follow-up of issues addressed in the training. Management will work with these team members on the day to-day service monitoring also.
  
11. Include Customer Service Training in the new employee orientation Equip and empower new employees with the skills and values reflected in the training program. By establishing them from the start you align them with other trained staff and clearly indicate to them what your expectations are.
  
12. Reward and Recognition Acknowledge your returns on a daily basis. Staff want and deserve to know that they are doing well and also that they are worthy of your investment in their training.



# 9. Marketing and Sales Skills

(including Digital marketing)

## Introduction

When you go through various marketing definitions by scholars and actually successful marketers, you notice a trend of similar words – Telling your story, value proposition, relationship, communication, strategy, understanding the customer and Trust.

The latest trends have not replaced the old marketing matrix or the thinking but rather it has intensified and grown in depth building on the fundamentals requiring a greater variety of skill making it very difficult for one person to have all the skill necessary and this requires a good marketing team or in the absence outsource for certain skills in order to be competitive and successful.

The style of the transactions and the tools especially technology have drastically changed but in the end the buyer is still captivated by the story, expects trust and while the expectations have changed the market is open for those who would listen to the buyer.

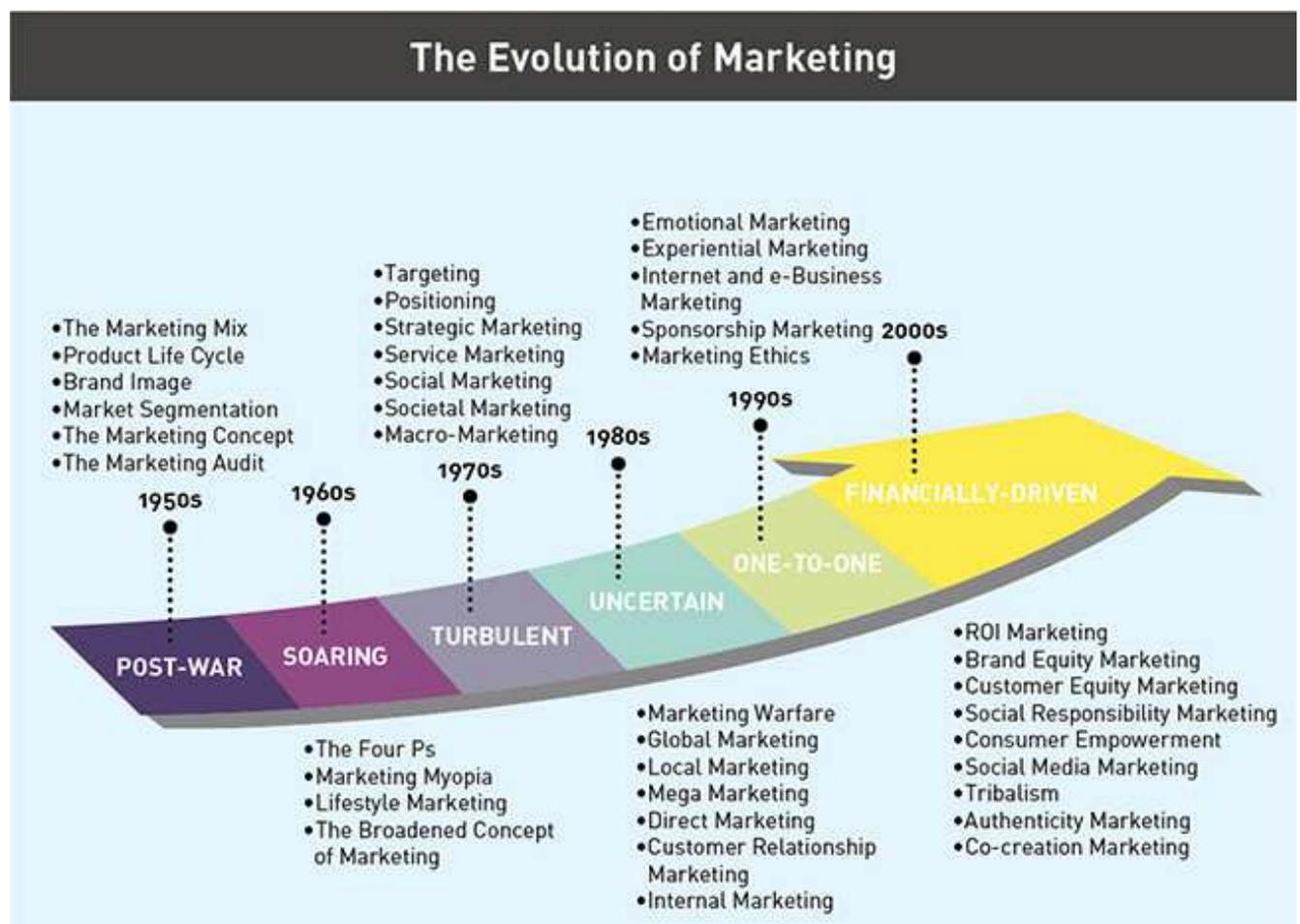
In this section we will explore the standard marketing plan and various key skills that is demanded and required for both marketing and sales including some requirements for digital marketing. Branding is not covered under the marketing segment.

## Definitions

- Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
- “The science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services.”
- Marketing is how you tell your story to attract customers, partners, investors, employees and anyone else your company interacts with. It’s the script that helps users decide if they’ll welcome you into their lives as a staple, nice-to-have or necessary annoyance. It’s the way that everyone interacts with your brand. It’s impression, first, last and everything in between

- Marketing is the art and science of creating, delighting and keeping customers, while making a profit and building enterprise value. Marketing integrates, formally or informally, many disciplines and every organizational function. Marketing should embrace the highest ethical standards, respect the environment, and strive to make the world a better place
- Marketing is building your brand, convincing people that your brand (meaning your product/service/company) is the best and protecting the relationships you build with your customers

## Evolution of Marketing



## Digital marketing

There are a number of ways brands can use digital marketing to benefit their marketing efforts. The use of digital marketing in the digital era not only allows for brands to market their products and services, but also allows for



online customer support through 24/7 services to make customers feel supported and valued. The use of social media interaction allows brands to receive both positive and negative feedback from their customers as well as determining what media platforms work well for them. As such, digital marketing has become an increased advantage for brands and businesses. It is now common for consumers to post feedback online through social media sources, blogs and websites on their experience with a product or brand. It has become increasingly popular for businesses to use and encourage these conversations through their social media channels to have direct contact with the customers and manage the feedback they receive appropriately.

Word of mouth communications and peer-to-peer dialogue often have a greater effect on customers, since they are not sent directly from the company and are therefore not planned. Customers are more likely to trust other customers' experiences. Examples can be that social media users share food products and meal experiences highlighting certain brands and franchises. This was noted in a study on Instagram, where researchers observed that adolescent Instagram users' posted images of food-related experiences within their social networks, providing free advertising for the products. It is increasingly advantageous for companies to use social media platforms to connect with their customers and create these dialogues and discussions. The potential reach of social media is indicated by the fact that in 2015, each month the Facebook app had more than 126 million average unique users and YouTube had over 97 million average unique users.

A key objective is engaging digital marketing customers and allowing them to interact with the brand through servicing and delivery of digital media. Information is easy to access at a

fast rate through the use of digital communications. Users with access to the Internet can use many digital mediums, such as Facebook, YouTube, Forums, and Email etc. Through Digital communications it creates a Multi-communication channel where information can be quickly exchanged around the world by anyone without any regard to whom they are. Social segregation plays no part through social mediums due to lack of face to face communication and information being wide spread instead to a selective audience. This interactive nature allows consumers create conversation in which the targeted audience is able to ask questions about the brand and get familiar with it which traditional forms of Marketing may not offer.

This also present the marketer with diverse channels not available previously.



This can be further branched out under each area;



'Let your fingers do the walking.' Have you heard this slogan? If you are younger than 30, chances are you haven't. This slogan encouraged people to use the Yellow Pages of their telephone book to find a business that would supply whatever it was they were looking for. For example, if you were looking for a dentist, you would go to the Yellow Pages and find a list of dentists in your area. Businesses could also advertise in the Yellow Pages. Well, those days are gone; people don't look in the Yellow Pages to find a business that sells what they need. So, how are you going to get information about your business out there? You are going to have to reach your customers where they live; and they're living online. This means you need to get savvy with digital marketing.

Digital marketing, just like any other form of marketing, is all about promoting products, building brands, developing leads, and engaging your customers. The difference is digital marketing takes place online. Digital marketing is also known as Internet marketing, e-productivity, e-commerce, interactive marketing, and e-marketing. Digital marketing integrates people, processes, and technology.

The traditional way of marketing brands, products and services make use of either indirect or direct methods of reaching out to targeted customers. These methods are clear-cut and very straightforward – you just need to invest money, perform a set of actions, and get results.

The business and marketing landscape have drastically changed in recent years however. Traditional methods that were effective before may not be as effective in this current market powered by the complexities – and the vast wealth of opportunities – by the Internet.

That is why it is very important that your brand and business establish and maintain a very strong online presence to be competitive enough to reach out to targeted audiences. Traditional marketing rules does not necessarily apply in current scenarios. However, there are new markets and new doors of opportunities made available – that are only accessible through digital marketing channels. But with several Internet marketing tools available, which among these tools are the best and are worthy enough to focus on while they bring you steps closer to your business goals?

The answer will depend largely on the type of business you have and the kind of customers you are targeting for. Not all of these digital marketing tools are applicable or will work with your business. You need to perform a carefully planned set of actions that will enable you to learn, test and measure the results and performance of the digital marketing tool or tools that you have in mind

## Ten important Types of Digital Marketing

To give you a more detailed understanding of what the term “Digital marketing” includes, here are the 10 most important types of digital marketing. And you should make sure that you know about all of them before you decide what types of marketing you are going to include in your digital marketing strategy.

### 1. Social Media Marketing

Social Media Marketing is „the use of social media platforms and websites to promote a product or service.

That means all sharing of information and engagement with followers, fans, partners or competitors on social media platforms with the goal of promoting your products is part of digital marketing. In essence, social media marketing is the targeted use of social media conversations to increase the awareness for a brand or product.

But be careful, to be successful with social media marketing you have to fully understand the one social network you want to use for your marketing. Each social network has unique features, communication best practices and content they like. Some social networks will work great for your situation, product and content – others won't. Digital marketers however should select the most appropriate social network to promote their kind of business to a particular kind of targeted audience. A simple guide is listed below:

**Facebook** – You can reach out to almost any kind of general consumer, you just need to learn in what groups and pages your targeted customer stay frequently go to at Facebook. There are currently many groups with over 50 to 60,000 active members that are functioning in Sri Lanka. Eg. Expat furniture

**Twitter** – If you're trying to develop a new business and would want to reach out to early adopters, then Twitter may be for you, particularly in generating fast brand awareness.

**LinkedIn** – Reaching out to professionals, business owners and other Business-to-Business (B2B) leads and targeted customers, then LinkedIn would be the perfect social network for you.

**Google+** – This is another good social network for reaching out to early adopters of new businesses as well as reaching out to the B2B and general social media user. Business owners should however learn how to make a good presence at Google+ as this may be a great factor that will influence how SEO will behave in the near future.

**Pinterest** – This social network is great if you're focusing on visuals for promoting your brands and products. Majority of users are also women so if these are your market, then SMM on Pinterest will be good for your business.

## 2. Content Marketing

Content marketing is the art of using storytelling and valuable information to increase brand awareness with the goal of getting your target audience to take a profitable action. Content marketing aims at building relationships with potential customers and becoming a partner rather than an advertiser.

Content Marketing strongly relies on content distribution. Content marketing can rarely be seen totally separated from other types of digital marketing that can fill the content distribution part.

### **3. Search Engine Optimization (SEO)**

SEO is the process of optimizing content or websites so that they show up in search results in search engines like Google. Search engines decide which websites to show for a search term based on keywords mentioned on the website and links that refer to this website. That means SEO has a lot to do with using the right keywords or keyphrases in the copy of a website or within the content you want to show in search and getting links to this website or content. There are multiple strategies for optimizing your website(s) for search.

There is a strong connection between content, social media marketing, and SEO. The most obvious is that social media and SEO are perfect distribution channels for content.

### **4. Search Engine Marketing (SEM)**

While SEO describes the process of getting unpaid traffic from search engines – SEM refers to the paid traffic from search engines. The most common form of search engine marketing is probably Google Adwords for the simple reason that Google is by far the most used search engine.

In SEM the marketer usually pays the search engine a predefined amount of money for showing a marketing message at various places within the search results for specified keywords or phrases.

SEM is a form of Pay-Per-Click advertising.

### **5. Pay-Per-Click Advertising (PPC)**

Similar to SEM other forms of PPC advertising also describe marketing methods where the marketer pays for each click on a link to a website. Apart from search engines, almost all social networks offer the opportunity for Pay Per Click advertising. These ads then appear in the feed of the targeted social media users.

Note that many of these activities cannot be clearly separated. The lines between the various types of digital (online) marketing are often blurred.

## **6. Affiliate Marketing**

Affiliate marketing is a performance-based type of digital marketing. In contrast to PPC advertising with affiliate marketing, the advertiser does not pay for traffic but rather for conversions. The rates are usually higher but the risk on the side of the advertiser are limited since he only pays for conversions.

Affiliate marketing is popular with bloggers and high-traffic website owners who make money from selling other people's products to their audience.

## **7. Email Marketing**

Email marketing is one of the best converting marketing channels. By sending regular updates to your email subscribers you can build and nurture a relationship. By providing value with your email updates you can build trust – eventually, you will be able to turn a percentage of your audience into customers. Note that email marketing is far more than buying an email list and bombarding them with promotional messages or a one-time advertising spot in someone else's email newsletter.

The best results from email marketing will always be achieved with a list of subscribers you personally earned and nurtured. Then your email list can easily turn into your best digital marketing asset.

For your digital marketing strategy you should also know about the most important offline digital marketing types:

## **8. Radio advertising**

Those breaks in your favorite music program where someone tells you what car to buy or what cleaner to use. Some of these spots can be rather annoying, a select few manage to be entertaining – at least when you hear them the first time.

There is still more to radio advertising: For instance, you can sponsor a program and

## **9. Television advertising**

It is not dead yet: The spot that breaks up your favorite television program. While we are more and more getting used to finding ways to omit having to actually watch TV commercials there is still some marketing success in TV advertising.

What you need to keep in mind is that advertising via TV offers very limited targeting options.

There has been a huge development in radio and television in recent years and there are such things as **digital** radio and **digital** television. The options for marketing with **digital** adds a ton of options that former non-digital radio and television did not provide. That is the reason why **digital** radio and **digital** television have a rightful spot in this list of digital marketing types.

## 10. Mobile Phone Advertising

Of course, many of the above types of digital marketing can take place on your mobile phone. You are probably using Facebook, Instagram, and Google on your mobile phone after all. But there are some other types of marketing on your mobile phone that so far would not fit into any of the mentioned categories.

SMS advertising has been around for some time now. And with technology like Bluetooth still on the rise, the marketing and advertising options for mobile especially in local marketing have by far not yet been fully leveraged.

## Areas to consider when choosing your digital marketing campaign

The digital marketing channels listed above are available for business owners to use independently or as part of an overall digital marketing campaign. The key here is to plan your campaigns well by taking careful considerations of some vital aspects as will be discussed below:

1. Define your primary company goals for using Digital Marketing channels.

Some of these goals that your business may be rooting for includes:

- a. **Brand Awareness** – This includes greater company or product name recall as well as familiarity with your business, brand, products and services. If this is your goal, you

should make use of digital marketing channels that provide strong brand awareness and development like the following:

- Social media channels particular Twitter, Facebook and Google+.
  - Engaging with targeted audience through social channels.
  - Channels that promote visual elements like Instagram and Pinterest.
  - Channels that promote video materials like YouTube and Vimeo.
  - Promotional campaigns with coupons.
  - Joint venture marketing projects with other online businesses.
  - Participating in online and offline events.
- b. **Lead Generation** – Many businesses make use of digital marketing mainly to generate leads and connect with potential customers. Generating leads for them is just the first step and they will follow through by communicating directly and engaging with these leads.
- c. **Educate Potential Customers** – Some businesses involve relatively new products and services that are very promising in their potential but still does not have an established market segment that are familiar or even knows that the product is already existing. Digital marketers in this segment should go for educating their targeted customers first, particularly in making them realize the importance of the products/services and the problems that they can resolve. Blogging, press releases and content marketing will be ideal for this purpose.
- d. **Generate Traffic** – Many websites do not really have something to sell and may in fact giving away information and other materials for free. Many of these sites however are publishers of online contextual and display advertising as a way of monetizing their sites. In order to generate revenue from these ads, websites will need a considerable amount of raw traffic that will click on these ads.

## 2. Define your budget allocation.

Defining what digital marketing channels to use will also help identify the budget that you will set aside for pursuing these campaigns. Budget allocations may include the following:

- Fees for digital marketing manager and staff

- Paid advertising budgets
- Payment for content creation services
- Fees for graphic artists, photographers and videographers

### 3. Identify Your Available talent.

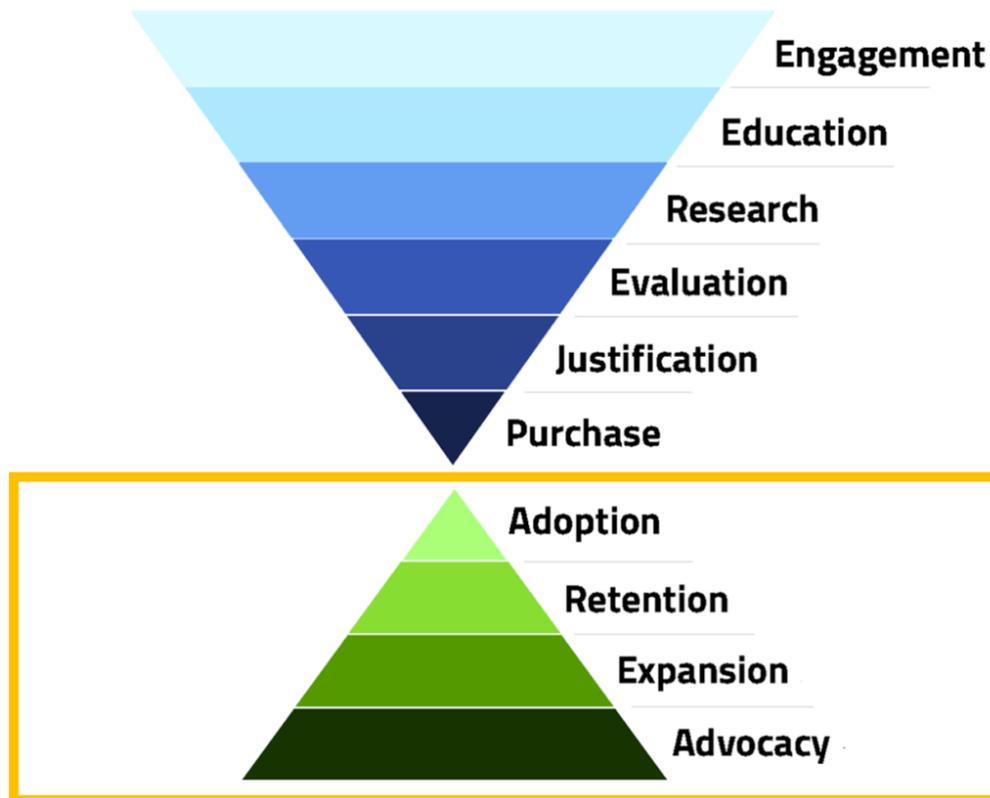
Maintaining a digital marketing campaigns will require the use of personnel with a certain level of skills and knowledge on various aspects of your channels. You need to identify these to establish if your in-house resources would be sufficient for the job or will there be a need for outsourcing. These skills should include:

- Development Skills – for your website design and development needs.
- Creative Skills – includes both writing and visual creation skills.
- Search Skills – talent needed for search marketing.
- Social Skills – talent needed for engaging potential customers through social media.

When establishing a Digital Marketing Campaign for your business, you cannot rely only on a single resource to generate all the results you wanted. While each of these digital marketing channels have their strengths, they also have their weakness such as being inappropriate for certain audiences and business niche. The best way would be to rely on combining these tools and channels at your disposal and making use of what they have to offer that will help you reach your end goals.

## Digital marketing customer Journey

The journey of the customer in digital marketing can be summarized as per the figure below. Each stage is further described.



### Engagement Stage: Brand Awareness

The engagement stage is about casting a wide net and delivering value to our audience (though it's important to note we want to make sure not to cast too wide of a net – we need to make sure we're attracting a qualified audience.) This is the only stage that is not directly connected to the problem, solution or product. The objective is for customers to find us, have a positive interaction with the brand, and for them to be open to engaging with us more in the future. That's it.

### Education Stage: Problem Identification

The objective is for customers to come to the realization that they have a problem for which they need to find a solution.

### Research Stage: Investigate Solutions

“What solutions are available? What factors should I consider? What alternatives are there?”

The focus is still mostly on the solution more so than the product just yet. Key benefits, capabilities and differentiators are all things you’ll want to communicate here, but there are tactful ways to go about this without making the product the central focus. In addition, at the research stage it’s also important to simultaneously reaffirm the value/need for the solution – “why do I need the solution even more than I realized?”

### **Evaluation Stage: Assess Satisfaction of Needs**

“Does this product solve my problem(s) and meet my specific needs & requirements?”

From this stage forward, the focus is on the product/service. Here we’re talking value propositions, features/capabilities, technical specifications, use cases, how it works, etc. This might be the product section of your website, a free trial, or even a one-pager for a trade show. Having done some research, at this point customers often have developed somewhat of an internal checklist in their minds for key items they are looking for in a solution. At this stage, our job as marketers is to understand what the line items on that internal checklist might be for different customer personas, and make sure they are all easily crossed off.

### **Justification Stage: Justify & Quantify Value, Internal Buy-In**

“Why do I really need this now? Why should I choose these over alternatives? How can I get my boss and team members on board?”

If a lot of your leads are not converting to opportunities, or opportunities are not progressing, you may have some work cut out for you at the justification stage. ROI, differentiators, social proof, flexing brand strength are all examples we want to cover here. Here’s where you will get that classic sales objection “it’s not a priority, or not a good time” – which we all know often just means there’s no urgency because the customer hasn’t been able to quantify the value. Internal buy-in is a critical component of this stage, and the journey in general. The prospective customer may even be sold at this point, but in many cases unless their boss and other internal influencers/stakeholders are on board as well, the deal is not going close.

**Purchase Stage: Transaction and Transition Factors**

“How do I get it? How difficult will it be for me to implement and change my current process?”

This stage is a big one that can often be underestimated. As we near the point of purchase, some new questions, concerns, objections and blockers can start to materialize the closer the possibility of a purchase gets to reality. Fear of the perceived overhead cost of change can especially be a steep barrier that can end up a deal breaker. It can be much safer to accept the status quo than to put your neck on the line as the champion behind a major change with a risk of high cost or failure. Switching marketing automation or CRM systems for example would be a MAJOR transition for a lot of companies that would require an enormous amount of time, energy and resources. In order to get over that hump, customers need to feel confident in how you will be able to ensure a smooth transition.

**Adoption Stage: On-boarding and Implementation**

“How do I successfully implement, get training, and start realizing value asap?”

When a new customer comes on board, it's crucial that they are able to get up and running as soon as possible and start realizing value, if you've promised a smooth transition in the purchase stage, now is the time to deliver on that promise. A rocky start may cause customers to second guess their decision, and it can even lead to churn if the adoption process is too painful or drags on for too long. Product Documentation, How-to guides and tutorials, training materials, success checklists, kick-off meetings – all common examples that can come into play at this stage. Customer success teams are crucial, as they work closely along with internal customer champions to ensure they are getting up to speed and the solution is remaining a priority.

**Retention Stage: Satisfaction & Success**

“Am I seeing value adds? Can I see long-term relationship? Why do I love being a customer of this company?”

Above all else, we need to make sure customers are being successful and achieving their goals with our product/service, communicating that success properly internally, and “feeling

the love” at all times. Authenticity is also key – customers should see that you genuinely care and want to help them be successful. The more we are able to deliver value and show customer love here (and do so without a string attached,) the more we are setting ourselves up for customers to return the love in expansion and advocacy stages. You reap later what you sow now.

### **Expansion Stage: Upsell, Cross-sell**

“What additional value can I get from this company? What other problems can you help me solve?”

If successful at each stage up to this point, you’ve earned a customer’s trust and at this stage they are now ready for an up-selling or cross-selling conversation, whether that be add-ons, upgrades, additional users, other products/services etc. If you’ve been really successful at each stage up to this point, when your customers have a problem, they will come to you first to see if you have a solution before looking to competitors. Either way, from a marketing perspective our job is to make it easy for customers to discover these ways they can expand their business with you, and be prepared to answer their questions and clearly communicate the value they would get from doing so.

### **Advocacy Stage: Loyalty & Evangelism**

“What can I do to help?”

Advocacy is the ultimate destination of the customer journey. A Brand Advocate can be defined as a customer who talks favorably about a brand or product, and passes on positive word-of-mouth messages about the brand on to other people. They will often be the most likely to give you more of their own business, and get you referral business with their contacts inside and outside of their organization. Their endorsements, testimonials, and willingness to spread the word about your brand can influence countless others. These are the first ones to volunteer to be on sales reference calls to jump on the phone and help close deals. When they transition to a new company, they might even bring you with them. Developing a relationship with a customer that results in advocacy can have the greatest potential ROI of any “lead” you generate.

But the work is still not done. Now that a customer has become a brand advocate, the objective becomes making sure they remain happy, keep them educated about the company's direction and vision, and are finding opportunities to leverage the customer's willingness to help. Special treatment of course is often a good idea here – gifts, special invitations, praise, and keeping a close personal relationship.

## Marketing Plan

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The market conditions and strategies that are employed to achieve your target sales income and the marketing /sales targets should be included into your marketing plan. It will be more suitable to first collect your information according to the nature of your business and then formulate your marketing plan.

If it is an existing business it is appropriate to measure the current sales and marketing conditions of your business. Prioritizing and analyzing the following information will guide you to make a correct marketing plan.

1. What is your sales income in the last year/two years?
2. The profit ratio for last year
3. Individual sales income for each item and the percentage breakdown?
4. Information regarding high sales income months and low sales income months
5. If recorded, note the sales volume and transaction figures
6. Statistics regarding distribution- distributors, number of retail salesmen, sales expansion in different areas/regions
7. Promotional expenses and details of promotional expenses vs sales expansion

A proper analysis of the past performance of your business will lay the foundation for your plan. This will help you determine how you need to change the situation for the next year.

## Components of a marketing plan

1. Marketing objectives - Think deeply about achieving the marketing objectives planned previously. Formulating correct sales targets to achieve the objectives is achieved in this section.
2. Market study - finding factors of the changing market conditions that affect your business, collecting data through research and analyzing them in depth are the main objectives in this section. You could focus on the following areas for the above;
  - i. Target customers or demand
  - ii. Analysis of the competitors
  - iii. Changes in the market environment
  - iv. Market area
  - v. Demand estimate
3. Sales Planning - setting monthly and yearly targets for your business takes place here. First estimate the production and multiply by the sales price to find the sales figures. If it is a service organization, sales - income figures are derived by estimating the monthly customer numbers. If there are several services, the individual monthly percentage increase is worked out and monthly estimates are calculated.
  - i. Sales plan (Monthly units/value in Rs)
  - ii. Sales plan (Annual units/value in Rs)
4. Marketing promotion process - Planning the marketing promotion process to achieve the previously set sales targets is achieved in this section. It involves finding solutions to the following questions;
  - i. What changes are required in products/services to fully satisfy customer needs and expectations?
  - ii. What are the pricing mechanisms to increase sales?
  - iii. What are the distribution systems required to maintain the sales increase at a higher level?
  - iv. What are the strategies required for increasing sales, encouraging and raising awareness amongst consumers and customers?
5. Marketing expenses budget - Budget the expenses that will be incurred in promoting and increasing sales of each product monthly and annually.

## Customers

A soft drink company in the western province conducted a research involving 1200 customers. The consumers responded to the satisfaction level derived from consuming the soft drink. The customer feedback was provided with regard to the taste, smell, colour, finish, volume and packaging. 42% replied that their satisfaction was very low. 30% of the sample said that their satisfaction was average. Only 21% said that their satisfaction is very high. Only 7% said that they were extremely satisfied.

Don't the above findings of the consumer satisfaction levels of the soft drink of the company reveal that they are about to go out of business? You need to analyze your business in the same way. Irrespective of whether the feedback is positive or negative the important thing would be to measure correctly and plan accordingly. If the planning is based on assumption or the past narrative of the entrepreneur, then those business plans remain a futile document. If your business is a service oriented business then you should rethink of your organization's customer service. It is clear that you are losing a huge income daily. Therefore plan to build a business with a high income through excellent customer service.

### Find the real customer of your business

Is the customer a person who comes to buy goods? Or is he a trouble maker? When you are conducting a business planning exercise before you do anything, give a new definition to your customer.

The customer is not simply a person who buys goods from you. We need to identify him as the most important business partner and the one that gives you a helping hand to develop your business. While he provides valuable feedback and suggestions he is the advertiser that does not charge you a fee. That is why the experts conclude – “a satisfied customer is your greatest advertisement”.

Assuming that a customer is an individual is a myth. Every customer has a network of customers. The customer experience is shared amongst his or her family members, friends and acquaintances, relatives and neighbours. The satisfaction or disappointment of the customer after consuming your products will be communicated to a large group of people

and this is a normal process. In addition through the popular social media of today, negative experiences of consuming your products will spread like a wild fire in a matter of several hours amongst a large group of people. The short term and long term income loss (drop in turnover) could run into millions.

#### Unseen Disaster

- 70% of the customers that are not satisfied with the customer service will move to other products or businesses without ever complaining to you?
- Through the mistakes or negligence in customer service, you and your workers ignorantly bring down your business in the face of the customer. It is as good as promoting your competitor instead of promoting your own business?
- Do you know that an unsatisfied customer will share their negative experience with at least 20 others?
- Have you calculated that the loss of income to you (based on the size of your business) for a year could be anywhere from 100,000 to over 1,000,000?

The world's largest and permanent businesses have been built by entrepreneurs that consider the customer as a partner. When you are building your business for tomorrow why should you center it on the customer?

1. To exceed your customer expectation without stopping at satisfying them
2. To increase your business income sustainably
3. To build the image and reputation of your business
4. To strengthen your income
5. To establish a stable customer base
6. To consistently maintain a higher income level

If you are maintaining a manufacturing industry, you could identify your customers that purchase your goods in three ways;

- End consumers
- Intermediary retailers
- Wholesalers

If it is a service organization you will directly sell to the end consumer. Based on the income you can categorize consumers that make large purchases and small purchases. The important thing is that needs and desires of each consumer category will be different. First,

think to whom are you selling your products and services? Since the needs of each category are different it will be useful to research them separately.

### Example:

Nayana has identified two categories of consumers for her yoghurt industry. She has done a simple research and has tabulated the following information;

Target consumers of “Meevitha” Yoghurt

End consumer	Consumer preference and need
Children that like milk products, youth and middle aged	<ul style="list-style-type: none"> <li>• Jelly and fruit taste</li> <li>• Yoghurts with different colours</li> <li>• Prefer to eat in the mornings and afternoons</li> <li>• Prefer the sweet taste and the fruit taste</li> </ul>
Those who have excess sugar and those who consume fat free products	<ul style="list-style-type: none"> <li>• Attentive to the attractive packaging</li> <li>• Searches for yoghurts made with local milk produce</li> <li>• Asks for both types - sweetened and unsweetened</li> <li>• Consumes as a dessert after lunch</li> <li>• Does not like to take yoghurts in the night</li> <li>• Uses yoghurts to serve visitors</li> <li>• Concerned about health</li> </ul>

Nayana discussed these findings with the yoghurt production team. Therefore, the production changes were incorporated during the production planning.

### Present and Future customers

You can identify the customers of a business separately as present and future customers. Customers and consumers that are currently purchasing from the business enterprise is called present customers. Currently those who are not coming to us but purchase similar

services or products from other businesses are called future customers. We need to plan various types of sales strategies to maintain existing customers as well as add new customers. The real future development of your business relies on your ability to fulfill the needs and expectations of the customers.

**Example:**

The way a business has estimated their present and future customers for two products.

	Product 1	Product 2
Current customers	750 monthly walk in	4,400 monthly walk in
Future customers	3,000 visiting other enterprises	11,000 visiting other enterprises

### Intermediary customers

Most people produce goods and take it to the market and sell the items through intermediary businessmen. Therefore, these buyers become your main customers. They do not consume your goods. But they also have a lot of expectations. They may look at larger commissions, competitive pricing, product finish and quality more than the consumer needs.

**Example:**

Nayana found out about her intermediary customers. Based on what they shared she has come to the following conclusions. Previously she had only 16 customers.

Intermediary	Today	Future	Common preferences and needs
1. Hotels in the town	9 7	20 22	• Inquire whether they have an attractive packing
2. Retail shops	0	6	• Request a commission of more than
3. Institutional canteens	0	12	Rs 6/= per unit
4. Pharmacy			• Expect uninterrupted supply
			• Payments to be collected from bill to bill
			• Expect to return the expired items
			• Greater preference to sell Highland/New Dale

Monthly total	16	60	2,000 normal yoghurts
market demand estimate			2,000 fruit yoghurts

- When the above two categories were complete Nayana was able to come to a basic understanding regarding the future demand. Closely study the consumers and customers in your business.

### Analyzing the competition

There is a saying that “The best teacher of a great business is the competitor”. Along with our products we need to find the specialty of the competitors’ products and the consumers idea regarding the products.

**Example:** There are over hundreds of products to quench thirst. Water -including tap water and bottled drinking water, sweet drinks, fruit drinks, Coca Cola and many others are produced to the market. If you have a fruit drink enterprise, inquire about the companies that supply fruit drinks. Similarly, inquire about the other products available to quench the thirst. By finding the competitors of these two categories you can formulate strategies to develop our business.

### Process – 01

To inquire about the competitors of your business follow the basic steps given below;

- Note down the competitive alternatives for your products/services
- Find the unique qualities of the competitor’s products individually, find the good and the bad.
- Find the special strategies used by them. Think - why do they use it?
- Make a list of the weaknesses and negatives of each competitor products
- Find out why the consumers like the competitor’s products
- Compare the findings with the relevant products and your organization
- Prepare a list of strategies that will suit your business

## Process – 02

There is another successful method to find about your competitors. Use the following table and evaluate the good and bad. You can compare two of the main competitors of the current market using this exercise.

- a. To make it easier select two of the main competitors of your products.
- b. For the given areas rate in one of the following values;
  - Excellent = 10
  - Extremely good = 7
  - Good = 4
  - Average = 2
  - Poor = 1
- c. Indicate your rating on the right hand columns
- d. Based on the above you can figure out what rating you receive for your products/organization
- e. It is important to be honest in this evaluation and to not over value yourself.

Qualities	My business	Competitor - A	Competitor - B
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1. Price
2. Goodness
3. Size/Weight
4. Quality standards certification
5. Security/Health/Taste
6. Popularity for the brand name
7. Shape/Colour
8. Packaging/Finish
9. Smell (if available)

## 10. Sales discounts available

**Total**

- Excellent = 10
- Extremely good = 7
- Good = 4
- Average = 2
- Poor = 1

**Process - 3**

If it is a service organization use the following table;

Qualities	My business	Competitor - A	Competitor - B
1. Trust/Quality certification			
2. Service expansion system			
3. Owners specialist knowledge			
4. Popularity for the brand name			
5. Price and sales discounts for consumers			
6. Customer treatment/service			
7. Comfort in the location			
8. Workers expertise			
9. Speed/ efficiency			
10. Pleasant/ attractiveness			
<b>Total</b>			
• Excellent = 10			
• Extremely good = 7			

- Good = 4
- Average = 2
- Poor = 1

### Process – 4 (SWOT analysis)

There is another unique way of evaluating the competition and other related factors that will have an impact on the future of the business. This is called the SWOT analysis. Thousands of business people use this tool to scan their businesses. It measures the **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats of the business for the future. The exercise will only take a few hours but it will be extremely useful for your business. It will be appropriate if you could obtain the services of an external person that is knowledgeable about business to facilitate.

a. First take two A4 sheets of paper and list your business strengths and weaknesses on one paper

b. List your future business opportunities and threats

c. Prioritize the strengths, weaknesses, opportunities and threats by assigning a number based on the importance or severity.

d. Identify your strengths in the business as well as weaknesses that you could quickly change

e. Then you can separate the market opportunities and the severe threats

f. Plan the strategies that you require to face the market competition in the coming two years.

<h2 style="margin: 0;">STRENGTHS</h2> <p style="margin: 5px 0;">What is the USP of my business?</p> <p style="margin: 5px 0;">In which areas are we better than our competitors?</p> <p style="margin: 5px 0;">What have our success stories been so far that has made us stand out from the crowd?</p>	<h2 style="margin: 0;">WEAKNESSES</h2> <p style="margin: 5px 0;">What are we lacking compared to our competition?</p> <p style="margin: 5px 0;">What resources do we require?</p> <p style="margin: 5px 0;">What sort of skills do we need to work on?</p>
<h2 style="margin: 0;">OPPORTUNITIES</h2> <p style="margin: 5px 0;">Is there something that our target audience is looking for that we can provide?</p> <p style="margin: 5px 0;">Are there any potential market areas that we haven't reached yet?</p>	<h2 style="margin: 0;">THREATS</h2> <p style="margin: 5px 0;">What are our competitors doing that we are not?</p> <p style="margin: 5px 0;">Are there any government regulations that could hamper our business?</p> <p style="margin: 5px 0;">Do we have all the technologies in place to keep up with the ever-changing market?</p>

We use all of the above tools to measure the competition and other factors of our business. Try to uncover the threats that we may have to face in the future. You could find solutions through the marketing strategies as well.

## Sales targets

After finding about your consumers and competition of the business let us prepare sales targets for the coming year.

Your need is to increase the income and profit of your business. Sales income is one of the main tools used to measure your business progress. The next step in the plan is to include the sales targets.

### Process – 1 Preparation of sales targets

- a. Think of conditions that are very different to the present state and concentrate on higher sales targets.
- b. Remember very clearly the objectives and targets prepared previously.
- c. Think clearly about the market demand estimates that was prepared previously as well as the sales conditions of the previous year.
- d. Clearly identify the situations and reasons behind the monthly sales increases and decreases.
- e. What was your sales income of the last month in the previous year? Start with a target above or close to that figure for the first month of the New Year.

**Example:** Nayana prepares her sales targets for the coming months as follows;

Today's present sales is 1,500 units. She plans to increase her sales to 5,000 units a month and her production capacity is 3,000 units a month. The production capacity is to be increased to 5,500 units in the second half of the year. Sales is low in the months of October- November since the demand is less during the rainy weather season. However,

since there will be an addition of 20 retail shops for sales in the coming three months the sale can be increased to 2,600 units. Therefore, the sales target in October which is considered to be the first month of the year is set at 1890 units.

#### Monthly sales units and estimated income forecast for Nayana's yoghurt business

Description	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Normal	1260	1575	1575	2100	2100	2100	4200
Fruit	630	1050	1050	1575	1575	3150	2100
Sales units	1890	2625	2625	3675	3675	3675	7350
Sales income	<b>41580</b>	<b>57750</b>	<b>57750</b>	<b>80850</b>	<b>80850</b>	<b>80850</b>	<b>161700</b>

Notes – the real sales figures of the last three months of the previous year was between 1300 – 1500 units. Breakeven point is 773 units. Average price is Rs 22/=. Sales is expected to double in April. Forecast the percentage of sales increase possible in comparison to the first year. It will be worthwhile to estimate for two more years based on the above.

### Planning the sales mix



The main aim of the marketing plan is to plan strategies to achieve the monthly and annual sales targets. We need to find the correct answers to the following;

- Product - How should we present goods/services in order to fulfill the consumer needs and expectations at the highest level? What changes are required?
- Price - What are the competitive pricing methods to suit the consumer group that is generating a higher income?
- Place – what are the distribution methods to supply products/services to more consumers that will increase income
- Promotion – What are the methods of creating awareness amongst customers and consumers, encouraging them and increasing sales?

This is the mix that will increase your sales – Product, Price, Place, Promotion.

### Products/Services

In order to achieve a higher income, products and services will have to be created, changed to suit the taste of the consumer. In order to increase sales, the products need to have a high quality finish to compete with the competitor's products. Products have to be produced in various sizes to meet the purchasing power of the consumer group that you serve. We can focus on many areas such as packaging, trust, weight, smell, colours, size, shape, special facilities, technical innovation, health safety, environmental friendliness, ease of

transport and after sales service. However, we should only concentrate on strategies that will increase our sales.

**Example 01:** let us look at the product strategies of Nayana's Yoghurt enterprise

Normal yoghurt	Packaging	The lid and the cup includes the business logo, colour combination is blue and purple	Environmental protective label and instructions, nutrition information, production and expiry dates, registered number, number given for customer complaints
	Size	90 g cups and 300 g cups	
	Colour	Plain - no colour	
	Smell	Vanila and fresh milk	
Fruit Yoghurt	Packaging	The lid and the cup includes the business logo, colour combination is blue and purple	Environmental protective label and instructions, nutrition information, production and expiry dates, registered number, number given for customer complaints
	Size	90 g cups and 300 g cups	
	Colour	Coloured fruit pieces	
	Smell	Fruit smell	

Steps taken by Nayana to improve the quality of production

- Production date and the expiry date is clearly stated
- Production registration number is clearly mentioned
- When handing over to shops sorting is carried out according to refrigeration display requirements and date of expiry.

- d. All items that are nearing expiry and or expired are taken off the shelves and removed from the shops before the due date.

### Example - 02

Sadun is conducting a hair cutting and hair dressing service enterprise. He plans to double his income in the coming year. He has planned the following to improve the quality of service.

- a. To create a situation where customer interactions are friendly and respectful. (He has received complaints that it is not so)
- b. Using clean towels and cleaning the chairs and the surrounding
- c. Sterilizing all equipment regularly
- d. Insisting on staff cleanliness and making clean white uniforms compulsory
- e. Total head massage to be carried out as a separate service.
- f. Start new services for hair curling, straightening, dyeing and shampooing.
- g. Providing a free face wash when taking a hair cut and a shave
- h. To create a space for waiting customers with chairs and a TV

In a service organization we should plan not only for the specialized service but to also change the way we offer the service.

### Pricing method

Pricing means more than fixing a sale price, it is controlling the price in a way to increase your sales. The price will change based on the nature of the consumer category and their requirements. What is required is to find the correct pricing formula. To increase your sales income you as an entrepreneur need to have an expert skill in handling the prices in the market. We have a misconception that “you can develop your business by selling for a low price”. This is wrong. Instead we have to use competitive pricing strategies under different prices. Eg. During the 1980-1990 the number of consumers using shampoo was limited. The reason was the high price of a bottle of shampoo. The small sachet packets that were introduced subsequently are now selling fast. The number of consumers using shampoo has increased. However what has happened is that instead of reducing the price of shampoo, a smaller quantity has been provided at a smaller cost to be within the purchasing power of the consumer category. However the price paid for shampoo has increased.

Process: Draw your attention to the main points given below in formulating a successful pricing strategy.

- a. Calculate the cost of the service or product which is the expenditure. Similarly calculate the maximum and minimum profit of each unit.
- b. Find the market prices and the price of competitive products.
- c. Find the whole sale and retail prices and the quantities purchased by the different buyers.
- d. Find the price consumers are willing to pay. Change the price based on cash or credit sale.

**Example 1:** Nayana's pricing process in the sales plan is as follows;

- a. Wholesale and retail prices have been marked to suit the competitive prices of the market.
- b. Wholesale prices are marked retaining a profit of 21% more than the expenditure. Retail has been priced retaining a profit of 33%
- c. Shops have been allocated extra commissions based on quantity and cash purchases. They are provided commissions in excess of 5%.
- d. According to the agreement with the retailers, one free yoghurt is provided for purchases of over 20 units.

**Example 2:** Sunil's gingerly seed sweet business used to supply a packet of 20 pieces for Rs 65.00 to the shops. According to his new strategy he has decided to supply shops with bottles of 50 pieces and 100 pieces. He is selling a bottle of 50 pieces for Rs. 200.00 and a bottle of 100 pieces for Rs 360.00. According to his new pricing strategy in the New Year he will be selling at Rs 3.60 to 4.00 for a piece that was sold at Rs 3.00 previously.

### Place of Distribution

By positioning the distribution we get an opportunity to provide goods or services to a larger number of customers. Similarly you can influence customers to purchase more. How do we deliver the goods or service to the consumer? We have to find a valid answer to this question.

If you are a producer, according to our knowledge there is a fully functional regional sales network that delivers products to the consumers around the country. The shops and distributors network is placed above that and is functional throughout the day. You increase your sales income by joining these networks. This will happen when you connect to the networks.

However, if it is a business that provides a service or sells goods from one location then there is no distribution involved. Then the concentration will be to establish the business in a place that a larger customer group could comfortably reach. First you need to carefully find out the places where your target consumers congregate.

**Example 01:** Nayana's Yoghurt enterprise

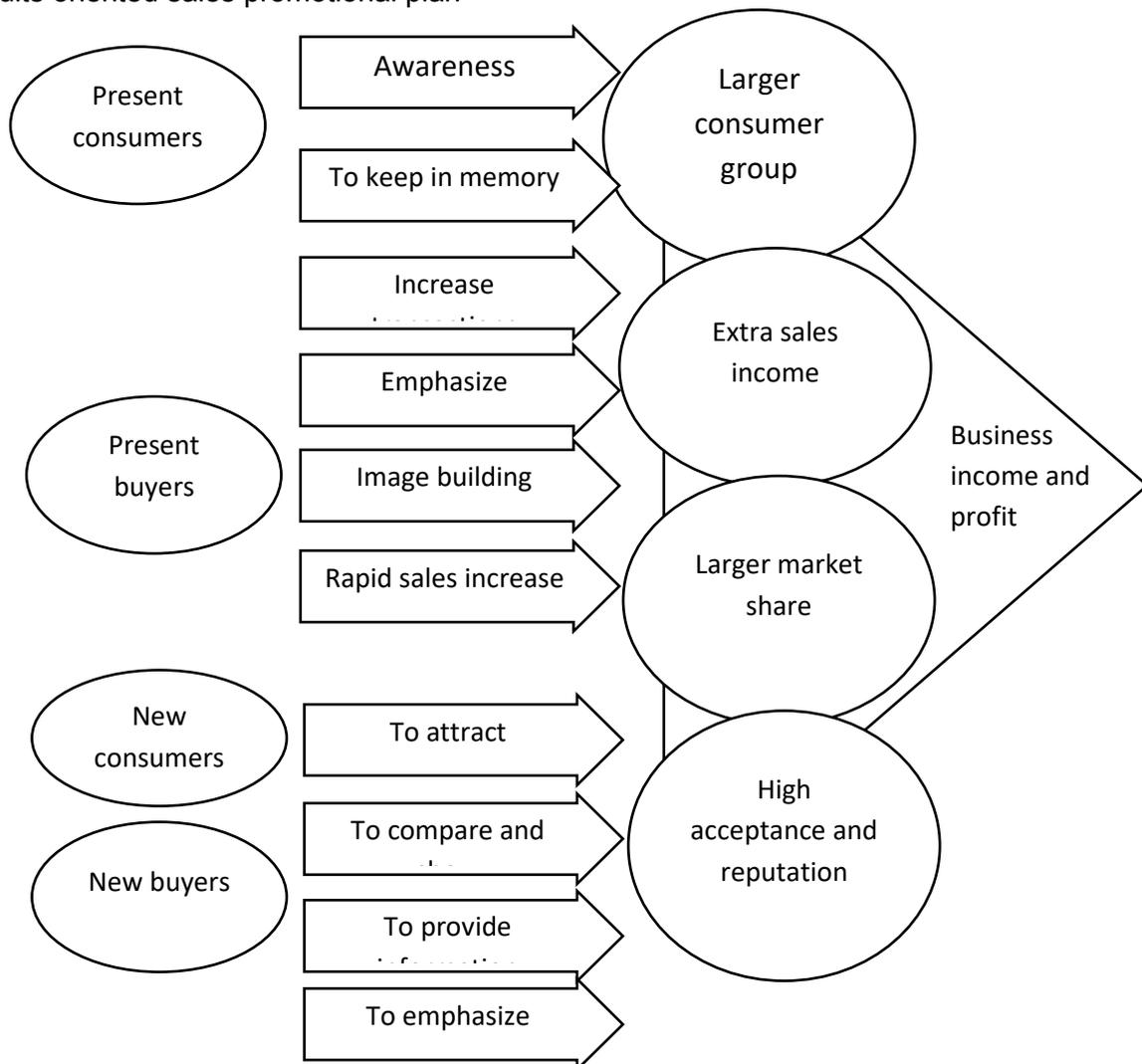
- In the first round, supply a limited quantity to all the shops in the area.
- The total market to be segregated to 4 routes and distribution separated according to routes.
- Deliveries to be carried out a day before the other producers reach the market.
- Yoghurts to be prominently displayed in the refrigerators.
- Stocks to be supplied on time and stocks to be maintained.

If you are a service organization, most of the time the consumer will directly obtain the services from you or your workers. Or the service could be mobile. However, consider expanding your services by opening more branches, appointing agents and using new technology.

## Promotional Mix

Marketing promotion includes all types of work carried out to retain existing consumers (or customers) and to bring in new consumers (or customers) to your business.

Results oriented sales promotional plan



By promoting your business and service or products you are able to achieve several targets.

They are namely;

- Periodically create awareness about your products amongst the general public.
- Keeping the services and products of the business in the memory of the public.
- Highlight the product specialties and benefits.

- d. Influence the consumer to make quick purchases etc.

If you want to achieve your sales targets, you need to plan your sales promotional events targeting a large consumer base. In today's competitive market it is difficult to imagine an existence for any enterprise that does not have successful sales promotions. Even if our business is small, it is advisable to conduct an effective sales promotion targeting the market area where the business is carrying out its transactions. Make a list of strategies that you could attract the most number of people incurring the lowest possible cost. Based on this decide the consumer numbers that you will be targeting. The promotional mix is the tool used by the business community today. A promotional mix with a simple idea is stated below;

Promotional mix	Example
a. Advertising	Handbills, paper adverts, name boards
b. Direct marketing initiatives	House to house sales, weekly local market system, "seetu" system
c. Personal selling	Customer service, agent services, personal sales such as life insurance etc
d. Popularity and people relationships	Sponsorships, community service events
e. Sales promotion	New year sales, group sales, exhibitions/outlets
f. Networking	Consumer societies, Agency networks, creating social networks

Service organizations could also choose from the promotional mix for effective and cost effective promotional systems. Effective systems will attract additional consumers to your business. By choosing cost effective systems you will reduce your promotional expenditure.

**Example 01:** The promotional mix planned by Nayana for her Yoghurt business is as follows;

Promotional mix	Expenditure
1. Design an attractive packing similar to new dale	Rs 22,000.00
2. Provide 2 X 1 feet posters to be displayed in 70 shops	Rs 10,000.00
3. Promotions amongst the weekly local market for 10 weeks	Rs 15,000.00
4. Canvass a wholesale order rom the nearby factory	-
5. Constructing two bicycle boxes for day to day sales	Rs 6,000.00

**Example 02:**

Promotional strategies to be implemented in Amal's education institute to increase student registrations for the opening courses in the New Year is given below;

Promotional mix	Expenditure
1. Advertising through handbills, paper adverts and name boards	Rs 50,000.00
2. Scholarship scheme for new classes	Rs 30,000.00
3. Free seminars	Rs 12,000.00

## 7 P's of marketing

Marketing is a continually evolving discipline and as such can be one that companies find themselves left very much behind the competition if they stand still for too long. One example of this evolution has been the fundamental changes to the basic Marketing mix. Where once there were 4 Ps to explain the mix, nowadays it is more commonly accepted that a more developed 7 Ps adds a much needed additional layer of depth to the Marketing Mix with some theorists going even going further.

The 4Ps were designed at a time where businesses were more likely to sell products, rather than services and the role of customer service in helping brand development wasn't so well known. Over time, Booms and Pitner added three extended 'service mix P's': Participants, Physical evidence and Processes, and later Participants was renamed People. Today, it's recommended that the full 7Ps of the marketing mix are considered when reviewing competitive strategies. The 7Ps helps companies to review and define key issues that affect the marketing of its products and services and is often now referred to as the 7Ps framework for the digital marketing mix.

### The Marketing Mix 4 Ps:

- **Product** - The Product should fit the task consumers want it for, it should work and it should be what the consumers are expecting to get.
- **Place** – The product should be available from where your target consumer finds it easiest to shop. This may be High Street, Mail Order or the more current option via e-commerce or an online shop.
- **Price** – The Product should always be seen as representing good value for money. This does not necessarily mean it should be the cheapest available; one of the main tenets of the marketing concept is that customers are usually happy to pay a little more for something that works really well for them.
- **Promotion** – Advertising, PR, Sales Promotion, Personal Selling and, in more recent times, Social Media are all key communication tools for an organisation. These tools should be used to put across the organisation's message to the correct audiences in the manner they would most like to hear, whether it be informative or appealing to their emotions.

In the late 70's it was widely acknowledged by Marketers that the Marketing Mix should be updated. This led to the creation of the Extended Marketing Mix in 1981 by Booms & Bitner which added 3 new elements to the 4 Ps Principle. This now allowed the extended Marketing Mix to include products that are services and not just physical things.

The extended 7 Ps:

- **People** – All companies are reliant on the people who run them from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.
- **Processes** –The delivery of your service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for.
- **Physical Environment** – Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. For example a hair salon would provide their client with a completed hairdo and an insurance company would give their customers some form of printed material. Even if the material is not physically printed (in the case of PDFs) they are still receiving a “physical product” by this definition.

In some spheres of thinking, there are 8 Ps in the Marketing Mix. The final P is Productivity and Quality. This came from the old Services Marketing Mix and is folded in to the Extended Marketing Mix by some marketers.

The 8th P of the Marketing Mix:

- **Productivity & Quality** - This P asks “is what you’re offering your customer a good deal?” This is less about you as a business improving your own productivity for cost management, and more about how your company passes this onto its customers.



## Activities

### Games you could play - 1

This is a simple but powerful sales activity that can help you show value of your product/service to a customer requesting a discount or comparing your product/service to a lower priced competitor.

Pick a participant and hold out two objects (pens, pieces of paper, etc.). Offer to sell him one for Rs 1,000 and one for Rs 10. Ask him which one he would like. <<he will pick the Rs 10>>

Before you give it to him, explain a few things about the Rs 1,000 pen:

The Rs 1,000 pen is guaranteed for life. Even if you lose it, you can come back and get another one.

do you still want the Rs 10 pen?

If you show your pen at a gas station or movie theatre, you will automatically go to the front of the line – for as long as you own the pen.

do you still want the Rs 10 pen?

The Rs 10 pen will run out of ink in a week

do you still want the Rs 10 pen?

The Rs 1,000 pen retains 75% of its value – so you can sell it to someone else later on for Rs 750

do you still want the Rs 10 pen?

etc... (you can be creative and add value statements)

The point is that, eventually, someone will pay Rs 1,000 for a pen, proving that it is value, not price that drives decision-making.

## Games you could play - 2 (Throw the dice)

This is a very powerful yet a very simple activity with very strong points and important sales lessons to learn from :

Bringing a handful of dice , ask for 3 volunteers and hand each person only one.

Tell them that their target is to throw six sixes in 30 seconds and you will time them.

start your countdown and watch how frenzied it becomes when you start counting down loud near the end of the 30 seconds.

Key learning points from this quick activity:

- The more throws the more chances of hitting the six sixes. Selling is a numbers game , why wait till the deadline is near to start working and in our case here throwing 'selling' at full force? why didn't they start throwing 'selling' quickly from the start.
- One thing that could have really improved their chances in making the six sixes on time was if they used more dice. Ask them why didn't they ask for more dice? Linking this to selling shows the value of cross selling and up selling and asking ourselves what other potential exists? or how can I expand my sales mix to this specific customer and digging through other possibilities to increase sales potential.

You can expand more and uncover more examples and link this simple powerful activity to your sales situation. This exercise is mainly used for sales people, but can be used also in the context of proper time management and how to direct effort to maximize results.

## Analyze the collective strength of your marketing team

While not all employees may possess or excel at every skill, it's important to recognize the strengths and weaknesses of your team, then train or hire staff to better accommodate your needs, or outsource them to marketing agencies or specialists. Below are brief descriptions of the core factors that you could assess your team:

1. **Data Analysis:** There is a growing need to prove investment in marketing through ROI. Marketers must have strong analytical skills—the ability to interpret website and marketing data, gauge the success of a campaign, and communicate meaningful results. They must be able to turn information into intelligence, and intelligence into action.
2. **Public Relations:** PR encompasses any activity, online or offline, designed to improve communications and build relationships. This includes, but is not limited to: analyst relations, blogger relations, community relations, crisis communications, employee relations, media relations and public speaking. Marketing professionals with PR skills are valued assets in the modern marketing mix. How does your team measure up?
3. **Event Planning/Production:** How capable is your team at planning events for your business, networking purposes or other professional groups? Do they have connections with local vendors, venues and professionals? For event-focused organizations, this skill set is vital to executing a successful event.
4. **Graphic Design:** Visual storytelling is critical in modern marketing, and strong graphic design skills are key to enhancing the value and sharability of your marketing assets. Similar to coding/programming, teams need to either have capabilities in-house, or a trusted outsourced partner.
5. **Copywriting/Publishing:** Marketers must be strong writers, as they construct the messaging that represents your company. They must write grammatically correct,

with creative style, persuasively and concise, and accommodate style the given format, be it a website landing page, email or traditional press release.

6. **Video Production/Editing:** Video is one of the most visually stimulating ways to engage your target audience. Does your marketing team have these capabilities, or do they partner with a reliable vendor?
7. **Mobile Strategy:** We are constantly connected through mobile web browsers, social media, product and service apps, texting, and more. As smart phones continue to dominate the market and consumer usage rates increase, your team needs to have an understanding of how your company can make a play in mobile, and which format makes the most sense for your business and its customers.
8. **Social Media:** Social networks are critical to marketing and customer service. More than ever, consumers turn to social media to receive updates from brands, consult with friends and read reviews of the businesses they interact with. How well does your marketing team integrate social media with their communication plan, and respond appropriately on behalf of the brand
9. **Email Marketing:** Opt-in email marketing is an effective way to reach your customers, leads and prospects, and can be used to distribute action-oriented messages, including company announcements, product updates, new premium content and more. Effective email marketers understand the buyer's pathway, capture and target lists, segment messages for audiences, and tweak campaigns based on performance. How well does your marketing team integrate email solutions into their communication plan?
10. **Website Management:** Your website is a lead-generation and multi-media content publishing tool. It gives your organization the ability to build a strong brand online that creates powerful connections with audiences, and drives business growth. The goal of your site should be to connect with audiences, drive qualified website traffic and generate leads.

11. **Search Engine Optimization (SEO):** According to a study, consumers reference 10.4 sources of information before making a buying decision. Are they finding your company online? Does your marketing team have a keyword universe it utilizes to optimize website copy, social media accounts and updates, online listings, and PPC campaigns? How capable are they in driving inbound visitors to these channels through targeted keywords, and how does organic search impact your conversion rates and sales?
12. **Strategic Planning:** The best plan is to prepare for perpetual change. The range of possible marketing activities can seem endless. What a marketing team must excel in is how they all work together as part of an integrated, strategic plan. How well does your team conceptualize the marketing strategy, select a course of action and determine upfront what the core KPIs of that program will be?

### Sales skills:

The sales profession is undergoing some pretty radical changes. The buyer is in charge, field sales is moving inside, technology is transforming the profession. It's so bad that some people are predicting that 15M sales jobs will disappear in the coming years. To survive in this environment, salespeople need a new set of skills. A core set of sales skills have been suggested by analyzing these trends and watching what makes some of the world's best salespeople successful in the new sales environment. A salesperson should consider themselves as working primarily for their customers/clients, no matter who signs their pay checks. Your customers are the people who should matter most. Remember relationships are the key, and once you have established the relationship you have a long term customer who will have needs in various other fields, products and services.

### UNDERSTANDING THE BUYER

The most important of today's sales skills is simply understanding the buyer. It's the foundation of effective selling. But it involves more than just understanding who the buyer is. "This isn't just about knowing what brand of coffee the buyer drinks". Instead, it's about identifying the experience that the buyer wants to have as they consider making a purchase

in your market. Your buyer has a set of expectations about that experience and your job as a salesperson is to exceed those expectations. You can't exceed them if you don't understand the experience that the buyer wants to have.

## **BUYER-RESPONSIVE SELLING**

When a salesperson understands the buyer, they can engage in what's called buyer-responsive selling. The idea here is to provide the buyer with what they want, when they want it. For example, if your buyer needs a trial to evaluate your product but can't allocate more than 30 minutes to it, give them a free trial. But don't just give them any free trial. Give them a free trial that is easy to set up, easy to use, and really demonstrates the value of your product in five minutes or less. One other point – buyers like salespeople who have skills!

## **THE PSYCHOLOGY OF BUYER ENGAGEMENT**

It's remarkable how few salespeople know how to use psychology to more effectively engage the buyer. There are a variety of techniques you can use to create deeper engagement with your target buyers.

## **ESTABLISHING TRUST WITH THE BUYER**

Buyers like to do business with people they trust. The stereotypical used car salesman just isn't relevant anymore. Good salespeople view their ability to establish trust with the buyer as a core sales skill. Helping the buyer goes a long way in this regard, as does understanding what the buyer wants.

## **VALUE ADDITION**

If you are having a service station, guide your customer on how to maintain the vehicle, suggest cost savings, introduce new services related that are not directly related to you selling a product. Give more than what the customer has paid.

## **CONCISE COMMUNICATIONS**

Given how busy the average buyer is today, a critical sales skill is to make sure that you communicate succinctly. The days of the silver-tongued, overly verbose salesperson are coming to an end. Buyers value how information is presented more than the information itself. Today, the preferred form of presentation is conciseness. A good rule here is to never try to communicate more than three important points in a single conversation with a buyer.

## **CUSTOMER-DRIVEN RESPONSIVENESS**

A lot of sales leaders and pundits like to talk about good salespeople are good listeners. We think that goes without saying and that the best salespeople take action based on what they hear from their customer. It's not good enough to just listen. You need to internalize what the buyer just said and then do something about it.

## **SALES SUBJECT MATTER EXPERTISE**

Salespeople aren't just vacuous portals anymore. They actually need to be subject matter experts in two areas. First, they need to understand the buyer. This involves knowing about the pressing issues that the buyer is facing and what the buyer wants as they work their way to a purchase. Second, salespeople need to know a lot about their own product or service.

## **ALWAYS BE HELPING**

Buyers don't want to be closed; they want to be helped. That's why always be helping is the new always be closing (we just published a post on Always Be Helping). ABH is more of a mindset than a skill. A lot of salespeople struggle with this, but you should try to remember it every time you interact with a buyer.

## **COMPELLING STORYTELLING**

Buyers also don't want to hear about your product or service. Good salespeople know this and weave the product or service they're selling into larger story that has an arc and ends with the customer receiving what they want (which is usually not your product). For example, when a business buys phone system, they don't really want to buy a phone system – they want to grow their revenues and recognize that the phone is an effective tool for doing that.

## **SALESPEOPLE AS COPYWRITERS**

Salespeople must be able to write. It's one of today's most important sales skills given how much sales now uses email to communicate with buyers. There are a few rules to keep in mind when it comes to sales copywriting. First, the less you write, the better. Try to keep written communications short and sweet. Second, avoid using generic copy. You should take the time to personalize as many of your communications as possible. Third, use bullets to format your copy – lists are just easier for customers to digest. Finally, start and conclude your written communications with a call to action that asks the buyer to take a next step.

## **SOCIAL ENGAGEMENT WITH BUYERS**

Social media has given rise to the field of social selling. A lot of good salespeople now view their participation on Facebook, Twitter, and LinkedIn as one of the more effective sales skills. That's all fine and good, but we're not just talking about tweeting every now and then.

We're talking about really engaging your buyers socially. Some of the best salespeople out there do things like organize dinners for groups of buyers that they are interested in getting to know. There's very little selling that takes place at these mini-events.

## **HELPING PROSPECTS ACHIEVE NEXT STEPS**

The buyer has less attention to give to you than ever before. That's why it's no longer good enough to agree on next steps. You actually need to help the buyer achieve those next steps. Let's say a buyer that you've been working with needs to get the CEO's approval before they can make the final decision. You should help the buyer achieve this next step by providing them with the information, content, and tools they need to persuade the CEO that your product or service is the right one.

## **USING SALES TECHNOLOGY TO BOOST PRODUCTIVITY**

Many sales organizations are using technology to become more efficient and shorten the length of the average sales cycle. Salespeople are actually busier than ever as evidenced by a recent CSO Insights report that shows that salespeople only spend 37% of their time actually selling. The salesperson that can use technology to become more productive has a significant advantage over their peers – they are able to spend more time selling.

## **MANAGING THE PIPELINE LIKE A PORTFOLIO**

The best salespeople manage their pipeline much like a hedge fund manager would manage their portfolio. They invest time in a number of opportunities knowing that some will close and some will not. They track the performance of each opportunity, as well as the aggregate performance of their entire pipeline on a weekly, if not daily, basis. They are also able to conduct a “bottoms up” analysis of their pipeline at any time to determine where they sit relative to their quota target.



# 10. Practical Bookkeeping

## Introduction:

Bookkeeping involves the recording, on a daily basis, of a company's financial transactions. With proper bookkeeping, companies are able to track all information on its books to make key operating, investing, and financing decisions. Accurate bookkeeping is also crucial to external users, which include investors, financial institutions, or the government that need access to reliable information to make better investment or lending decisions. Simply put, the entire economy relies on accurate and reliable bookkeeping for both internal and external users.

### Importance of Bookkeeping

Proper bookkeeping gives companies a reliable measure of their performance. It also provides information on general strategic decisions and a benchmark for its revenue and income goals. In short, once a business is up and running, spending extra time and money on maintaining proper records is critical.

Many small companies don't actually hire full-time accountants to work for them because the costs are usually higher. Instead, small companies generally hire a bookkeeper or outsource the job to a professional firm. One important thing to note here is that many people who intend to start a new business sometimes overlook the importance of matters such as keeping records of every rupee spent.

In order to properly implement bookkeeping, companies need to first choose which basis of accounting they will follow. Companies can choose between two basic accounting methods: the cash basis of accounting or the accrual basis of accounting. The difference between these types of accounting is based on when you, the company, actually record the sale (money inflow) or purchase (money outflow) in the books.

## The basic steps of bookkeeping

1. Bookkeeping can be made simpler if you follow a logical set of steps. Here are three fundamental concepts that can help keep things in order when handling the books for a business.

Prepare source documents for all transactions, operations, and other business events; source documents are the starting point in the bookkeeping process. When buying products, a business gets a purchase invoice from the supplier. When borrowing money from the bank, a business signs a promissory note payable, a copy of which the business keeps. When a customer uses a credit card to buy the business's product, the business gets the credit card slip as evidence of the transaction. When preparing payroll cheques, a business depends on salary rosters and time cards. All of these key business forms serve as sources of information into the bookkeeping system — in other words, information the bookkeeper uses in recording the financial effects of the business's activities.

2. Determine and enter in source documents the financial effects of the transactions and other business events. Transactions have financial effects that must be recorded — the business is better off, worse off, or at least “different off” as the result of its transactions. Examples of typical business transactions include paying employees, making sales to customers, borrowing money from the bank, and buying products to sell to customers. The bookkeeping process begins by determining the relevant information about each transaction. The business's establishes the rules and methods for measuring the financial effects of transactions. Of course, the bookkeeper should comply with these rules and methods.

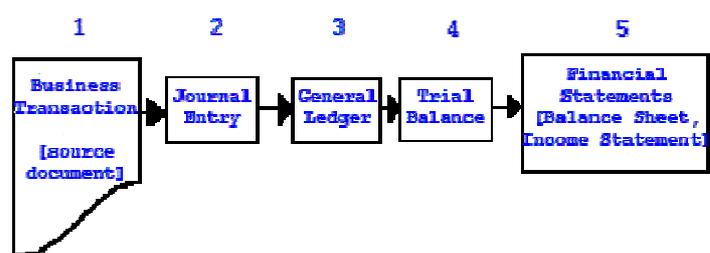
3. Make original entries of financial effects into journals and accounts, with appropriate references to source documents. Using the source document(s) for every transaction, the bookkeeper



makes the first, or original, entry into a journal and then into the business's accounts. Only the official, established chart of accounts should be used in recording transactions. A journal is a chronological record of transactions in the order in which they occur — like a very detailed personal diary. In contrast, an account is a separate record, or page as it were, for each asset, each liability, and so on. One transaction affects two or more accounts. The journal entry records the whole transaction in one place; then each piece is recorded in the two or more accounts that are affected by the transaction. Entering transaction data correctly and in a timely manner is critically important. The prevalence of data entry errors was one important reason why most retailers started to use cash registers that read barcode information on products, which more accurately captures the necessary information and speeds up the data entry.

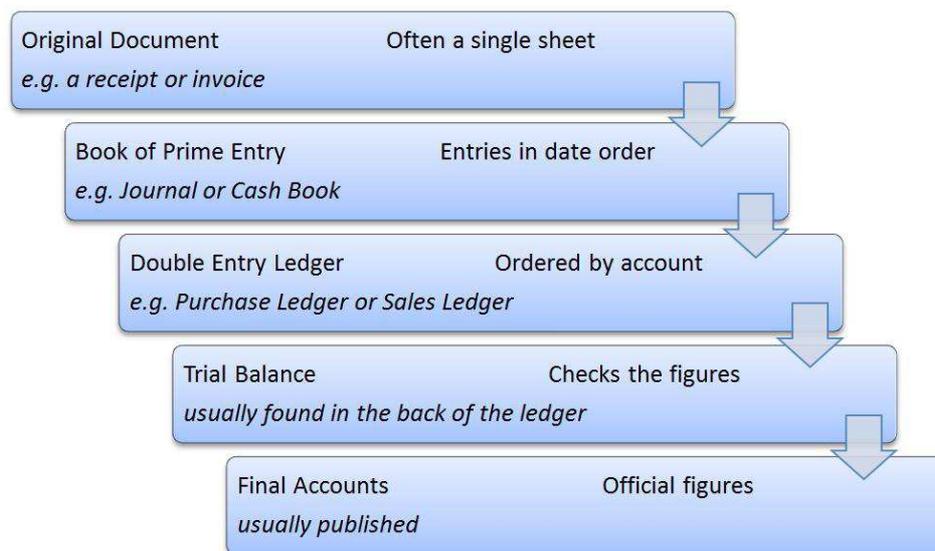
4. Perform end-of-period procedures — the critical steps for getting the accounting records up-to-date and ready for the preparation of management accounting reports, tax returns, and financial statements. A period is a stretch of time — from one day to one month to one quarter (three months) to one year — that is determined by the business's needs. A year is the longest period of time that a business would wait to prepare its financial statements. Most businesses need accounting reports and financial statements at the end of each quarter, and many need monthly financial statements.

5. Compile the adjusted trial balance for the accountant, which is the basis for preparing reports, tax returns, and financial statements. After all

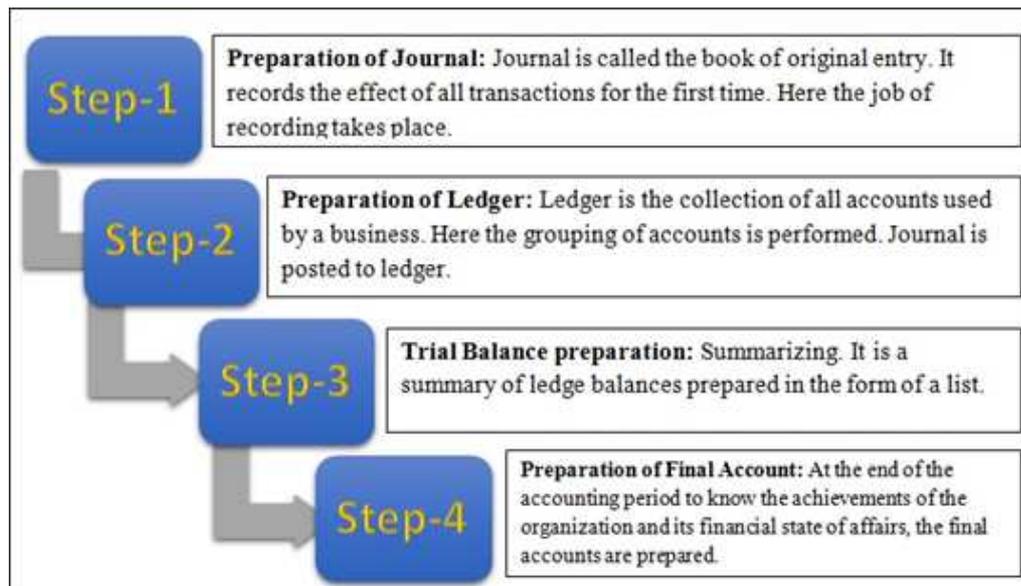


the end-of-period procedures have been completed, the bookkeeper compiles a complete listing of all accounts, which is called the adjusted trial balance. Modest-sized businesses maintain hundreds of accounts for their various assets, liabilities, owners' equity, revenue, and expenses. Larger businesses keep thousands of accounts, and very large businesses may keep more than 10,000 accounts. In contrast, external financial statements, tax returns, and internal accounting reports to managers contain a relatively small number of accounts. For example, a typical external balance sheet reports only 25 to 30 accounts (maybe even fewer), and a

typical income tax return contains a relatively small number of accounts. The accountant takes the adjusted trial balance and groups similar accounts into one summary amount that is reported in a financial report or tax return. For example, a business may keep hundreds of separate inventory accounts, every one of which is listed in the adjusted trial balance. The accountant collapses all these accounts into one summary inventory account that is presented in the business's external balance sheet. In grouping the accounts, the accountant should comply with established financial reporting standards and income tax requirements.



6. Close the books — bring the bookkeeping for the fiscal year just ended to a close and get things ready to begin the bookkeeping process for the coming fiscal year. Books is the common term for a business's complete set of accounts. A business's transactions are a constant stream of activities that don't end tidily on the last day of the year, which can make preparing financial statements and tax returns challenging. The business has to draw a clear line of demarcation between activities for the year (the 12-month accounting period) ended and the year yet to come by closing the books for one year and starting with fresh books for the next year.



## Duality Principal in Accounting

Earlier transactions in the books of accounts were recorded under single entry system. Generally, most business owners understand a transaction as a single-entry record. For instance, if a sale is made to a customer, only sales revenue will be recorded. However, the other side of the transaction relating to the receipt of cash or the grant of credit to the customer is not recognized by single entry.

The system had some shortcomings as there was not a complete record of all the transactions. Also, problems were faced while preparing final accounts. Problems were also faced as there was no self-balancing method of accounting which could guarantee, to some extent, the accuracy of the books of accounts. So, a need was felt for some uniformly accepted system of accounting which could help in the verification of the accuracy of books to some extent. These problems were solved by the Double Entry System of accounting.

<b>Cash at Bank - Account</b>			
<b>DEBIT</b>		<b>CREDIT</b>	
Deposit	5,000	Payment	2,000
Closing Balance	3,000		

The Dual Aspect Concept, also known as Duality Principle, is a fundamental convention of accounting that necessitates the recognition of all aspects of an accounting transaction. The dual

aspect concept is the underlying basis for double the entry accounting system. The double

entry accounting system is based on the duality principle and was devised to account for all aspects of a transaction. This system has totally replaced the single-entry system. This system is now followed everywhere. Under this system of accounting, every transaction in business involves at least two accounts. Every transaction is entered into at least two accounts in the Ledger. In one, account, the transaction is entered on the Left-hand side i.e. on the debit side of the account and on the other account an entry for an equal amount is made on the Right-hand side of the account i.e. the credit side of the account. Therefore, under this system, transactions are classified as either “Debit” or “Credit.” The debit is the component of the transaction that accounts for an increase in assets and expenses, and a decrease in liabilities, equity and income. The credit is the portion of transaction that accounts for an increase in income, liabilities and equity, and a decrease in assets and expenses. The classification of debit and credit is structured in such a way that for each debit there is a corresponding credit and vice versa. Hence, every transaction will have 'dual' effects (debits and credits). The application of duality principle therefore ensures that all aspects of a transaction are accounted for in a company’s ledgers and financial statements.

For example, suppose Nimal paid cash salaries to his staff. The two accounts affected are cash account and salaries account. As cash is going out of it, cash account is credited. Salaries are expenses for the business, salaries account is debited. Again, Samanmalee bought raw material for the production unit, the two accounts involved are Cash account and Purchases account. She paid carriage to transport goods to her factory; the two accounts involved are cash account and carriage account. She sold finished goods to customers on credit, the two accounts involved are the customer's personal account (debtor) and sales account. She also purchased furniture for her office on credit. The two accounts involved are furniture account and the personal account of the seller (creditor). Thus, we can see that every transaction has two aspects in the Double entry system of accountancy. Now which account is debited and which is to be credited depends on the types of accounts involved and the rules of debit and credit for that

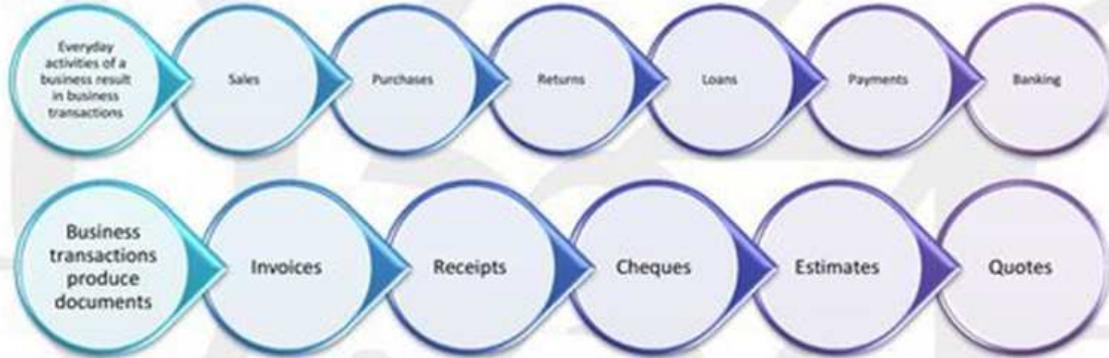
	Dr	Cr
Balance Sheet Items	<b>Assets</b> Asset accounts are <b>DEBITED</b> when they are <b>increasing</b>	<b>Liabilities</b> Liability accounts are <b>CREDITED</b> when they are <b>increasing</b>
Profit and Loss Statement Items	<b>Expenses</b> Expense accounts are <b>DEBITED</b> when they are <b>increasing</b>	<b>Income</b> Income accounts are <b>CREDITED</b> when they are <b>increasing</b>

type of account. The basic principle is that for every single transaction there are two entries – one to a “giving account” and a corresponding one to a “receiving account.” In principle it is said that you Credit (Cr) the giving account and Debit (Dr) the receiving account. The equation is termed the fundamental accounting equation because these relationships are so essential to the analysis and presentation of accounting information. The relationship between the Income Statement or Profit & Loss Account and the Balance Sheet is that profit increases an owner’s equity and a loss reduces it. The corresponding double entry effect is always on the ASSETS, increasing or reducing them.

# DOUBLE ENTRY BOOKKEEPING

**Balancing the Books**  
 Values from every business transaction are entered twice: once as a debit in one account; once as a credit in another.

Debits on the left      Credits on the right



There are five main ledger account categories



How do you know which account to debit and which to credit?

Account	Debit (dr)	Credit (cr)
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Equity	Decrease	Increase
Income	Decrease	Increase
Expenses	Increase	Decrease

Assets = Liabilities + Equity

# DOUBLE ENTRY BOOKKEEPING

The essential basis of good bookkeeping practices

## Debit

Every time you use bookkeeping or accounting software, you are performing double entry bookkeeping and probably didn't notice!

## Credit

The everyday activities of a business result in business transactions.

Sales, Purchases,  
Returns, Loans,  
Payments, Banking

Business transactions produce documents.

Invoices, Receipts,  
Checks/Cheques,  
Dockets, Quotes

The information from the documents is recorded into book-keeping journals.

General, Cash,  
Sales, Purchases

### Debits

On  
The  
Left

### Balance the books

The values from every business transaction are entered *twice*, once as a DEBIT in one account and once as a CREDIT in another.

### Credits

On  
The  
Right.

Journals describe which ledger account to debit and which ledger account to credit.

Ledger accounts are in the shape of a T:-

Debit	Credit
-------	--------

The data is then taken from the journals and entered to the ledger accounts.

A summary list of ledger accounts is called:-

*Chart of Accounts.*

There are five main ledger account categories

Assets    Liabilities    Equity  
Income    Expenses

How do you know which account to debit and which to credit?

#### USE THIS SHEET

Account	Debit (Dr)	Credit (Cr)
<b>Permanent Accounts</b>		
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Equity	Decrease	Increase
<b>Temporary Accounts</b>		
Income	Decrease	Increase
Expenses	Increase	Decrease

Debits and credits have the effect of either *increasing* or *decreasing* each account.

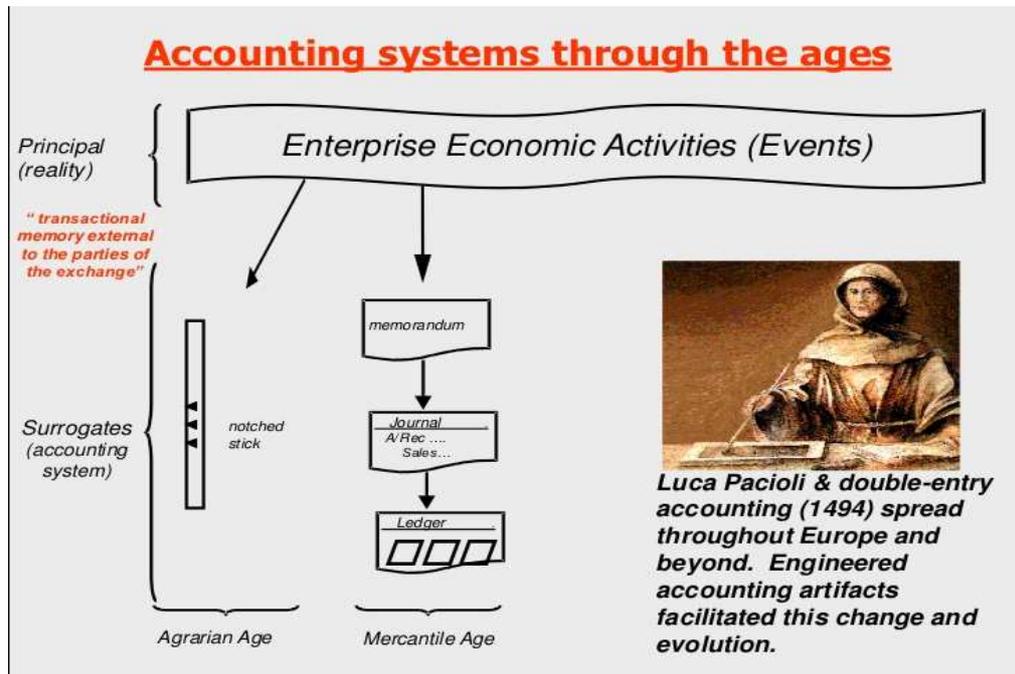
Income less Expenses = profit or loss (retained earnings).  
The profit or loss is moved to the Equity Account thus clearing the temporary accounts each financial year.  
Permanent accounts are not cleared.

- Example:**
- > Tom purchases a printer for \$150.00 (*transaction*).
  - > He pays with his bank card and is given a cash invoice (*source document*).
  - > The ledger accounts that are affected are the *bank account* (asset) and the *office supplies* account (expense).
  - > The office supplies is debited which *increases* the expenses by \$150,

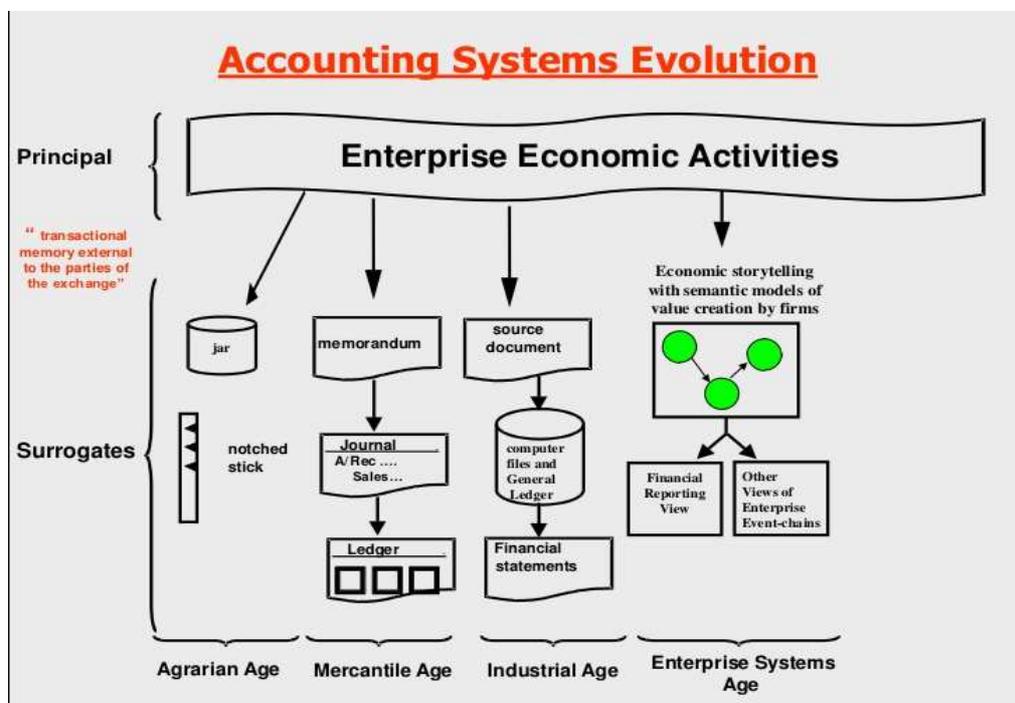
The Accounting Equation helps keep the permanent accounts balanced :

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

## Evolution of accounting



## Record Keeping



When one person or groups of persons choose to run a business, they must establish measures that will account for money or monies that come in and go out of business. This is

done through the use of record books. There are many reasons why you must write down all money that comes in and money that goes out of your business:

**a. Advantages of keeping records**

- Record-keeping is crucial because you cannot keep everything in your head.
- Memory is not good enough for proper research and planning.
- You will know how much money you have received, how much you have spent and how you spend it.
- You can calculate whether you are making a profit or a loss and also know your break-even point.
- You can keep records of buying and selling on credit. That is, you will know whom your debtors are and how much they owe you, and who your creditors are and how much you owe them.
- You can keep records of money coming in and going out of group businesses or projects. This will prevent misuse of money and avoid mistrust among group members.
- It can help you in the monitoring and controlling of your stock levels, knowing when to make a new order and how much to order.
- By comparing your actual record with your planned budget, you can determine if you are on the right track during your business year.

**b. Characteristics of good record keeping**

A good record keeping system is easy to use and records the necessary information details. Depending on the complexity of the business, the amount of detail will vary. Some businesses will want to keep accurate records down to the enterprise or location level. Recommended documents for a good record keeping system include:

- Business accounts for checking, savings, and investing and credit cards.
- An income and expense ledger or appropriate software program to record all cash business transactions by date and category.
- Inventory involves the physical counting and valuation. It is done at least annually at the end of the business fiscal or calendar year.
- A depreciation schedule for all business assets showing asset basis:
  - Cost valuation
  - Market valuation

- A cost and market valuation balance sheet summarizing assets and liabilities of the firm.
- An income statement listing
  - o Receipts,
  - o Expenses,
  - o Accounts receivable and
  - o Accounts payable.
- These are some of the record books needed for good record keeping:
  - o Cash Book
  - o Inventory Record
  - o Credit Record
  - o Debtor Book
  - o Labor Book
- A statement of cash flows showing the source of cash inflows into the business and where business cash outflows went.
- Enterprise records showing receipts and expenses by enterprises with some level of profitability analysis.

**c. Disadvantages of not keeping records or keeping poor records**

- You will not know how much money you are earning, whether your business is making a profit or losing money.
- You will not know why you are making a profit or losing money.
- You will not be able to make good decisions that will allow you to make more money and save your business from losing money.
- You will not know which customers owe you money, how much they owe you or how much you owe someone else.
- Where groups of people work together, lack of a proper record-keeping system often leads to mistrust and accusations between groups and members.

**Managing Accounts-** The managing of any account of a business is important for the survival of that business finances. The proper management of the cash flow as it relates to receipts and payment from the company account will help to improve the business financial management system. Also the management of the books in terms of cash and bank accounts; bank reconciliation will serve as a guide for proper financial management.

**Managing Cash-** Cash is the lifeblood of your business. Managed well, your company remains strong. Managed poorly, your business goes into cardiac arrest. If you haven't considered cash management an important issue, then you're probably undermining your business's short-term stability and its long-term survival. But how can you manage business cash better? Start with understanding how good cash-management practices can affect your company's growth and survival of your business. To practice a more elaborate form of cash management, you must be able to accurately assess your current cash position and get fairly reliable predictions at key intervals about how much you'll need to meet the company's expenses.

**Cash Flow Statement-** What is Cash Flow? In financial accounting, a cash flow statement, also known as statement of cash flows or funds flow statement, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and cash out of the business. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. People and groups interested in cash flow statements include:

- Accounting personnel, who want to know whether the organization will be able to cover payroll and other actual expenses
- Potential lenders or creditors, who want a clear picture of a company's ability to repay
- Potential investors, who want to evaluate whether the company is financially sound
- Potential employees or contractors, who want to know whether the company will be able to provide compensation
- Shareholders of the business.



The cash flow statement was formerly known as the Flow of Cash Statement. The cash flow statement reflects a firm's liquidity. The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non-cash transactions include depreciation or write-offs on bad debts or credit losses to name a few. The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Non-cash activities are usually reported in footnotes.

**The cash flow statement is intended to:**

- Provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances
- Provide additional information for evaluating changes in assets, liabilities and equity
- Improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods
- Indicate the amount, timing and likelihood of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.

**Importance of Cash Flows** In the most general sense, cash flow for a business is simply the flow of cash through the organization over time. Cash flows are needed for the firm to survive and thrive. Cash is paid out in return for the inputs that are used in the manufacturing process (materials, labor, professional service to practice a more complicated form of cash management, you must be able to accurately assess your current cash position and do reasonably reliable predictions at key intervals about how much you'll need to pay the company's expenses expertise, etc.) and after goods or services are created and sold, the

revenues received advance cash that is used to fund further production and sales. Cash flows that are not reinvested in the production and sales process may be paid out to owners. For the firm, investments in various business projects provide future cash flows that contribute to the firm's economic value. An understanding of how future cash flows are generated and what factors affect those flows is an integral part of making investment decisions that increase a firm's economic value. Cash flows are also the core for non-profit organizations such as hospitals. Even if operating a non-profit organization, cash flow is needed to meet the various expenses associated with operating the organization. Cash flows are also the principal source of intrinsic (or economic) value for the firm or for any other type of financial investment. Private firms are valued using estimates of the future cash flows the business activity will be able to generate. Public companies have their common stock prices determined by supply and demand forces in the stock markets that are influenced by the cash flows the stock investments will return to investors over time. For the investors who are buying the stock, potential cash flows from different investment opportunities (including stocks) provide the information that allows them to decide where to invest their money.

- For Incorporated companies, Statement of Cash Flows is a **compulsory document to prepare with the set of Financial Statements**. Unlike the Income Statement, it is **not a part of double entry**.
- Instead it shows what has happened in the cashbook of the business. In big businesses such as Public Limited Companies the cashbook is very big and complicated. So a **Cash Flow Statement with totals of each transaction will help stakeholders to identify on what type of transactions money went more, what is more important** etc.
- Simply a **Cash Flow Statement is a summary of the cashbook**.
- For the easier understanding of the viewers, A Statement of Cash Flows is **prepared under 3 activities**, which are **operating activities, investing activities and financing activities**.
- As per LKAS 07 there are 2 methods to prepare the Statement of Cash Flows. That is through,
  1. Direct method
  2. Indirect method

- All 3 activities of a Cash Flow Statement, which are **operating activities, investing activities and financing activities** will be recorded under direct method and indirect method.
- The only difference between direct method and indirect method is when recording **operating activities**.
- Under **direct method**, **cash receipts and payments of operating activities** are clearly **shown** and net cash flows from operating activities are found.
- Under Indirect method, **from the Net profit the net cash flow from operating activities** is reached.

### Statement of Cash Flows under direct method

#### ABC Ltd: Cash Flow Statement for the year ended 31<sup>st</sup> March 2016

	Rs.	Rs.
<b>Cash flows from operating activities</b>		
Cash sales	XXX	
Receipts from customers	XXX	
Receipts from other incomes – commissions, rent	XX	
Payments to creditors	(XXX)	
Payments to operating expenses	<u>(XX)</u>	
Cash generated from operations	XXX	
Interest paid	(XX)	
Income tax paid	<u>(XX)</u>	
Net cash flow generated from operating activities		XXX
 <b>Cash flows from investing activities</b>	 (XXX)	
Purchase of property plant and equipment	(XX)	
Purchase of other company shares and debentures	XXX	
Sale of Property Plant and equipment	XX	
Sale of other company shares and debentures	XX	
Interest income received	<u>XX</u>	
Dividends income received		(XXX)
Net cash flow generated from investing		

activities	XXX	
<b>Cash flows from financing activities</b>	XXX	
Cash received from share issue	XXX	
Proceeds from long-term loan	(XXX)	
Proceeds from issue of debentures	(XX)	
Repayments of loans	<u>(XX)</u>	
Finance lease rental paid		<u>XXX</u>
Dividends paid		XXX
Net cash flow generated from financing activities		<u>XX</u>
activities		<u>XXX</u>
Net increase/decrease in cash and cash equivalents		
Cash and cash equivalents in the beginning of the period		
Cash and cash equivalents in the end of the period		

### Statement of Cash Flows under indirect method

#### ABC Ltd: Cash Flow Statement for the year ended 31<sup>st</sup> March 2016

Cash flows from operating activities	Rs.	Rs.
Net profit before tax	XXX	
<b>Adjustments</b>		
Depreciation	XX	
Profit/loss on disposal of NCA	(XX)/XX	
Bad debts	XX	
Under/over provisions	XX/(XX)	
Accrued expenses	XX	
Stock written off	XX	
Interest expense	XX	
Investment income	<u>(XX)</u>	
Operating profit before working capital changes	XXX	
<b>Adjustment of working capital changes</b>	(XX)/XX	

Inventories – increase/decrease	(XX)/XX	
Trade debtors – increase/decrease	(XX)/XX	
Prepayments – increase/decrease	XX/(XX)	
Trade creditors – increase/decrease	<u>XX/(XX)</u>	
Accruals – increase/decrease	XXX	
Cash generated from operations	(XX)	
Interest paid	<u>(XX)</u>	
Income tax paid		XXX
Net cash generated from operating activities		
	(XXX)	
<b>Cash flows from investing activities</b>	(XX)	
Purchase of property plant and equipment	XXX	
Purchase of other company shares and debentures	XX	
Sale of Property Plant and equipment	XX	
Sale of other company shares and debentures	<u>XX</u>	
Interest income received		(XXX)
Dividends income received		
Net cash flow generated from investing activities		
	XXX	
	XXX	
<b>Cash flows from financing activities</b>	XXX	
Cash received from share issue	(XXX)	
Proceeds from long-term loan	(XX)	
Proceeds from issue of debentures	<u>(XX)</u>	
Repayments of loans		<u>XXX</u>
Finance lease rental paid		XXX
Dividends paid		<u>XX</u>
Net cash flow generated from financing activities		<u>XXX</u>
Net increase/decrease in cash and cash equivalents		
Cash and cash equivalents in the beginning of the		

period		
Cash and cash equivalents in the end of the period		

- *The only difference between direct method and indirect method is when recording operating activities. In the indirect method, from the Net profit the net cashflow from operating activities is reached.*
- *The only difference between net profit and cashflows is the non-cash items which are present in net profit as a result of applying the accruals concept.*
- *So net profit before tax is recorded and only the items in the Income Statement which were not received/paid in cash are adjusted.*
- *Any item which was added when calculating net profit is deducted and any item which was deducted when calculating net profit is added under adjustments. This is done to remove the effect of non-cash items from the net profit and reach cashflows from operations.*
- *Since interest paid should be separately shown, interest expense is removed from Net profit and interest paid will be shown after cash generated from operations. If prepayments/accruals related to interest are present, then interest expense will not be equal to interest paid.*
- *If net profit after tax is taken, then income tax also should be adjusted in the adjustments. Income tax paid is the cash element not income tax expense.*
- *Changes in working capital also happen due to operating activities. Working capital includes current assets and current liabilities. So any change in current asset and current liability will affect cashflows from operating activities. So they are adjusted.*
- *If the balance of a current asset increases during the year, then it is assumed that cash has decreased. So that change in current asset is deducted. And if the balance of a current asset decreases during the year, then that change in current asset is added.*
- *If the balance of a current liability increases during the year, then it is assumed that cash has increased. So that change in current liability is added. And if the balance of a current liability decreases during the year, then that change in current liability is deducted.*

- *After adjusting the non-cash items and working capital changes to net profit before tax, cash generated from operations is reached. To that interest paid and income tax paid (which are separately shown) are adjusted to reach Net cash flow generated from investing activities.*
- *In any business, the answer for net cash flow generated from investing activities under direct and indirect method should be equal.*

## Income

- Income is the money earned by the business. There are two types of income:
  - Basic income is derived from the sales of goods and services that are the core focus of your business.
  - Ancillary income is derived from non-core activities such as interest earned or rents collected from properties owned by the business.
- It is important to know where your income is coming from. Every successful business needs to know what activities are generating revenue.
  - You may want to structure your income accounts to include separate accounts for different revenue streams.
  - If your basic income is lower than your ancillary income, you will need to find out why and make the appropriate changes.

## Expenses

Expenses represent the costs of operating your business. They include labor and the resources you consume during certain period (month, quarter, or year) in order to earn income. These include items such as:

- Salaries
- Phone and utility bills, including mobile phone service
- Travel costs
- Interest and other borrowing costs
- Office supplies and stationary
- Rents
- Depreciation of assets

- You must understand that not all cash outflows are considered expenses. For example, money spent on inventory or for the acquisition of a fixed assets, such as property, machines, or computers, are not expenses.
- To calculate the profit or loss in a business, subtract all expenses in a period from the income in the same period.
  - If income exceeds expenses, you have a profit.

If expenses exceed income, you have a loss.

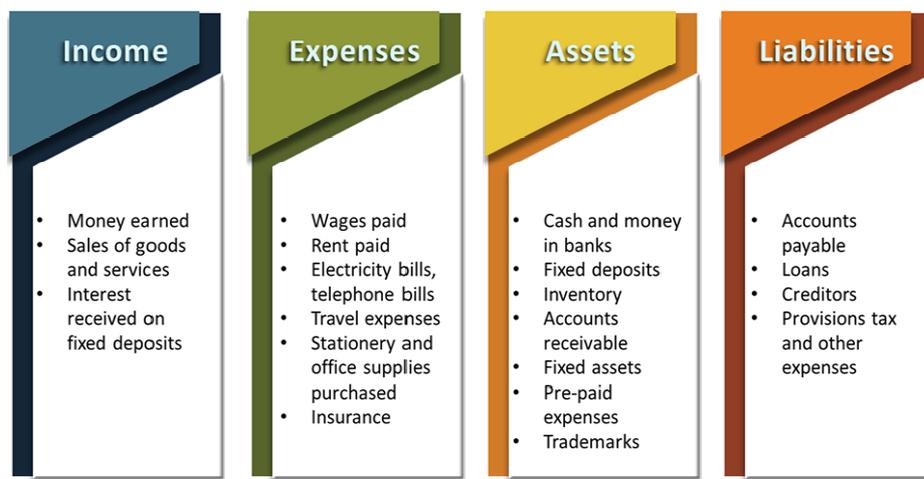
## Assets

- Assets are items with an economic value that are expected to benefit the owner. Assets are divided into two categories:
  - Current or short-term assets. These assets are cash or are expected to be converted to cash within one year. They typically include:
    - Cash on-hand and cash in your bank account
    - Accounts receivable
    - Inventories
  - Long-term or fixed assets are not expected to be converted to cash within one year. They include:
    - Buildings
    - Land
    - Machinery
    - Vehicles
    - Computers
    - An asset is never expensed. Instead, it depreciates over its useful life.
- The useful life is the number of years an asset is expected to remain in service. This is usually included in the country's tax laws.
- Different classes of assets have different useful lives. For example, buildings have a longer useful life than computers.
- You reduce the value of an asset in your books by depreciating it over its useful life, usually by the same amount each year, until its book value is zero.
- The value of the depreciation is recorded as an expense and reduces profits. This may help reduce your tax liability.

## Liabilities

- Liabilities are what you owe. They are classified into two categories.
- Current liabilities are obligations due within one year. These typically include:
  - Short-term loans

- Accounts payable
- Taxes that you owe but might not have to pay until a future date
- Long-term liabilities are obligations that are not due within one year. These typically include long-term loans or notes.
- Capital or owner's equity may also be grouped with liabilities. This is because the owner and the business are considered to be separate entities, so this amount is what the owner has effectively lent to the business.
- An important formula to remember is:  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .



## Cash Book

- A cash or bank book is used to track cash in and out of your business. This enables you to know your cash balance. A business can choose to keep separate ledgers for bank-related cash transactions and petty cash transactions.
  - Bank-related transactions are deposits and withdrawals from your bank account. These are the result of checks, electronic transfers, cash transactions, bank fees, and interest.
  - Petty cash refers to transactions involving small amounts of physical cash (bills and coins) that you keep on-hand in your office for daily purchases and payments.
- You should update your cash book regularly with the information from any other records you may use (e.g., sales sheet, payment log, expense ledger, etc.).
  - Deposits increase cash and are classified as debits.
  - Withdrawals decrease cash and are classified as credits.
- When using a cash book:



- This may seem redundant, but this is the process used to move entries from the journal into the correct accounts. The journal itself is simply a list of your unclassified transactions.
- Transactions must be classified because you can only perform an analysis of your income, expenses, assets, and liabilities when entries are posted correctly.
- Make sure you do the following when you record each debit or credit into the appropriate numbered account:
  - In the general ledger, reference the journal code in the Folio column
  - In the journal, input the account number for each line item in the Folio column.
  - Once you have posted all entries to the general ledger, you can total the balances for each account. In the next session, we will discuss how these totals are used for financial reporting.

## Final Accounts

- Final Accounts are comprised of three financial statements. They are the Profit & Loss Statement; the Cash Flow Statement; and the Balance Sheet.
- By reading these statements together we get a complete picture of how a business is performing financially. The three financial statements are divided into two categories:
- The first category of statements summarizes all financial transactions over a designated period of time, such as a month, quarter, or year. This includes:
  - The Profit & Loss statement (also known as the income statement) summarizes a company's income and expenses.
  - The Cash Flow statement summarizes the movements of cash in and out of a business.
  - The second category of statements shows a snap shot of a company's assets, liabilities, and equity at a particular point in time. It is known as the Balance Sheet.

## Profit and Loss Statement

- The Profit & Loss statement, also known as the P&L or Income Statement, measures profit or loss for a specific period of time. That period is typically a month, a quarter or year.

- The Income Statement uses the summarized information from the income and expense accounts in the general ledger to report profits or losses in a business.
  - It is absolutely critical that you understand that only income and expense accounts are used in a P&L.
  - Asset, liability, and equity accounts are only used on the Balance Sheet.
  - If income exceeds expenses, you have a profit.
  - If expenses exceed income, you have a loss.

### Statement of Comprehensive Income

#### Profit or Loss for the Period

- All items of income and expense recognised in a period shall be included in profit or loss unless a Standard requires otherwise.

#### Information to be presented on the Face of the Income Statement

- As a **minimum**, the face of the income statement shall include line items that present the following amounts for the period:
  - a) Revenue;
  - b) Finance costs;
  - c) Tax expense;
  - d) Profit or loss.

### Trading, Profit and Loss Account

- The **Trading, Profit and Loss a/c** is part of the double entry and at the end of the accounting period; closing entries are performed to include incomes and expenses to the income statement.
- **Expenses are debited and incomes are credited to the income statement.**
- The Trading, Profit and Loss a/c prepared in the **vertical format** is as follows.

#### ABC Ltd, Trading, Profit and Loss a/c for the year ended 31.03.2016

	Rs.	Rs.	Rs.
<b>Sales</b>			XXX
Return Inwards			(XX)
Net Sales			XXX
<b><u>Cost of Sales</u></b>			
Opening Stock		XX	
Purchases		XXX	
Return Outwards		(XX)	
Carriage Inwards		XX	
Closing Stock		(XX)	(XXX)
<b>Gross Profit</b>			XXX
<b><u>Other income</u></b>			
Discounts Received		XX	

Commissions		XX	
Rent Income		XX	
Profit on Disposal of NCA		XX	
Over Provision of Doubtful debts		XX	
Investment Income		<u>XX</u>	XXX

**Expenses****Administration & Establishment****Expenses**

Depreciation of Building	XX		
Depreciation of Office	XX		
Equipment	XX		
Maintenance & Repairs	XX		
Salaries	XX		
Electricity	XX		
Insurance	XX		
Rent & Rates	<u>XX</u>	XX	
Sundry Expenses			

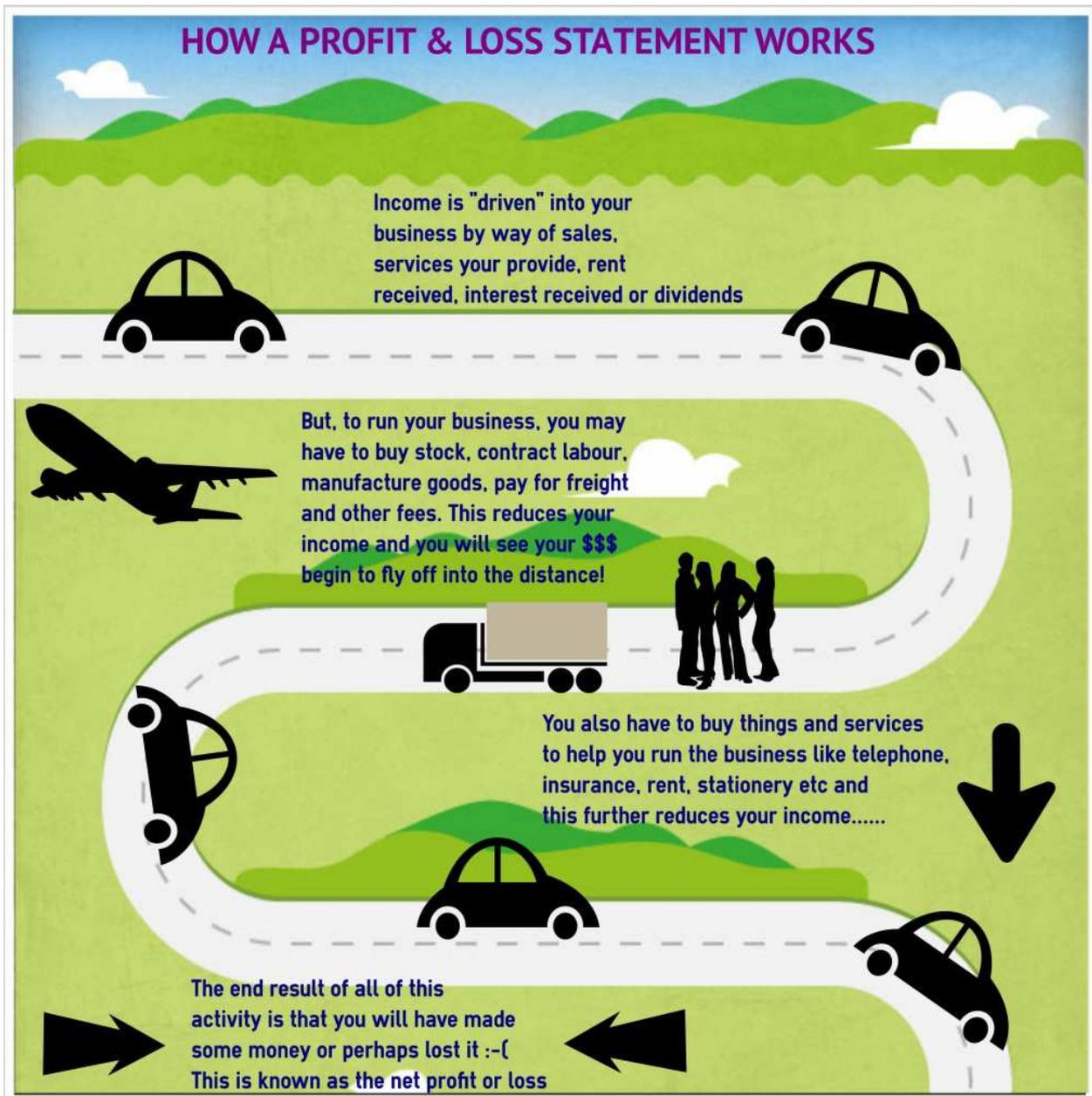
**Sales & Distribution Expenses**

Depreciation on motor vehicles	XX		
Maintenance & Repairs of MV	XX		
Sales Staff Salaries	XX		
Advertising	XX		
Sales Commission	XX		
Bad Debts	XX		
Under provision of Doubtful debts	XX		
	<u>XX</u>	XX	
Carriage Outwards			
Discounts Allowed			

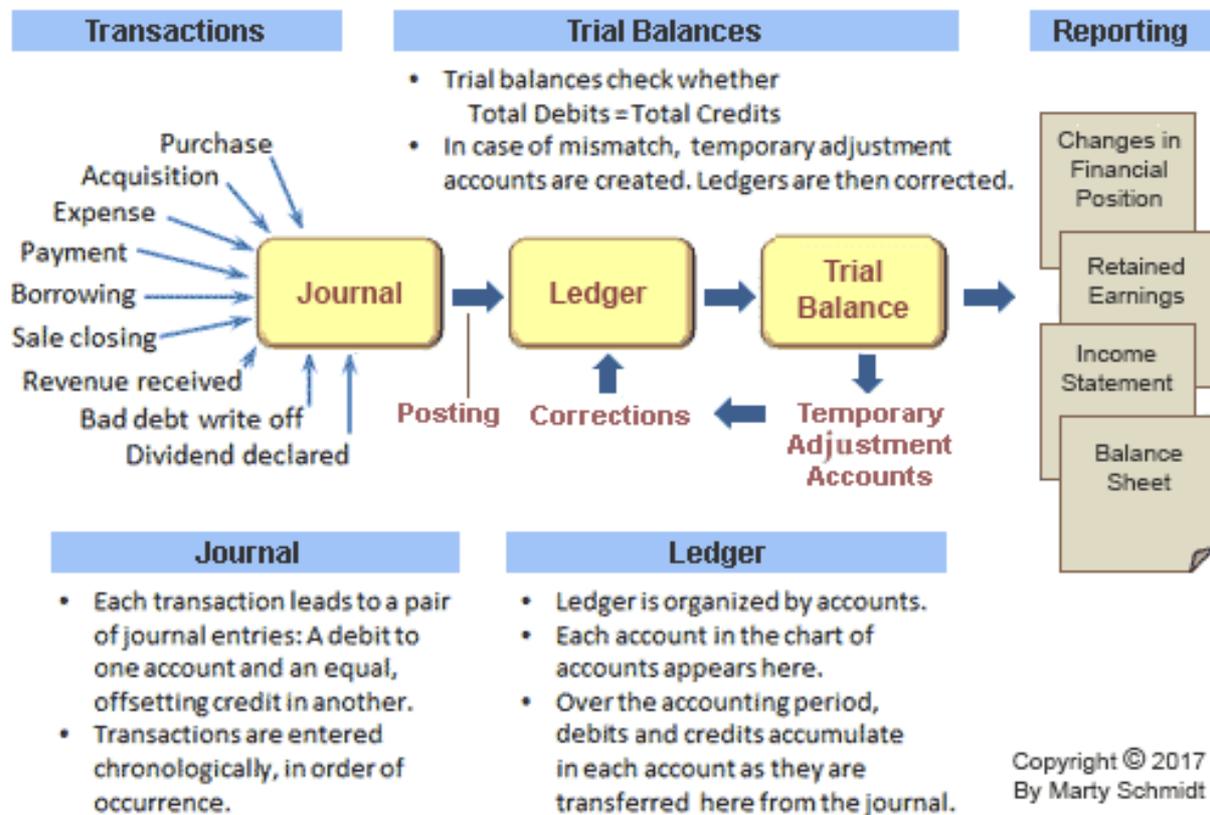
**Finance and Other Expenses**

Loan Interest	XX		
Bank Charges	XX		
Overdraft charges	<u>XX</u>	<u>XX</u>	(XX)
Stock Loss			<u>XXX</u>
Other losses			

**Net Profit before tax**



## The Accounting Cycle



## Balance Sheet

- The Balance Sheet is a statement that shows the financial strength of a company by summarizing its assets, liabilities and equity on a specific date.
  - The information contained in this report is derived from the balances of the relevant accounts in your general ledger.
  - However, the day after a balance sheet is generated, it is already outdated, as there will likely be balance changes for cash, inventories and other items. This is why the data is only good for a specific date.
- The elements of the Balance Sheet are:
  - Assets: What the business owns, including cash, inventory, accounts receivable, machinery, land, and equipment.
  - Liabilities: What the business owes, including accounts payable, loans, and items payable in the future.
  - Equity: The amount the owners have invested in the company. It may also be considered the value of the company.

- It is important to note that  $\text{Assets} = \text{Liabilities} + \text{Equity}$ .
  - If this is not true when you generate the Balance Sheet, it means your information is out of balance.
  - You must research your accounts to determine where the error is.



### Information to be presented on the Face of the Balance Sheet

- As a **minimum**, the face of the balance sheet shall include line items that present the following amounts:
- a) Property, plant and equipment;
  - b) Investment property;
  - c) Intangible assets;
  - d) Financial assets (excluding amounts shown under (e), (h) and (i));
  - e) Investments accounted for using the equity method;
  - f) Biological assets;
  - g) Inventories;
  - h) Trade and other receivables;
  - i) Cash and cash equivalents;
  - j) Trade and other payables;
  - k) Provisions;
  - l) Financial liabilities (excluding amounts shown under (j) and (k));
  - m) Liabilities and assets for current tax;
  - n) Deferred tax liabilities and deferred tax assets;
  - o) Minority interest, presented within equity; and
  - p) Issued capital and reserves attributable to equity holders of the parent.

## Balance Sheet

- A balance sheet is a **descriptive record of the balanced sheet equation. Balance Sheet is a statement and not part of double entry.**
- Because **the level where the assets, liabilities & capital of the business stand will change daily** Statement of Financial Position is **prepared on a certain date.**
- The balance sheet in the **vertical format** is as follows.

### ABC Ltd, Balance Sheet as at 31.03.2016

Noncurrent Assets	Cost	Accumulated Depreciation	Net Carrying Value
Land & buildings	XXX	(XX)	
Motor vehicle	XX	(XX)	XXX
Machinery	XX	(XX)	XX
Furniture & fittings	XX	<u>(XX)</u>	XX
	<u>XXX</u>	<u>(XX)</u>	XX
Goodwill			<u>XXX</u>
Investments			XX
			XX
<b>Current Assets</b>			
Closing stock		XX	
Debtors	XX		
Provision for doubtful debts	<u>(X)</u>	XX	
Prepayments		XX	
Receivable income		XX	
Bank		XX	
Cash & Cash Equivalents		<u>XX</u>	
Total Assets			<u>XX</u> <u>XXX</u>
<b>Capital</b>			
Stated Capital		XX	
Preference Shares		XX	
Revaluation reserve		XX	
General reserve		XX	
Retained Earnings		<u>XX</u>	XXX
<b>Noncurrent Liabilities</b>			
Bank loan		XX	
Mortgages		XX	
Provisions		XX	
Finance Lease		<u>XX</u>	
			XX
<b>Current Liabilities</b>			
Creditors		XX	
Accrued expenses		XX	
Income received in advance		XX	

Bank overdrafts	XX	
Tax payable	XX	
Finance Lease	<u>XX</u>	
Total Capital & Liabilities		XX <u>XXX</u>

- *The Balance Sheet is just as same as the sole proprietor or partnership final accounts.*
- ***Under capital balances, the balance of the ordinary share capital, preference shares, any reserves and retained profits are shown** because in an incorporated company, they are the items invested by the owners and which belongs to them.*
- *In **current liabilities under finance lease, the difference between next year's lease instalment payable and next year's interest payable** is recorded.*
- *Then in **noncurrent liabilities under finance lease, the difference between remaining balance in the lessor's a/c and remaining balance in the accrued lease interest a/c** is recorded.*
- *Any **income tax payable** to IRD is also recorded as a **current liability**.*

## Business Ownership

Ownership forms related to micro, small and medium enterprises are:

- Sole proprietorship (owned by one person)
- Partnership (owned by a few persons, could be 2-20)
- Co-operative (owned by a large group)

### a) Sole Proprietorship/ Sole Trader

In this form of ownership, the whole business is owned by a single person.

- The owner enjoys all the profits of the business but also accepts all losses.
- This single owner has complete freedom to manage the affairs of the business as he desires; he is answerable to nobody.
- The owner's liability is unlimited. That is in settling the debts of the business if the business assets are insufficient, the personal assets will also be taken.
- Being owned by a single person, the resources of the business are limited.

### b) Partnership

Here, two or more persons join to start a business.

- The owners collectively are called the company, and individually, partners.
- The profits and losses are shared by the partners in agreed proportions.
- Their liability towards the firm's debts is unlimited.
- Freedom of conducting the affairs of the business is restricted as the partner is liable to the other partners.
  - Since more than one person is involved, the resources of the firm are usually more.
  - A partnership could also be formed to combine the resources required for the enterprise. Resources could include skills, money, land, raw material etc.

### c) Co-operative and Group Ownership

A co-operative is when people come together to do business with a common purpose and intent.

- In a co-operative form of ownership, a large number of persons collectively own the enterprise and are involved in its activities. The part owners are called members.
- All the members contribute an equal amount towards capital, share the profits equally and have equal rights.
- Since a large number of owners are involved, the management of the cooperative is entrusted to a small group of members who are elected by the many.
- The financial asset is crucial. The liability of the members is limited.
- That is even if the assets of the co-operative are insufficient to satisfy the debts, the members' personal assets cannot be touched.
- A co-operative is also much more powerful than individuals or partnerships.
- A co-operative represents a large group of people and, quite often, this gives its access to Government programs and developmental agencies, which offer financial assistance in the form of grants or interest-free loans.

A business owned by multiple individuals may be referred to as a company; although that term also has a more precise definition.

*Note: In these three categories of business ownership, it is essential to establish appropriate bookkeeping and financial management of the finances of these forms of business. Money coming in and money going out must be recorded in the various books of the business for good management of record keeping.*

### Activity – Consequences of Poor Record Keeping

<b>Objective</b>	Describe the consequences poor record financial record keeping in a business.
<b>Materials</b>	None
<b>Duration</b>	25 minutes
<b>Process</b>	<ol style="list-style-type: none"> <li>2. Explain the activity's objective.</li> <li>3. Form groups of 5 to 6 participants.</li> <li>4. Ask participants to consider the case of a supermarket owner who does not organize his receipts or keep written records of financial transactions.             <ol style="list-style-type: none"> <li>a. When asked, the owner says all of the information about the financial activity in his business are "in his head."</li> <li>b. What are the likely consequences of not filing receipts or maintaining organized ledgers for this business?</li> </ol> </li> </ol>

	<p>5. Give the groups 5-10 minutes to discuss the scenario and come up with an answer to the question.</p> <p>6. A representative from each group will present their answers to the class.</p>
<b>Conclusion</b>	<ul style="list-style-type: none"> <li>• If you do not maintain records in an organized way, you will eventually lose track of your money.</li> <li>• You may even run out of cash before you realize there is a problem.</li> <li>• Receipts should be filed as soon as you receive them and the transaction should immediately be recorded in your books.</li> <li>• As time passes, if source documents are not filed and transactions recorded, there is a greater chance for that the document will be lost and that a transaction will be forgotten.</li> </ul>

#### *Exercise – Accounting Information and Decision Making*

The owner of the Green Planet Supermarket wants to assess last year's business performance after one year of operation. The shop's accountant presents him with the following reports:

1. Detailed report of existing assets
2. Report of tax paid for the year, and tax to be paid
3. Year-end report showing assets, liabilities and equity
4. Consolidated report of taxable profit
5. Report of inbound and outbound cash movements for the year
6. Report of earnings and expenses for the year
7. Report of changes to equity during the year

In your opinion, what are the three most important reports that the owner of the Green Planet Supermarket should become acquainted with? Why?

Groups have 5 minutes to discuss and come up with an answer.

#### ***Calculate NBT and Income Tax***

Perform the tax calculations below.

1. Raj is the owner Shakthi Supermarket. Last year, his income for the year was 1,800,000. Calculate the income tax he owes. Recall the tax rates:

Taxable income	Rate
0 to Rs. 500,000	4%
Rs. 500,000 to Rs. 1,000,000	8%
Rs. 1,000,000 to Rs. 1,500,000	12%
Rs. 1,500,000 to Rs. 2,000,000	16%
Rs. 2,000,000 to Rs. 3,000,000	20%
Rs. 3,000,000 and over	24%

2. Shakthi Supermarket has following sales information for the previous fiscal year. What is the amount of NBT payable at the end of the fiscal year?

Quarter	Sales
1	14,670,000
2	18,880,000
3	17,910,000
4	21,010,000

- a. Calculate the total turnover for the year.
- b. Tax free turnover is 50% of total turnover. Calculate the tax-free turnover and taxable turnover. (Hint – since they are both 50% of the total, they are the same amount).

NBT is 2% of the taxable turnover. Calculate the NBT for Shakthi Supermarket for the year.

**Calculate NBT and Income Tax – Answer Key**

Perform the tax calculations below.

1. Raj is the owner Shakthi Supermarket. Last year, his income for the year was 1,800,000.

Calculate the income tax he owes. Recall the tax rates:

Taxable income	Rate	Calculation	Tax
0 to Rs. 500,000	4%	.04 x 500,000	20,000
Rs. 500,000 to Rs. 1,000,000	8%	.08 x 500,000	40,000
Rs. 1,000,000 to Rs. 1,500,000	12%	.12 x 500,000	60,000
Rs. 1,500,000 to Rs. 2,000,000	16%	.16 x 300,000	48,000
Rs. 2,000,000 to Rs. 3,000,000	20%		
Rs. 3,000,000 and over	24%		
<b>Total</b>			<b>168,000</b>

2. Shakthi Supermarket has following sales information for the previous fiscal year. What is the amount of NBT payable at the end of the fiscal year?

Quarter	Sales
1	14,670,000
2	18,880,000
3	17,910,000
4	21,010,000

a. Calculate the total turnover for the year.

$$14,670,000 + 18,880,000 + 17,910,000 + 21,010,000 = 72,470,000$$

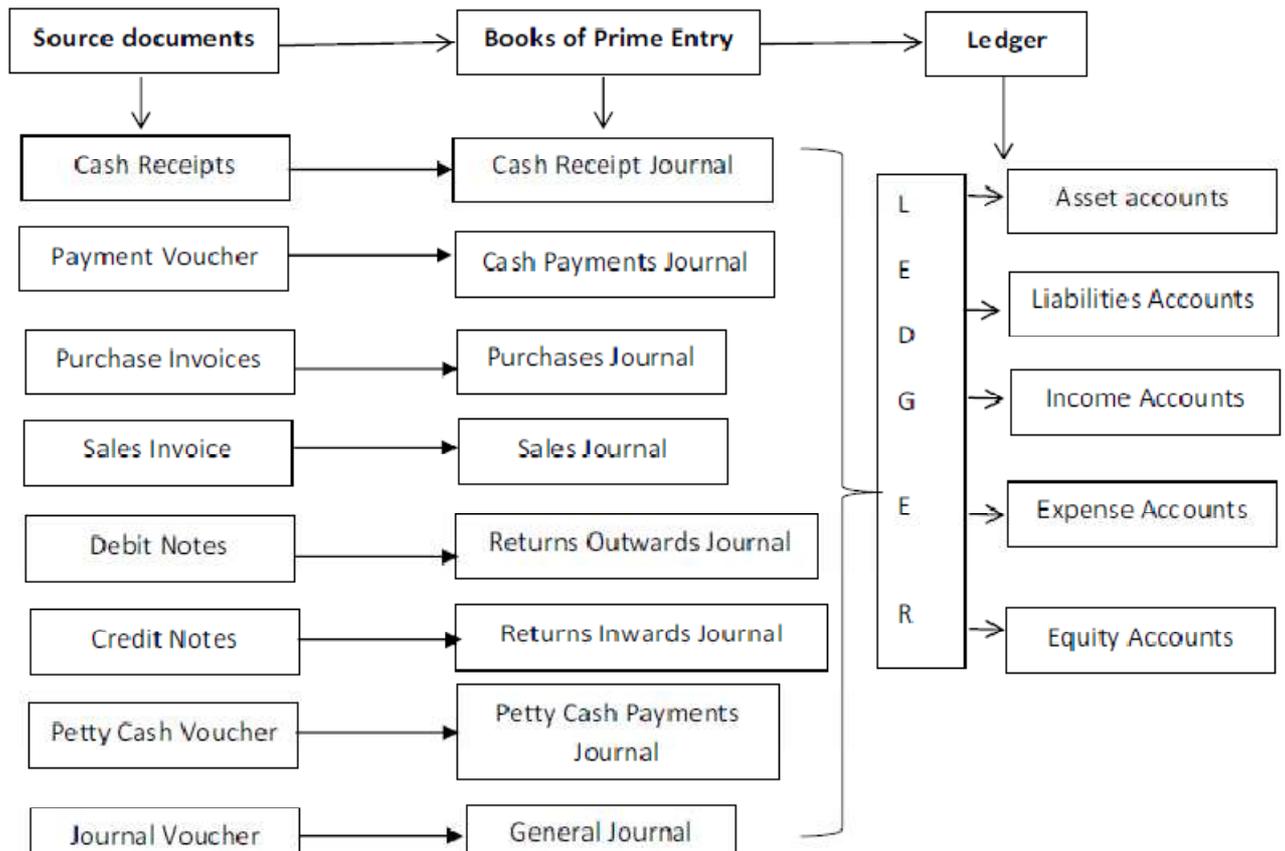
- b. Tax free turnover is 50% of total turnover. Calculate the tax-free turnover and taxable turnover. (Hint – since they are both 50% of the total, they are the same amount).

$$0.5 \times 72,470,000 = 36,235,000$$

- c. NBT is 2% of the taxable turnover. Calculate the NBT for Shakthi Supermarket for the year.

$$0.02 \times 36,235,000 = 724,700$$

### Understanding source documents



Transaction	Source Document	Primary Books or Journal	Ledger Account
Receipt of Cash	Receipt	Cash Book	Cash Book
Cash Payment	Payment Voucher	Cash Book	Cash Book
Credit Purchase	Purchase Invoice	Purchase Journal/ Purchase day Book	Purchase Account
Purchase Returns	Debit Note	Purchase Return Journal/ Return outward day book	Purchase return Account
Credit Sales	Sales Invoice	Sales Journal/ Sales day book	Sales Account

Sales Return	Credit Note	Sales Return Journal/ Return inward day book	Sales return Account
Petty cash expenses	Petty Cash Voucher	Petty Cash book	Petty Cash book
Purchase Fixed Assets, Bad debts, etc.	Journal Voucher	General Ledger	Respective ledger accounts

**Formats and examples of other books- Day books**

**Format of the three-column cash book**

Date	Receipt num	Description	Leger Page	Discount Allowed	Cash (Rs)	Bank (Rs)	Date	Vou no	Che No	Description	Leger Page	Discount Rec	Cash (Rs)	Bank (Rs)

PETTY CASH BOOK											
Receipts	Folio	Date	Details	Voucher No.	Total	Casual Labour	Travelling Expenses	Stationery Expenses	Cleaning Expenses	Ledger Folio	Ledger Account
\$					\$	\$	\$	\$	\$		\$
5 000	CB	Nov. 1	Cash								
		Nov. 2	Wages	001	100	100					
		Nov. 3	Postage	002	300			300			
		Nov. 5	Floor Polish	003	50				50		
		Nov. 6	Taxi Fare	004	70		70				
		Nov. 7	Wages: painter	006	30	30					
		Nov. 10	Bus Fare	007	150		150				
		Nov. 12	Paper	008	40			40			
		Nov. 19	Brushes	009	60				60		
		Nov. 21	Ink	010	500			500			
		Nov. 25	Paul Freddy	011	400					PL	400
					<u>1 700</u>	<u>130</u>	<u>220</u>	<u>840</u>	<u>110</u>		<u>400</u>
1 700	CB	Nov. 30	Cash			GL	GL	GL	GL		
		Nov. 30	balance	c/d	5 000						
<u>6 700</u>					<u>6 700</u>						
5 000		Dec. 1	Balance	b/d							

### Purchase day book

- The book of prime entry used to record goods purchased on credit is the **Purchases Journal** or Purchases daybook.
- The source document relevant to the Purchases Journal is the **Invoice** (Purchase Invoice).
- While a certain percentage will be reduced from the marked price when goods for trading are purchased, this is known as a **Trade discount**.
- The amount of the Trade discount is reduced from the invoice value only. There isn't a separate accounting entry.
- The suppliers to provide goods to the entity are creditors to the business. They are considered as liabilities of the business.

Date	Invoice num	Supplier	Description of the Goods				Total Amount	Ledger page
			Item	Qty	Unit Cost (Rs)	Amount (Rs)		
02-May	212	Kamal & Co,	Sugar	100Kg	75.00	7,500	10,350	12
			Wheat	50kg	80.00	4,000		
			10% Discount			(1,150)		
05-May	132	Sohan & Sons	Rice	50Kg	60.00	3,000	5,400	15
			Wheat	30kg	80.00	2,400		
22-May	234	Ruwan & Bro	Sugar	200kg	75.00	15,000	15,000	17
Transferred to Purchases Account						<b>30,750</b>		

- The respective amounts and the VAT must be entered separately in the individual creditors accounts in the Creditors sub Ledger.
- At the end of the period the columnar totals of the Purchases Journal must be debited to the Purchases a/c and credited to the Creditors Control account. The total in the VAT column must be debited to the VAT a/c and credited to the Creditors Control a/c.
- The relevant transactions in the Purchases Journal will be posted to the Ledger in the following manner.

○ Purchases a/c	Debit	→ (total of the Purchases Journal)
○ VAT a/c	Debit	→ (total in the VAT column)
○ Creditors Control a/c	Credit	→ (total value including VAT)

- Goods purchased on credit may be returned to the suppliers for the following reasons.
  - The expiry date has passed
  - The goods received being different to the order
  - Goods supplied being damaged
  - Delay in receiving goods

- The book of prime entry used to record the sales of goods on credit is the **Sales Journal or Sales daybook**.
- The source document relevant to the Sales Journal is the **Invoice** (Sales invoice).
- When sales are made on credit, while a percentage from the marked price may be reduced it is known as a **Trade discount**.
- This trade discount is only a reduction of the price in the invoice. It is not accounted for separately.

### Sales Day book

Date	Invoice num	Customer	Description of the Goods				Total Amount	Ledger page
			Item	Qty	Unit Cost (Rs)	Amount (Rs)		
04-May	200	Sunil & Co,	Rice	100Kg	80.00	8,000	18,000	13
			Tea	40kg	300.00	12,000		
			10% Discount			(2,000)		
07-May	201	Kalpa & Co	Wheat	50Kg	100.00	5,000	7,700	15
			Sugar	30kg	90.00	2,700		
23-May	202	ABC Co	Sugar	200kg	75.00	15,000	15,000	19
31-May		Transferred to Sales Account					<b>40,700</b>	

### Return Outward Book

Date	Invoice num	Supplier	Description of the Goods				Total Amount	Ledger page
			Item	Qty	Unit Cost (Rs)	Amount (Rs)		
05-May	212	Kamal & Co,	Sugar	25Kg	75.00	1,875	2,408	12
			Wheat	10kg	80.00	800		
			10% Discount			(268)		
19-May	132	Sohan & Sons	Rice	5Kg	60.00	300		15
31-May		Transferred to returns outward Account					<b>2,408</b>	

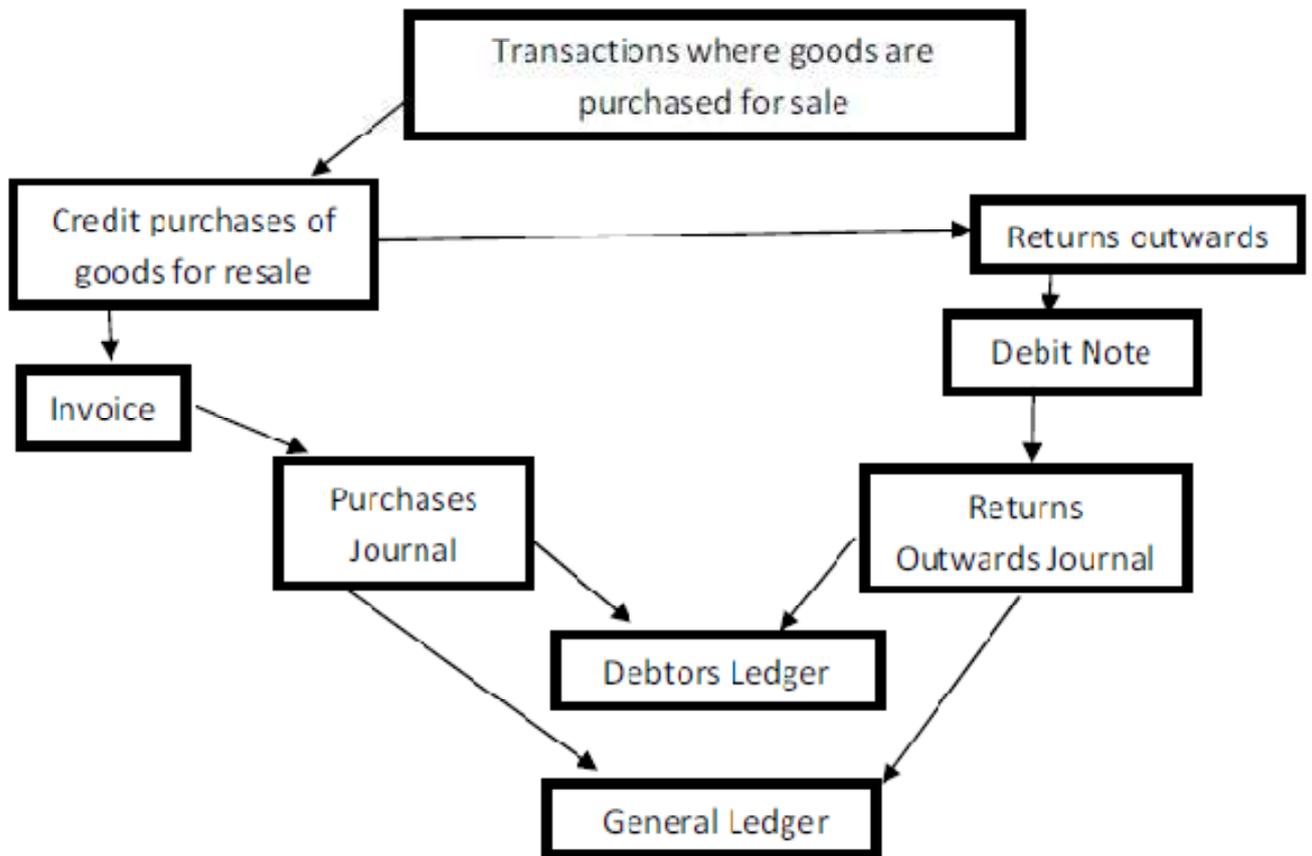
- The book of prime entry for recording goods returns is the **Returns Outwards Journal** or Returns Outwards Day Book.
- The source document used to record goods returns is the **Debit Note**.
- The format of the Returns Outwards Journal could be as follows.

#### Return Inward day book

Date	Invoice num	Customer	Description of the Goods				Total Amount	Ledger page
			Item	Qty	Unit Cost (Rs)	Amount (Rs)		
16-May	200	Sunil & Co,	Rice	10Kg	80.00	800		
			Tea	4kg	300.00	1,200		
						2,000		
			10% Discount			(200)	1,800	13
27-May	201	Kalpa & Co	Wheat	5Kg	100.00	500		15
31-May		Transferred to Return inward account					<b>1,800</b>	

## Basic Terms and Concepts:

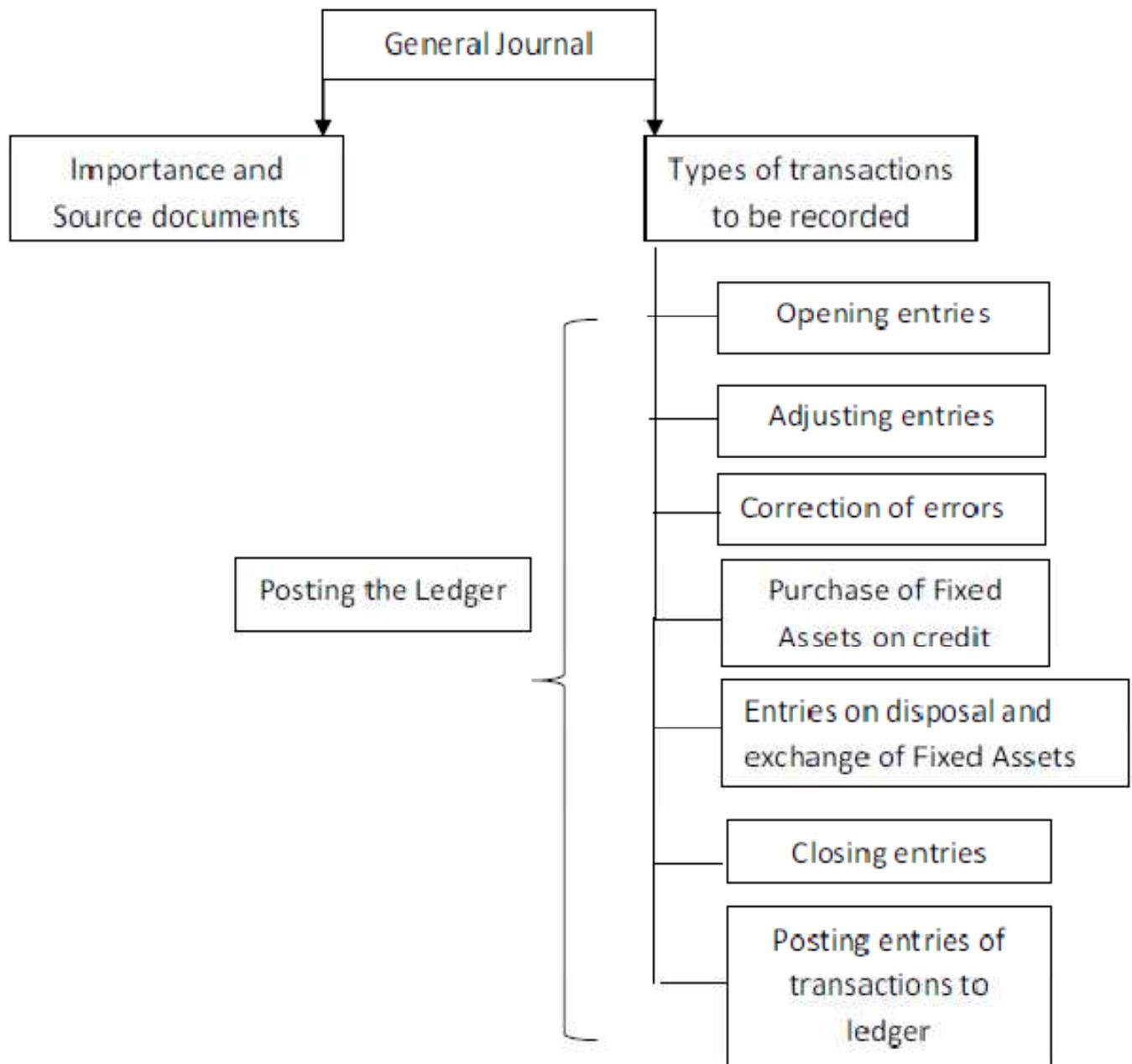
### Concept Map



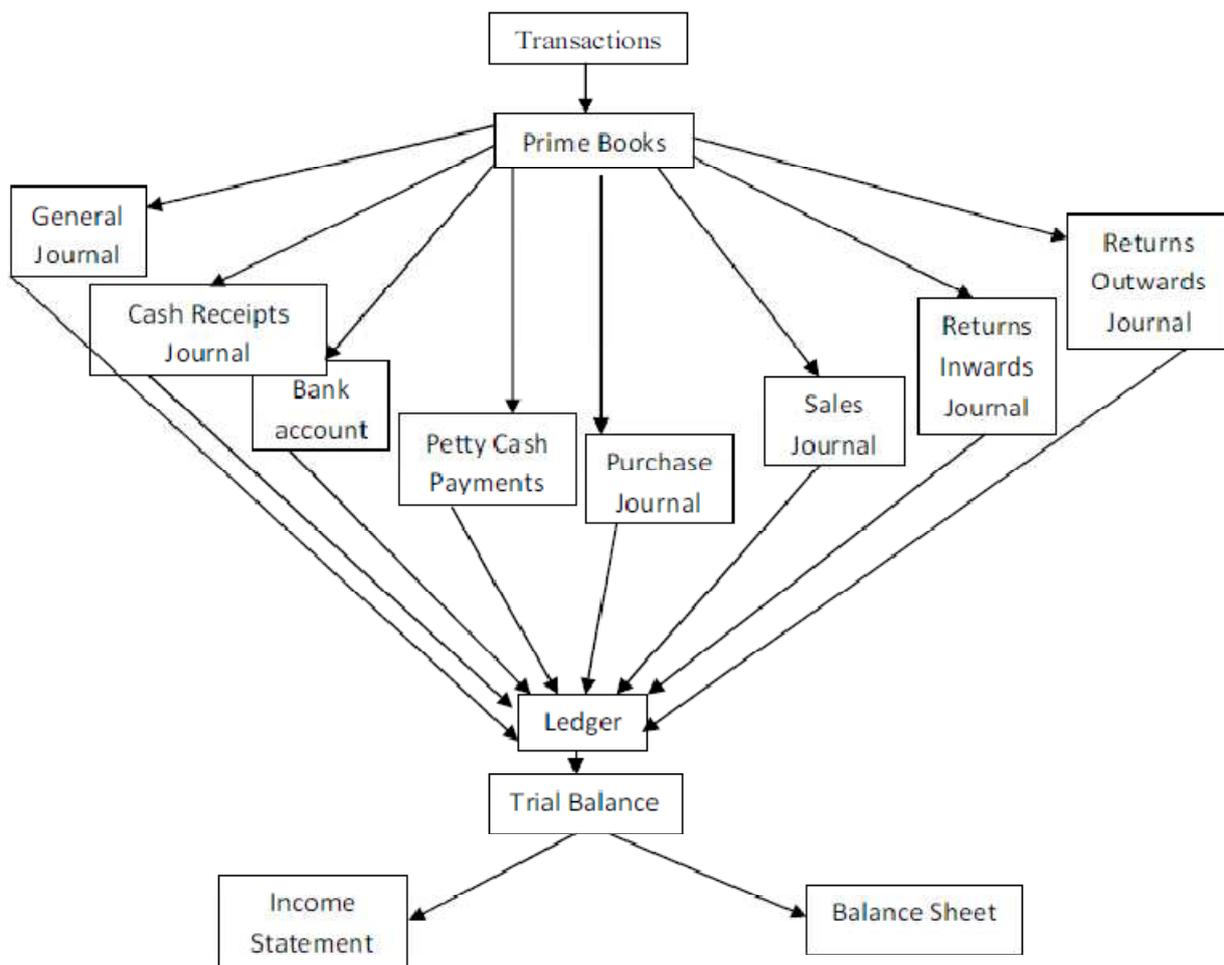
## General Journal

Date	Vouch num	Description	Ledger Page num	Dr (Rs)	Cr (Rs)
1-May-13	1	Machinery		120,000	
		Computer Equipment		45,000	
		Motor Vehicle		340,000	
		Debtors		123,000	
		Cash		22,000	
		Bank Loan			230,000
		Capital			300,000
		Creditors			120,000
				650,000	650,000
		( Being recording opening balances as at 1/5/2013)			

- The journal where entries that are not entered in the books of prime entry are made is introduced as the **General Journal** or Main Journal.
- The source document used to make entries in the General Journal is the Journal Voucher.



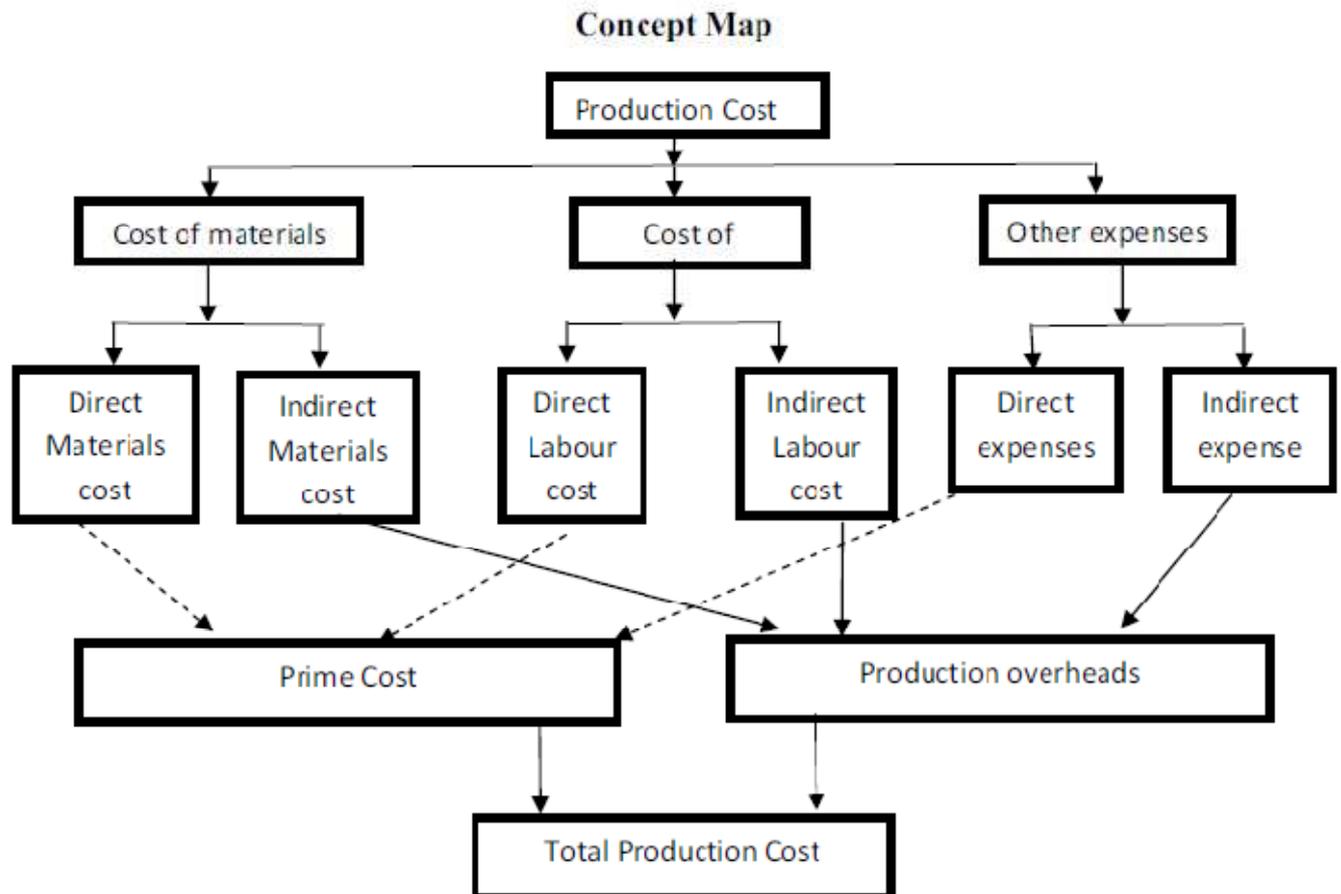
### Ledger accounts



- Transactions must be first entered in the books of prime entry and consider what are the relevant source documents.
- Relevant ledger accounts
- Balancing ledger accounts
- Preparation of a document that contains all the ledger account balances (Trial Balance)
- Preparing a document that states the financial results of the period (Income Statement)
- Preparing a statement that states the financial position as at the last date of the period (Statement of Financial Position)

## Manufacturing account

### Basic Terms and Concepts:



<b>Furniture manufacturing business</b>		
<b>Manufacturing account and Income statement for the year ended 2017.03.31</b>		
	(Rs.)	(Rs.)
Opening stock of timber		20,000
- Timber purchases	250,000	
+ Returns of timber	(10,000)	
	240,000	
- Carriage inwards of timber	10,000	250,000
		270,000
Closing stock of timber		(15,000)
Cost of materials consumed		255,000
Machine operators' wages	70,000	
Carpenters' wages	80,000	
Costs of designing	14,000	164,000
<b>PRIME COST</b>		<b>419,000</b>
<u>Production overhead cost:</u>		
Factory insurance	8,000	
Factory maintenance cost	4,000	
Factory electricity	4,000	
Machine depreciation	5,000	
Factory wages	15,000	
Cost of painting	5,000	41,000
		460,000
Opening work-in-progress	20,000	
Closing work-in-progress	(18,000)	2,000
Total cost of production taken to Trading account		462,000
Sales income		600,000
Opening finished goods	25,000	
Production costs	462,000	
	487,000	
Closing finished goods	(10,000)	477,000
Gross profit		<b>123,000</b>

## Ratios

## Profitability Ratios

Profitability ratios compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets. These ratios basically show how well companies can achieve profits from their operations.

Investors and creditors can use profitability ratios to judge a company's return on investment based on its relative level of resources and assets. In other words, profitability ratios can be used to judge whether companies are making enough operational profit from their assets. In this sense, profitability ratios relate to efficiency ratios because they show how well companies are using their assets to generate profits.

$$\text{Gross Profit Ratio} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

$$\text{Net Profit Ratio} = \frac{\text{Profit before tax/Profit for the year}}{\text{Sales}} \times 100$$

$$\text{Return on assets} = \frac{\text{Profit for the year} + \text{Interest}}{\text{Total Assets}} \times 100$$

$$\text{Return on Equity} = \frac{\text{Profit for the year}}{\text{Equity capital}} \times 100$$

### The gross profit ratio

The profit margin ratio, also called the return on sales ratio or gross profit ratio, is a profitability ratio that measures the amount of net income earned with sales generated by comparing the net income and net sales of a company. In other words, the profit margin ratio shows what percentage of sales are left over after all expenses are paid by the business.

Creditors and investors use this ratio to measure how effectively a company can convert sales into net income. Investors want to make sure profits are high enough to distribute dividends while creditors want to make sure the company has enough profits to pay back its loans. In other words, outside users want to know that the company is running efficiently. An extremely low profit margin formula would indicate the expenses are too high and the management needs to budget and cut expenses. The return on sales ratio is often used by internal management to set performance goals for the future.

### **The return on assets ratio**

The return on assets ratio, often called the return on total assets, is a profitability ratio that measures the net income produced by total assets during a period by comparing net income to the average total assets. In other words, the return on assets ratio or ROA measures how efficiently a company can manage its assets to produce profits during a period.

Since company assets' sole purpose is to generate revenues and produce profits, this ratio helps both management and investors see how well the company can convert its investments in assets into profits. You can look at ROA as a return on investment for the company since capital assets are often the biggest investment for most companies. In this case, the company invests money into capital assets and the return is measured in profits. In short, this ratio measures how profitable a company's assets are

### **Return on capital/equity**

Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. In other words, return on capital employed shows investors how many dollars in profits each dollar of capital employed generates. ROCE is a long-term profitability ratio because it shows how effectively assets are performing while taking into consideration long-term financing. This is why ROCE is a more useful ratio than return on equity to evaluate the longevity of a company.

This ratio is based on two important calculations: operating profit and capital employed. Net operating profit is often called EBIT or earnings before interest and taxes. EBIT is often reported on the income statement because it shows the company profits generated from operations. EBIT can be calculated by adding interest and taxes back into net income if need be.

Capital employed is a fairly convoluted term because it can be used to refer to many different financial ratios. Most often capital employed refers to the total assets of a company less all current liabilities. This could also be looked at as stockholders' equity less long-term liabilities. Both equal the same figure.

# Financial Ratios

**Liquidity Ratios**

Current Ratio =  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$       Cash Ratio =  $\frac{\text{Cash + Marketable Securities}}{\text{Current Liabilities}}$

**Asset Turnover Ratios**

Receivables Turnover =  $\frac{\text{Annual Credit Sales}}{\text{Accounts Receivable}}$       Inventory Turnover =  $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

**Financial Leverage Ratios**

Debt Ratio =  $\frac{\text{Total Debt}}{\text{Total Assets}}$       Debt-to-Equity Ratio =  $\frac{\text{Total Debt}}{\text{Total Assets}}$

**Profitability Ratios**

Return on Assets =  $\frac{\text{Net Income}}{\text{Total Assets}}$       Gross Profit Margin =  $\frac{\text{Sales - Cost of Goods Sold}}{\text{Sales}}$

**Dividend Policy Ratios**

Payout Ratio =  $\frac{\text{Dividends per Share}}{\text{Earnings per Share}}$       Dividend Yield =  $\frac{\text{Dividends per Share}}{\text{Share Price}}$

## Debt Ratio

Debt ratio is a solvency ratio that measures a firm's total liabilities as a percentage of its total assets. In a sense, the debt ratio shows a company's ability to pay off its liabilities with its assets. In other words, this shows how many assets the company must sell in order to pay off all of its liabilities.

This ratio measures the financial leverage of a company. Companies with higher levels of liabilities compared with assets are considered highly leveraged and more risky for lenders.

This helps investors and creditors analysis the overall debt burden on the company as well as the firm's ability to pay off the debt in future, uncertain economic times

## Glossary – Bookkeeping terms

**Assets:** Items of value owned by a business. Assets are found on the balance sheet and include cash in the bank accounts, cash in petty cash box, accounts receivable, equipment, land and buildings, vehicles.

**Account:** The place where financial entries of a similar nature are recorded, for example the 'Sales' account is where business income goes, the 'Stationery' account is where all pens, paper, staplers etc go. A list of account names is called the Chart of Accounts.

**Accounting:** The process of sorting and entering financial data into a bookkeeping system. Also refers to the finalizing of end of year accounts, producing financial statements and calculating tax payable by a certified practicing accountant.

**Accounting Equation:** The double entry method of bookkeeping is based on the accounting equation, which is:  $equity = assets - liabilities$

**Accountant:** The person who sorts and enters financial data to a bookkeeping system. People often inter-change bookkeeper and accountant to mean the same thing. Also refers to the person who does the annual financial statements and tax calculations.

**Accounts Payable (A/P):** Unpaid supplier invoices and bills (that is money owed by the business to other businesses) are grouped under Accounts Payable - 'AP' for short - and are found on the balance sheet as a liability. Once a bill is paid it is removed from this group.

**Accounts Receivable (A/R):** Unpaid sales invoices (that is money owed to the business by customers) are grouped under Accounts Receivable - 'AR' for short - and are found on the balance sheet as an asset. Once the customer pays their invoice it is removed from this group. Also see Accounts Receivable Definition

**Balance Sheet:** A balance sheet report shows the business owners and managers how much equity is in the business, how many assets the business owns, and what the business owes in liabilities. The balance sheet falls in line with the accounting equation.

**Bookkeeping:** The process of collating, recording and reporting on the financial transactions carried out by a business.

**Bookkeeper:** A trained and qualified person who does the bookkeeping process mentioned above.

**Budget:** The financial plan in which a business decides what it estimates it will earn in the year ahead, what those estimated earnings will be spent on, and then comparing/monitoring the actual figures against this plan.

**Bad Debts:** These are sales invoices that have been written off because the payments are overdue and never likely to be paid. Sales invoices are only written off after some effort to retrieve the funds including going through debt collection agencies. Bad debts are expensed in the accounts.

**Billing:** Invoicing customers for goods or services they have purchased from the business.

**Bookkeeping Cycle:** A bookkeeping cycle is usually based from the 1st day of the month to the last day of the month, and repeats every month. Bank reconciliations are done to the end of the month, financial reports produced for the month, sales tax and payroll tax calculated for the month. The month end is 'closed off' and financial transactions for that month should not be changed in any way except by reversing/correcting journals and only carried out in the next month. This goes on for 12 months until the end of the financial year when all the data is sent to a chartered accountant

**Credit:** Credits can be found on the right hand side of the double entry method of bookkeeping. A credit entry decreases assets and expenses, and increases income, liabilities and equity. Also, money that is owed by a business to a supplier/vendor is called credit. When you want to open an account with a supplier you would most likely fill in what is called a Credit Application. Credit is also money that is owed to a bank on a credit card.

**Capital:** The personal funds a business owner introduces to their business so that it can operate.

**Chart of Accounts:** The list of accounts set up in a bookkeeping system into which all the financial transactions are categorized. The main categories are: Assets, Liabilities, Equity, Income, Cost of Goods Sold and Expenses

**Credit Note:** A document that provides a refund to a customer for goods returned or sold at the wrong price.

**Cashflow:** The movement of cash through the business; this report details how cash flowed into the business and what it was spent on. Estimations can also be made in a cashflow forecast on the income and expenses for the year ahead - these figures will be based on prior earnings and costs and can help a business work out their sales goals and budget.

**Closing Balance:** The final balance on the bank statement or in the cashbook or ledgers at the end of any given day.

**Cost of Goods Sold:** Also known as cost of sales. This is the cost to the business of any parts or stock that are sold to customers. This can also include the manufacturing costs of such products.

**Cash book:** The main book in which is recorded all the funds moving in and out of the business through the bank account. The cash book always contains the following information for all of these transactions: date, amount, description of transaction, bookkeeping account as per chart of accounts and reference .

**Creditor:** The person or business to whom our business owes money for purchases made.

**Contra:** If a payment is made into a bookkeeping account, and then that same payment is paid out of the account for a reason, it is called a contra – the two figures contra each other out i.e. they cancel each other out of the account.

Example: \$200 was paid into the Sales account. The bookkeeper realised that he should have used a different account so he pays the \$200 out of the Sales account. This is the contra.

**Coding:** A term used to describe the allocation of a transaction amount to an account in the chart of accounts.

**Double Entry:** The method of bookkeeping in which all financial transactions are entered twice – once as a debit and once as a credit. All the debits need to equal the same as the credits. If they don't it is called being out of balance and the error will need to be found.

**Debit:** A debit balance is found on the left-hand side of double entry bookkeeping. A debit entry increases assets and expenses, and decreases income, liabilities and equity.

**Debtor:** A customer that owes your business money.

**Depreciation:** Most assets belonging to a business decrease in worth over time due to wear and tear and daily use – this is depreciation. The value that is used to depreciate the assets is calculated with special rates set by the tax department. It is usually a percentage of the cost price, less previously calculated depreciation. Depreciation can be claimed as a business expense to reduce income tax.

**Deductible:** A purchase that can be claimed as a business expense is called a deductible expense because it has the effect of reducing the business profit, therefore reducing the amount of income tax owed to the government. A non deductible purchase is one that cannot be used to reduce the profit and tax such as when the owner uses business funds to buy something for personal use

**Description:** The section of a financial transaction that describes the item or service purchased or sold.

**Drawings:** Funds withdrawn from a business by the business owner for their personal use.

**Entry/ Entries:** All financial transactions input to the bookkeeping system are called entries.

**Equity:** Equity is the net assets of a business - or in other words - Assets minus Liabilities equals Equity. The Equity section is found on a Balance Sheet and it includes how much the

business owner has contributed to the business from personal funds (capital) and how much they have withdrawn from the business for personal use (drawings).

**Expense:** Most purchases made by a business are called an expense. Expenses are found on the profit and loss report and can be used to reduce the amount of tax owed to the government.

**End of Month:** The bookkeeping cycle is usually based on one month, every month. At the end of the month, there are various steps a bookkeeper needs to take to close off the month, such as :-

- Reconciling the bank account to the last day of the month,
- making sure all sales have been issued on invoice to customers,
- checking that all supplier invoices dated to the last day of the month are entered into the system,
- performing various checks on the various bookkeeping accounts to ensure information has been coded to the right place and all is balancing,
- making sure the various sales tax and paye tax has been calculated and reported and paid to the government.
- Depending on the size of the business, it can take a bookkeeper several weeks into the following month to get the previous month finalized and closed off, after which no changes should be made other than with journals in the current month.

**Funds:** The money or value of money involved in all business transactions within the business or at the bank.

**Financial Statements:** Reports that are produced at the end of the financial year based on all the data entered to the bookkeeping system. These reports indicate how well the business is or is not doing, what the business is worth, and are used to calculate income tax due to be paid to the government.

**Gains and Losses:** This usually comes up when there are foreign currency transactions to be dealt with. When a business is given an invoice by an overseas supplier in a foreign currency, it has to be converted into the local currency when being entered into the accounts. When it is time to make the payment the local currency has to be converted into the foreign currency by the bank. The date at which it is entered will have a different exchange rate to the date when it is paid because exchange rates fluctuate on a daily basis.

These different exchange rates cause financial gains or losses that need to be identified in the accounts. The gains occur when the business has to pay less to the supplier than the original conversion; The losses occur when the business has to pay more to the supplier than the original conversion.

**Gross Profit:** This is calculated by taking the business income and deducting the cost of sales. If the cost of sales is more than the income a Gross Loss results.

**Hire Purchase:** Buying equipment such as a computer by paying it off through a finance company. At the end of the lease period the business will have the option of making a final payment to own it, or they can return the equipment and upgrade to a newer model. The new model can be paid off through the finance company, so the whole process starts again.

**Invoice:** A document that details the sale or purchase of stock, parts or services. The invoice will show the main details such as date, invoice number, quantity, description, cost, total, payment terms. When a business buys the products or services it will receive a purchase invoice and when the business sells products or services it will provide a sales invoice to the customer.

**Income:** Money that is earned by a business through the sale of products or services.

**Inventory:** A list of items that a business buys and sells. These items are kept in a store room of some sorts and a strict record kept of the number of items on hand at any given time.

**Interim Reports:** Financial statements can be produced for a bank or loan company at any stage during the financial year but because the financial year has not ended yet they will be called interim reports because they are based on a shorter period than the full year. Banks or loan companies usually require these so they can see how the business is doing before approving a loan to the company – they want to be sure the business has the means to pay back a loan. Interim reports are usually sufficient for this purpose.

**Journal:** An entry that is made into the accounts utilizing double entry bookkeeping to make an adjustment to the accounts such as if a correction has to be made. The journal describes which account is being debited and which account is being credited, the date, the reason for the journal and a reference.

**Ledger:** Each account on the chart of accounts has a ledger page. The ledger page lists all the entries made against the account either as a debit or a credit. The ledger page is totaled at the end of every month.

**Liability:** This is found on the balance sheet. Liabilities are made up of debts that the company owes to other businesses and includes accounts payable, loans and credit card balances

**Loss:** A loss occurs when the gross profit of a business is less than the expenses the business has to pay to keep the business running. This is usually called a Net Loss.

**Loan:** A business can buy asset with a loan from a bank or finance company. Loans are recorded as a liability in the balance sheet

**Markup:** When a business buys stock to sell they usually increase the price before selling it. This is called a markup. So if Betty buys a bag for \$10 and sells it for \$15 her markup is \$5. Markups are calculated either as a percentage of the price it cost to buy it, or set as a fixed calculation such as doubling the cost price.

**Margin:** Margins are calculated as percentages. One example is the gross profit margin which is based on sales divided by gross profit and the result turned into a percentage. Businesses can chose what margins they should have to be able to earn a profit and based on those margins decide what prices to sell their products to make this happen.

**Net Profit:** The result after taking expenses away from the Gross Profit or Loss

**Opening Balance:** The opening balances are the values found on the first day of the financial period. So for example, if your financial year starts on 1 January, the balances at the start of that day in the cash book or the ledgers are the opening balances. Opening balances are usually always exactly the same as the closing balances on the day before.

**Profit:** The difference between income earned and expenses paid. The greater the profit the better for business.

**Payable:** A bill that is due to be paid is called a payable and is included on the list of accounts payable

**Purchase:** When a business buys goods or services it is called purchasing.

**Payroll:** Anyone in employment who is paid a wage or salary will have their name on the payroll of the business. The bookkeeper in charge of payroll will ensure that all the relevant details of each employee is entered into the payroll program, will process a pay run on a regular basis to calculate how much each employee will be paid, and will make sure the payments happen on time. The bookkeeper or payroll clerk will also ensure that paye is paid to the government.

**PAYE:** Short for pay as you earn, which means that individuals who earn wages or salaries have tax deducted from each pay by their employer. The employer is responsible for passing this deduction on to the government, usually on a monthly basis.

**Petty Cash:** A business can keep cash in a safe place for the purpose of making small purchases like milk, stamps, pens etc. The petty cash is monitored carefully by the bookkeeper. All money paid out must be recorded in the petty cash book so that the expenses can be included in the accounts, and when the cash runs low it will be topped up with an injection of more cash.

**Reconcile:** The process of matching one set of figures or documents with another set of figures or documents. For example, matching the cash book with the bank account and investigating and fixing any differences; or checking that the business has received all the invoices listed on a supplier's statement and if any are missing phoning the supplier for them.

**Refund:** A refund can be provided to or from another business if bills have been overpaid.

**Receivable:** Accounts that are due to be paid by the customers of a business are listed on the accounts receivable report. Anything that is receivable means that the business expects to receive money.

**Receipt:** When payments are received from customers a receipt can be issued to them to confirm the details of the payment received, particularly useful for cash payments – the receipt provides proof of payment. Also, receipts are what everyone gets when shopping with their bank card and swiping the card through the electronic machine at the shop counter. Businesses should keep these receipts in a folder to match them up to the bank statement ensuring an accurate cash book.

**Remittance:** A document that is given to a supplier or received from a customer that lists what invoices are included in a payment made.

**Recurring:** A transaction that repeats regularly every week or month for the same amount to the same place is said to be a repeating or recurring transaction.

**Reference:** A number or combination of numbers or letters that are used to identify each transaction within the cash book following through to the journals and ledgers. Each financial transaction is allocated a unique reference that can be traced easily through the bookkeeping system.

**Single-Entry:** A bookkeeping system in which all financial transactions only have to be entered once. This is usually within a cash book system and does not utilize journals and ledgers for the process of balancing.

**Sales:** All items or services sold to customers fall within the sales category.

**Salary:** A salary is a fixed amount paid to an employee for their work. People on salaries do not earn overtime pay like a wage earner when working more than their standard hours.

**Statement:** A report that displays financial information. Examples are Income Statement which is another term for Profit and Loss Report, Statement of Account which a supplier of services or goods provides to their customers which details all the invoices issued to them in a certain time frame (like a month), Bank Statement which is a listing of transactions in and out the bank account.

**Transaction:** A transfer of funds from one account to another.

**Unpresented:** Checks/Cheques that have not been deposited to the bank are said to be unpresented. This term is used most often on bank reconciliations to aid in the reconciling of the cash book with the bank account.

**Write-Off:** An amount that will not be paid by a customer can be written off. This just means that an entry is made to the accounts to bring the customer's account down to zero.

**Wages:** A payment made to an employee for the work they do. Wages are usually based on an hourly rate agreed between the employer and employee. Income tax is also usually

deducted from the total so the employee receives a net payment. Wages are found on the profit and loss under expenses.

**Withdrawal:** When funds are taken out of a bank account they are 'withdrawn'.

**Year-End:** The financial year-end is always busy for a bookkeeper because this is when the accounts for the year need to be finalized and handed over to an accountant to calculate how much tax a business needs to pay to the government. What the bookkeeper needs to do is ensure all bank reconciliations are completed, all transaction entries are coded correctly, all supporting paperwork is available and all sales taxes and payroll taxes have been processed.



# 11. Costing and Pricing Skills

## Introduction

Small and Medium Entrepreneurs need to possess the following knowledge and skills as to run their business successfully.

- Identify and monitor all your costs.
- Use accounting reports to compare budget costs to actual costs.
- Calculate the break-even point for your business activities.
- Set some challenging improvement targets and celebrate their achievement.
- Make sure you are pricing for profit, not just sales.
- Separate your activities and related costs so you can monitor their profitability.
- Get help from your accountant to identify and monitor some key business indicators.

Successful businesses maximise their profits by matching their pricing with the value that customers place on their products or services.

**The cost** of a product or service is your total outlay in creating that product or service.

**The price** of a product or service is your financial reward for providing that product or service.

**The value** of a product or a service is the 'worth' that your customers place on that product or service. The higher the worth of a product or service to a customer, the higher the price that you can charge.



**The profit** may be defined as the amount of money that you retain from the sale of goods and services, after deducting all of the costs associated with the provision of those goods and services and your fixed costs. This is more commonly known as net profit.

## Understanding Cost

Understanding costs provides a base figure without which one cannot price the product. Unless you understand the level at which you are either making a profit or a loss, you will never know if you are making a profit or a loss. After looking at all the cost items related to your business operations, you can then investigate how sensitive your business profit is to changes in key elements of the Profit & Loss Account.

When money gets tighter there are essentially two solutions: sell more and cut costs.

There are two types of costs in a business.

1. Direct Cost
2. Indirect Cost

**Direct cost** are costs that vary directly with the number of produced produced/sold. For instance, production cost that includes cost of raw material, labour cost directly related to production or service delivery, cost of goods sold (if it is a trading business). This type of cost items often called variable cost as they keep fluctuating according to the production or sales.

**Indirect cost** are costs that must be paid whether or not a sale has been made. These costs are 'fixed' over a specified period of time. Fixed costs include sales and marketing cost, bank interest, water bills, insurance and non-production salaries for permanent staff, replacement of equipment, furnishings and fittings, office costs, including stationery, postage, telephone, Internet and photocopying costs, bank charges, transport/delivery costs, marketing costs and commission payments.

### Example

GoGO Shoes is a shoe making business which has recorded following cost items (for last month) and they need you to categorised direct cost and indirect cost items. The owner of this business only considers the total production cost. He is having lots of issues in selling

his shoes. Tick mark, in right side columns, under each cost item, deciding whether the cost item is direct or indirect.

Cost Item	Direct Cost	Indirect Cost
Leather Rs. 16400.00		
Soles Rs. 8600.00		
Heals Rs. 6000.00		
Glue Rs. 3000.00		
Badges Rs. 2000.00		
Production –wages Rs. 18000.00		
Production labour piece rate 3000.00		
Transport of material Rs. 3000.00		
Factory rental Rs. 8000.00		
Cost of sales Rs. 5000.00		
Electricity bill Rs. 8000.00		
Machine depreciation Rs. 10000.00		
Telephone bill Rs. 1500.00		
Building rent Rs. 10000.00		
Bank interest Rs. 3500.00		
Owner's salary Rs. 20000.00		
Other expenses Rs. 1500.00		

## How to Calculate Direct Cost

According to the above GoGo Shoes example, you can calculate the direct material cost and direct labour costs separately and see how do the different cost categories affect the production.

### Direct Material Cost

The total costs of all the physical inputs add on in the production of a pair of shoe are called direct material cost. See the following example on calculating total direct material cost of shoe making business.

### Example

<b>Direct Material Cost</b>	
Leather	16400
Soles	8600
Heals	6000
Glue	3000
Badges	2000
Transport of raw material	3000
<b>Total Material Cost</b>	<b>39000</b>

### Direct Labour Cost

All types of labour payments made for workers under production facility is calculated as the direct labour cost. Let's calculate the direct labour cost of above shoe making example.

### Example

#### Direct Labour Cost

Production wages	18000.00
Production Piece- rate	3000.00
<b>Total direct labour cost</b>	<b>21000.00</b>

If you want to know the total direct cost, the formula is;

$$\begin{aligned} \text{Total direct cost} &= \text{direct material cost} + \text{direct labour cost} \\ &= 39000 + 21000 \\ &= \underline{60000.00} \end{aligned}$$

### Direct cost per unit

If you are a shoe maker or any other kind of manufacturer, it is important for you to know how much you spend for each pair of shoes you make. Without that piece of information you cannot price your product or develop any pricing strategy to sell your product more in the market. Let's assume that GoGo Shoes have made 100 pairs of shoes in last month.

#### GoGo Shoes Example

Total direct material cost of last month      Rs. 39000.00

Total direct labour cost for last month      Rs. 21000.00

Total Direct cost      Rs. 60000.00

$$\begin{aligned} \text{Direct cost per unit} &= \text{Total Direct cost} / \text{No of shoes made} \\ &= 60000 / 100 \\ &= \text{Rs. } 600.00 \end{aligned}$$

If GoGo shoes record all the transactions of production expenses and critically analyse the cost of their production process, they can improve their business by finding new ways to increase profitability. They simply know the actual situation of direct cost for the past month.

To be exact GoGo Shoes know the following cost indicators of their company

Direct Material Cost	39000
Direct Labour Cost	21000
Total Direct Cost	60000

Direct Material Cost per unit	390
Direct labour Cost per unit	210
Direct Cost per unit	600

### Indirect Cost

Indirect costs go beyond the expenses associated with creating a particular product to include the price of maintaining the entire company. These overhead costs are the ones left over after direct costs have been computed, and are sometimes referred to as the "real" costs of doing business.

Non-production supplies and services needed for the company's day-to-day operations are examples of indirect costs. These include items such as utilities, depreciation, rental, bank interest and rates, cleaning supplies. While these items contribute to the company as a whole, they are not directly assigned to the creation of any product or service.

Indirect labor costs make the production of cost objects possible but aren't assigned to a specific product. For example, sales marketing and clerical assistants who maintain the office support the company as a whole instead of just one product line. Thus, their labor can be counted as an indirect cost.

Other common indirect costs include advertising and marketing, communication, "fringe benefits," such as an employee's EPF, ETF, welfare and accounting and payroll services.

### Example

If you use the same GoGo Shoes example to compute total indirect cost of this business, we can understand the difference of the two types of costs involved in business.

Cost item	Rs.
Factory rental	8000
Cost of sales	5000
Electricity bill	8000
Machine depreciation	10000
Telephone bill	1500
Building rent	10000
Bank interest	3500
Owner's salary	20000
Other expenses	1500
<b>Total Indirect cost</b>	<b>67500</b>

Now the business owner of GoGo Shoes know the exact amount of indirect cost, separately, of his company. Why this figure is important? Indirect cost is very important because it determines the profitability of business. Profitability of each unit produced is also determined by the indirect cost. If the total indirect cost of the company, for a given period, is higher than expected, even the direct cost is lower, you are going to have a loss. If you monitor and control indirect cost, it has the power to close down your business.

What is the total cost of shoe production in the past month, in GoGo Shoes?

Total Direct Cost = Rs. 60000.00

Total Indirect cost = Rs 67500.00

**Total cost - Rs. 127,500.00**

What is the total unit cost of a shoe pair?

Its computed by dividing the total cost by the total number of shoes made during the given period.

So the unit cost should be =127,500/100

=Rs. 1275.50

What is the indirect unit cost of one shoe pair?

Total Indirect cost = Rs 67500.00

Unit Indirect cost = Rs. 67000/100

=Rs.670.00

### How it works in practical situation?

Imagine that GoGo is selling a pair of shoe for Rs.1100.00 in the market unaware of the actual cost, what could happen in few months?

Now you know GoGo is making a loss of Rs. 175.50 from each pair of shoes they sell. But he could only know this if he calculates the direct/indirect cost and unit costs. This is why, costing is so important in running a business. If you don't know the cost, you are not doing a business. If you don't measure and analyse, you are not running a business. Without measuring, you cannot manage. The money you have invested is going to be wasted if you don't take decisions based on right calculations of costs.

### Case 1 - Jayapala Furniture Manufacturer

Jayapala is working in a carpentry workshop as carpenter who make tables. His idea is to open his own carpentry shop, some day and he is very keen about what is going on in the workplace he spend time in making tables. Finally he resigned the job and submitted a proposal to get a loan from the bank. He also got an order of 50 tables, which can be made with the expertise he already has. Finally he also got the loan he requested from the bank and now he is having some issues.

The buyer who gave him the order, have asked for following qualities in each table he make.

1. Height should be 2 1/2 feet and width is 8.4 50 tables need to be delivered feet.
2. Each table need to have two drawers size of 1 1/2\*2 feet.
3. Timber that is to be used should be in no 1 quality.
4. All the tables need to be delivered to supplier in 60 days.

Jayapala has made following rough calculations in order to plan the production activities.

1. One table needs 45 square feet of timber panels and 12 feet rafters. Wood panels, 1 feet is Rs. 75/= and rafter costs Rs. 60/=.
2. For each table it requires 250g nails, sand paper, polish, sealer and locks and they cost about Rs.1000/=.
3. He plans to make 2 tables a day using 3 skilled people and 2 unskilled people.
4. They work 25 days a month and 8 working hours a day. Skilled person get Rs. 1000.00 a day and unskilled labour get Rs.600.00 a day.
5. Monthly electricity bill is Rs.2000.00.
6. Timber transport cost of timber is Rs. 500/= for 10 tables.
7. Jayapala got a bank loan ofRs. 100,000.00 and annual interest is 10%. He has to repay the loan in 3 years.
8. He spent Rs. 60000.00 for machinery and remaining Rs. 40000.00 for material.
9. Productive life time of machineries is 5 years.
10. Annual insurance installment is 50,00.00
11. Building rent is Rs. 3500.00 and refundable deposit is 50000.00.
12. Stationary and other overhead cost Rs. 2000.00 per month.
13. Machine repairs, monthly 2500.00

14. Expected net profit margin is 35%

The overall cost calculation of Mr. Jayapala's table making business is illustrated in the following table.

ACC Total Cost Calculation Table

No	Description	Cost Centre	Basis	Quantity per unit	Unit Value	Unit cost	%	
1	<b>Direct Cost</b>							
	1.1.1	Direct Material Cost		unit	1	4,095.00	4,095.00	
	1.1.2	Transport		unit	1	50.00	50.00	
	1.1.3	Other direct cost		unit	1	1,000.00	1,000.00	
	1.1	Total direct material cost		unit	1	5,145.00	5,145.00	
	1.2	Total direct labour cost	75,000.00	hours	4	375.00	1,500.00	
	Total direct cost						6,645.00	87.49%
2	<b>Indirect Cost</b>							
	2.1	<b>Factory cost</b>						
	2.1.1	Electricity	2,000.00	hours	4	10.00	40.00	
	2.1.2	Indirect labour	30,000.00	hours	4	150.00	600.00	
	2.1.3	Depreciation	1,000.00	hours	4	5.00	20.00	
	2.1.4	Insurance	4,167.00	hours	4	20.83	83.32	
	2.1.5	Maintenance	2,500.00	hours	4	12.50	50.00	
	<b>Factory cost</b>		39,667.00	hours	4	198.33	793.32	
	2.2	<b>Admin cost</b>						
	2.2.1	Stationary	2,000.00	hours	4	10.00	40.00	
	Total admin cost		2,000.00	hours	4	10.00	40.00	
	2.3	<b>Sales distribution cost</b>						
	2.3.1	Transport	-	unit	1	100.00	100.00	
	Total sales distribution cost		-	unit	1	100.00	100.00	
	2.4	<b>Financial &amp; other cost</b>						
	2.4.1	Bank interest	833.00	hours	4	4.17	16.68	
	<b>Total financial &amp; other cost</b>		833.00	hours	4	4.17	16.68	12.51%
	<b>Total Indirect Cost</b>						950.00	
	<b>Total Cost</b>						<b>7,595.00</b>	<b>100%</b>

	Profit Margin 35%						2,658.25	
	Total production cost							
	Selling Price						10,253.25	

## Is Price Just a Number?

Price is the amount of money charged for a product or service for the benefit of receiving a product or service. The word “benefit” is emphasized because small business owners frequently lose sight of the relationship between benefits and the simple transaction of buying and selling.

An example is that of eating in restaurants. Most people eat in restaurants to celebrate an occasion, for “date night,” or merely to take a break. The experience of eating out is the benefit, and the price tag cannot fairly be compared to the money spent if the same meal was cooked at home instead.

### Types of Prices

1. Retail Price – amount paid by end consumer for a given product.
2. Wholesale price – amount paid by the resellers for a given product.

What Makes Pricing Successful? Pricing is successful if:

- The business has a decent profit
- The owner and employees are paid a reasonable wage
- The business has no difficulty finding the cash to pay the bills
- The company attracts the best quality customers who are willing to pay for the value added by the company
- The company generates a reasonable return on investment
- Business can compete with the prices in the market and of competitors

## Running a Business Means Getting a Decent Profit

What is the profit? Profit the purpose of running a business.

Profit can be calculated at many levels of any business.

1. Gross Profit
2. Net Profit
3. Profit after Tax

Example - SimpleMan Ltd Co.

Following information is given to you of SimpleMan Ltd, for the month of August 2018.

Sales turnover-cash Rs. 100,000.00

Sales turnover-credit Rs. 40,000.00

Cost of sales Rs. 54000.00

Other costs Rs. 36,000.00

What is the gross profit and net profit of SimpleMan Ltd for month of August?

### What is Profitability?

The Profit Margin or profitability indicates the percentage profit a business makes on a sale. The Profit Margin is normally calculated as the Gross Profit, which is the excess of income over the costs (excluding payroll) directly associated with making the sale. Margins indicate the profitability which is the level of financial achievement against the turnover of a business. Profitability is calculated as gross profit ratio and net profit ratio.

Gross profitability =  $(\text{Sales Turnover}/\text{Gross Profit}) \times 100$

Gross profitability =  $(\text{Sales Turnover}/\text{Net Profit}) \times 100$

Using the above example calculate the profitability ratios?

### What is a decent profit?

According to SME statistics of Sri Lanka, the average small business in Sri Lanka generates a profit before taxes of 5% to 10% of sales. This is not the only indicator of the health of a company but it is a good first step. With healthy profit, range from 10% to 16% cash will be

relatively easy to manage; Accounts Payable will be smaller than Accounts Receivable, the bills can be paid without having to hound customers who are just a few days late to pay back. If you miss a few weeks looking at the cash flow, it just doesn't matter too much.

## Pricing for Profitability and Growth

Price can either make or break your business. In other words price is the determining factor of business profitability and business growth.

### What is Price?

Price is the value of product attributes expressed in monetary terms which a consumer pays or expected to pay in exchange. Price of a good or service is value the customer pay for the value which is being offered at the time of transaction.

### Pricing

Therefore your pricing method includes everything you do to sell your products with a decent profit, ensure cash inflow and maintain your liquidity. Pricing is there mainly to ensure business survival, to maximize profit, to increase market share against competition, market skimming and quality leadership and image building.



### How to Price?

As an entrepreneur you have to develop a very strong and logical pricing method for entire business operation. Pricing method is the key factor that;

- provides you with decent profit,
- covers the all the costs involved,
- fights against competition,
- encourage customers to buy,
- ensures optimum cash flow,
- ensures the wellbeing of employees and
- enables business growth.

Price comprises of three main elements;

$$\text{Direct Cost} + \text{Indirect Cost} + \text{Profit Margin} = \text{Price}$$

### Example – Price of a Product

Soap making business, ACB Company Ltd has following details for a batch of 100 bars. Use the above formula to decide the price of one soap bar.

Total material, labour and other direct costs of 100 bars      Rs. 1340.00

Total indirect cost of selling 100 soap bars                      Rs. 1960.00

Profit margin is 30% on cost

Answer

Unit cost	Rs.
Direct	13.40
Indirect	19.60
Profit margin	14.14
Price	47.14

## Deciding the Price of a Product/Service

There are number of factors that need to be considered before we decide the product. The three main elements are influenced by the internal and external factors of the business.

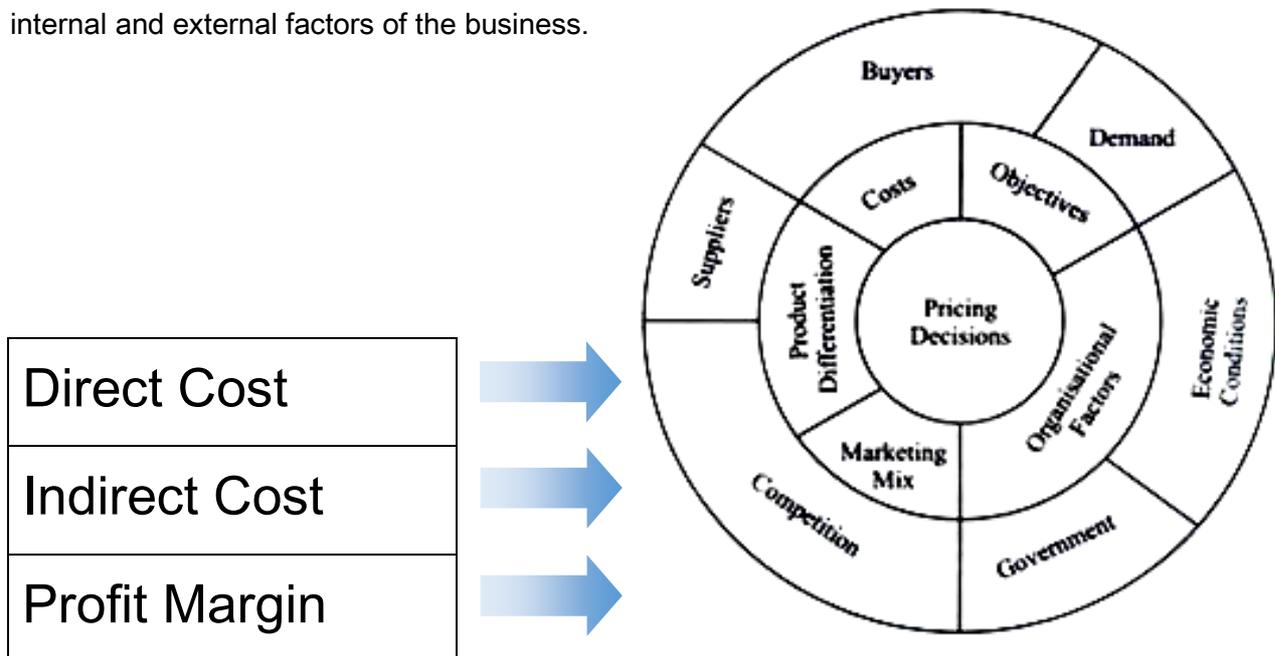


Figure 9 Internal and external factors to decide the price

### MOP/SRP/MRP in Today's Market

You probably have to know the actual meaning and usage of following types of prices often used across the business spectrum.

MOP - stands for Market Operating Price.

SRP - is the acronym for Suggested Retail Price.

Both these terms essentially denote pricing benchmark or guideline set forth for retail price of its products. These are certain thresholds used in pricing of particular product/s and when the entrepreneur/manager knows these figures they can drive the sales mechanism to make bigger profits. MOP or SRP on the other hand are not driven by Government Regulations but rather by the business owners and managers themselves keeping in perspective the impact

that price has on the brand. While lower prices have a positive impact on sales volume, it may have adverse impact on brand image, marketing cost and distribution channels.

MRP or Maximum Retail Price is a well known term which denotes the maximum price that a retailer can charge for a particular product including taxes. This is mentioned by the business/company for each of its products and is driven by Government Regulations.

It is keeping these two aspects in mind that your business can set guidelines or thresholds for the retail selling price, essentially directing retailers not to sell below a particular price. Setting such benchmarks enables your business to ensure minimum variability of price which in turn provides a level playing field.

### Activity

Consider the same above example of ABC Co Ltd. Discuss the possible solutions for ABC, if they have to face following pricing challenges;

1. Government decided a Maximum Retail Price (MRP) for soap, which is Rs.45.00.What would the company do?
2. If the company decided SRP (Suggested Retail Price) as Rs. 48.00, what market issues the company may face?
3. If the MOP (Market Operating Price) is to set at Rs. 42.00 what consequences and remedies ABC has to consider?

## Lowest Pricing Does Not Win

Having the lowest price is not a strong position for small business. It invites customers to see your product or service as a commodity and obscures any value-add you offer. Plus, larger competitors with deep pockets and the ability to have lower operating costs will destroy any small business trying to compete on price alone. Avoiding the low price strategy starts with looking at the demand in the market by examining three factors:

1. **Competitive Analysis:** Don't just look at your competitor's pricing. Look at the whole package they offer. Are they serving price-conscious consumers or the affluent group? What are the value-added services if any? How do you compare?

2. **Ceiling Price:** The ceiling price is the highest price the market will bear. Survey experts and customers determine pricing limits. The highest price in the market may not be the ceiling price.

3. **Price Elasticity:** According to the Harvard Business Review:

*Most customers in most markets are sensitive to the price of a product or service, and the assumption is that more people will buy the product or service if it's cheaper and less will buy it if it's more expensive. But ... price elasticity shows exactly how responsive customer demand is for a product based on its price. Marketers need to understand how elastic, sensitive to fluctuations in price, or inelastic, largely ambivalent about price changes, their products are when contemplating how to set or change a price. Some products have a much more immediate and dramatic response to price changes, usually because they're considered nice-to-have or non-essential, or because there are many substitutes available,". Take for example, beef. When the price dramatically increases, demand may go way down because people can easily substitute chicken or pork.*

Once you understand the demand structure in your industry, review your costs and profit goals as set in your business plan or financials.

### **Avoiding a Price War**

Do not get into a price war - odds are you will lose and be left out of business. Take these 4 tips to avoid a deadly price war:

**Enhance Exclusivity:** Products or services that are exclusive to your business provide protection from falling prices.

**Drop High Maintenance Goods:** There may be products or services in your business that have high customer service and maintenance costs. Drop the unprofitable lines and find out what customers don't want.

**Value-added:** Find value your business can add to stand out in the marketplace. Be a unique business in the category.

**Branding:** Develop your brand name in the market. Brand name businesses can always stand strong in a price war.

Small businesses with solid pricing strategies can escape a price war and low price position. Carefully, consider your price decisions. Your business depends on it. Also consider price skimming.

## Costing Methods used around the world

Small-to-medium size enterprises (SME) are under increasing pressure to remain competitive in today's global economy. There are a number of strategies for smaller organizations to achieve world-class levels of cost savings, market response, and efficiency. These include embracing proven supply chain management (SCM) strategies and enhanced accounting systems. Variety cost management approaches for example Total quality management (TQM), just-in-time (JIT), benchmarking, kaizen costing, targeting cost, life cycle costs (LLC), activity-based costing (ABC) value engineering have been introduced. Management and cost applications



have changed over the past decade and will continue to change. Modern cost systems can provide relevant and accurate cost information. These methods provide the decisions about customer, product and process improvement.

Kaizen Costing (KC), Target Costing (TC), Product Life Cycle Costing (LCC), Total quality costing (QC), Activity Based Costing (ABC), Just-in-Time Costing (JITC), Value Engineering (VE) are briefly discussed.

### Kaizen Costing (KC)

Kaizen is a Japanese term. It is defined as a method aiming to achieve optimization of standards through gradual, continuous improvement. The function of the Kaizen costing

The word Kaizen is Japanese and means "Continuous Improvement".

Kai = Change      改善      Zen = Good

method is to evaluate predetermined job standards by means of progress checks not to have a stable production process, continuously improve the critical processes by providing non-ripe and open to new product lines continually is to achieve a cost reduction.

Kaizan activities focus on each process in order to add value AND eliminate waste



Who?	What?	Where?
<ol style="list-style-type: none"> <li>1. Who does it?</li> <li>2. Who is doing it?</li> <li>3. Who should be doing it?</li> <li>4. Who else can do it?</li> <li>5. Who else should do it?</li> <li>6. Who is doing 3-Mus?</li> </ol>	<ol style="list-style-type: none"> <li>1. What to do?</li> <li>2. What is being done?</li> <li>3. What should be done?</li> <li>4. What else can be done?</li> <li>5. What else should be done?</li> <li>6. What 3-Mus are being done?</li> </ol>	<ol style="list-style-type: none"> <li>1. Where to do it?</li> <li>2. Where is it done?</li> <li>3. Where should it be done?</li> <li>4. Where else can it be done?</li> <li>5. Where else should it be done?</li> <li>6. Where are 3-Mus being done?</li> </ol>
When?	Why?	How?
<ol style="list-style-type: none"> <li>1. When to do it?</li> <li>2. When is it done?</li> <li>3. When should it be done?</li> <li>4. What other time can it be done?</li> <li>5. What other time should it be done?</li> <li>6. Are there any time 3-Mus?</li> </ol>	<ol style="list-style-type: none"> <li>1. Why does he do it?</li> <li>2. Why do it?</li> <li>3. Why do it there?</li> <li>4. Why do it then?</li> <li>5. Why do it that way?</li> <li>6. Are there 3-Mus in the way of thinking?</li> </ol>	<ol style="list-style-type: none"> <li>1. How to do it?</li> <li>2. How is it done?</li> <li>3. How should it be done?</li> <li>4. Can this method be used in other areas?</li> <li>5. Is there any other way to do it?</li> <li>6. Are there any 3-Mus in the method?</li> </ol>

### Target Costing (TC)

Target costing first emerged at the Japanese firm Toyota in the 1960's. "Target Costing" literature spread throughout the United States and Germany, and began to be widely-used in other European countries. The definition of target costing formulated by Horngren and Foster is as follows. A company will be required to enter a new market. In such a case, competition in the market means that pricing will be effective for this company. If a company wants to become permanent in the marketplace and the company entering the market wants to sustain long term profitability against the competition it is required to estimate costs. This is referred to as "target costs" and is defined as a method of costing focused on foreign markets. Target costing is defined as an expected profit rate for goods or services that will save a cost level defined as bearable, exhibiting a consumer-oriented understanding, considered providing competitive advantage, and because costs are based on the principle of managing previously described as a method. The target costing method's objectives can be summarized as follows.

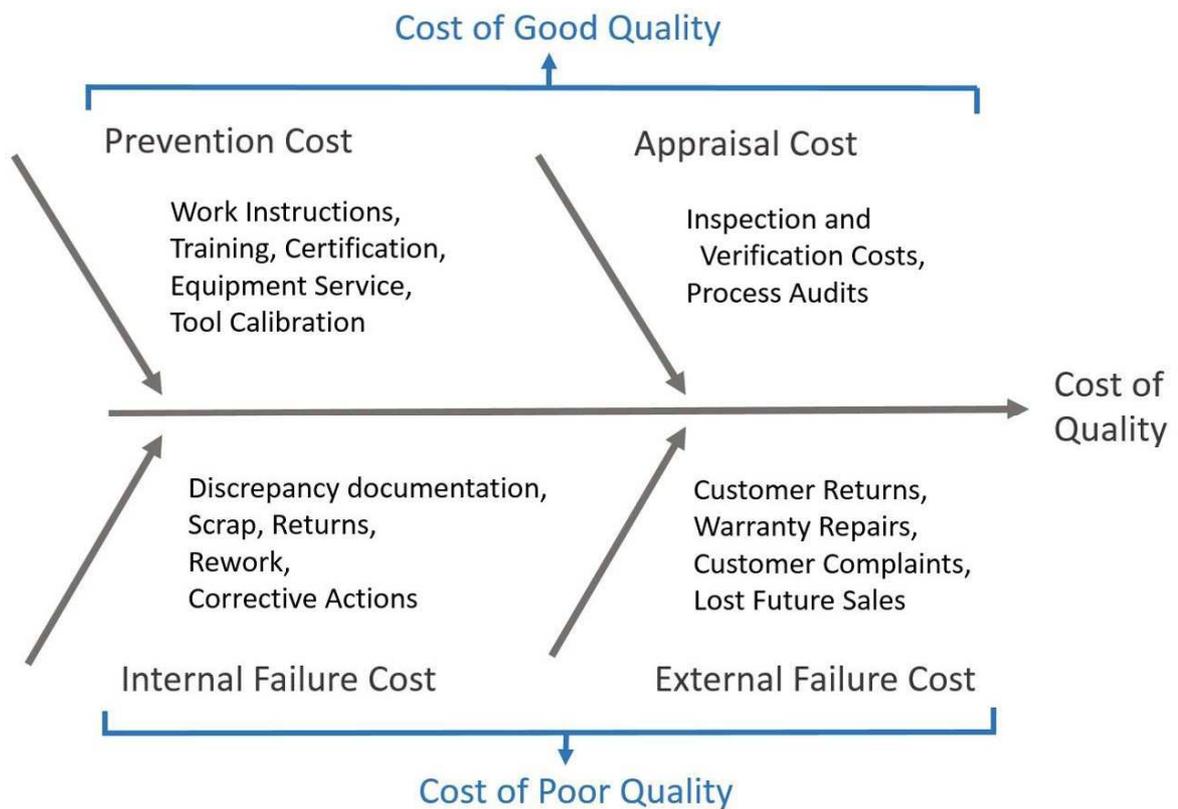
- The business is completely harmonized with the market,
- Linking strategy to research and development activities in the market,
- The product's project phase supporting the management of the cost of the product,
- Cost targets are constantly checked to ensure dynamic cost management,
- Business objectives are directly influenced by the needs of the market.

Target costing has six basic principles. In brief: price, customer acquisition, product project forward planning, interdepartmental cooperation, taking into account the product life period so as to minimize costs, the value of membership of chain (suppliers, distributors, vendors, etc.).

### Quality Costs (QC)

The meaning has changed in recent years; the cost of quality is expressed. Before the 1980s, the work of a quality assurance department work was perceived as costing. Reprocessing, correction, testing and warranty costs nowadays commonly expressed as design, implementation, operation and the quality management system's maintenance accepted as seen. Quality costing is used in the manufacturing industry today, and widely used by basically all sectors (service industries, commerce, public health, transportation and distribution, tourism, finance, etc.).



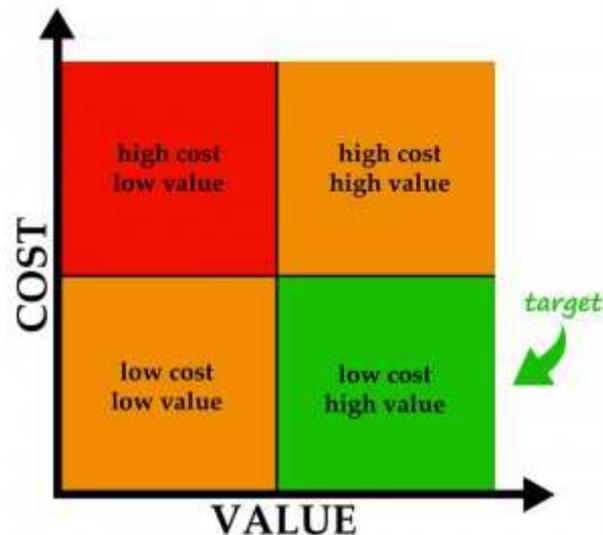


### Value Engineering (VE)



The term Value Engineering was invented during World War II by Lawrence D. Miles of General Electrics. It was expressed as part of research into how to utilize limited funds most

efficiently during wartime. Miles examined either the project, service, or process objectives; the functions analyzed; the period of completion and costs to be reduced and the ways of improving the effectiveness of each step were tested for team-oriented, technically designed value engineering. VE is useful for solving problems, and is regarded as a systematic tool.



### Just-in Time Costing (JITC)

This system is called the Toyota production system. It was a method used by Toyota after the Second World War, a period in which great efforts were made to catch-up with the West's advanced automotive industry. During that time the aim was to increase productivity and reduce costs, amongst other things. Just-in-time production and provision arrangement was later expressed as the automation of the production trial and error method with found applications. Just-in-time production describes a method of costing in an environment where customers demand high quality goods and services as soon as the new production environment emerges, to reach accord with the agenda. Just-in-time production method describes the approach to producing the necessary quantities of the required products.

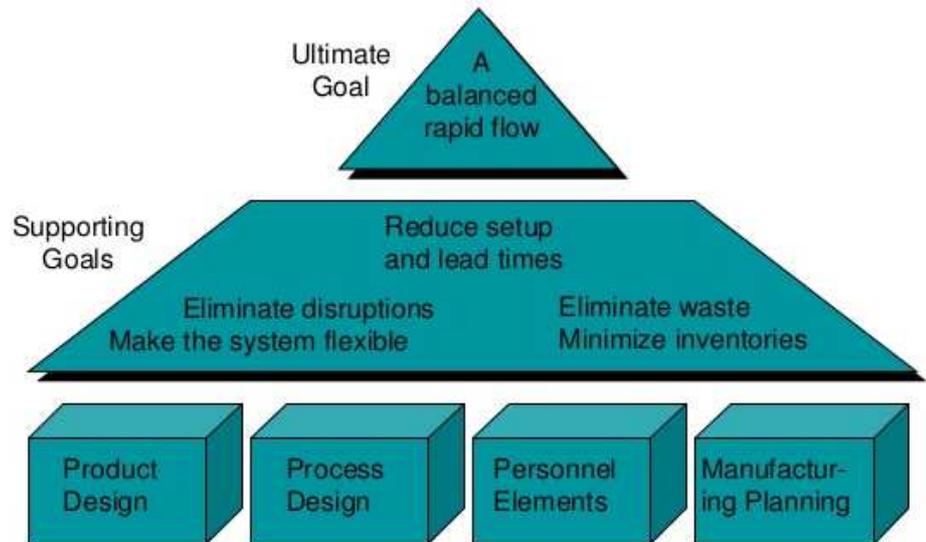
The Toyota production method is a way of reducing costs on the basis of profit, not for the purpose of completely eliminating economic inefficiency. There are four kinds of states in production activities that can arise and lead to unnecessary spending.

- Excess production resources,
- Greater production,
- Excess inventory,
- Unnecessary capital investments

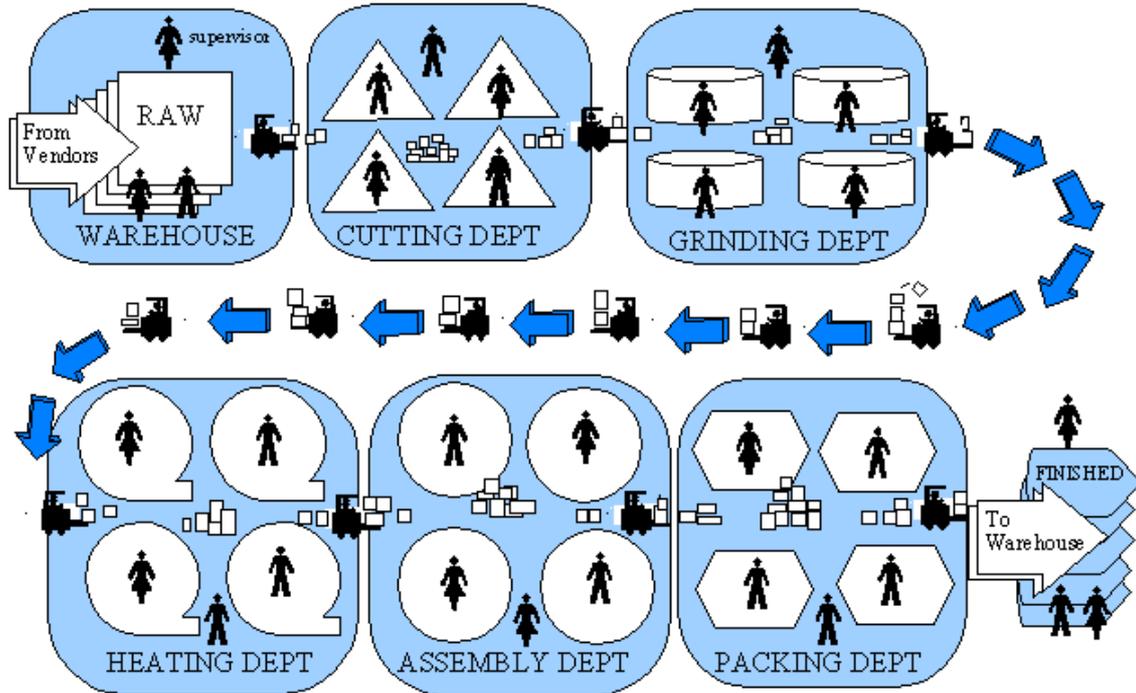
As excess stock inventory occurs, the need for new stores emerges. New workers are brought to a new store. For every relocation operation forklift trucks are purchased, work is required for stock control; in order to track this demand computers follow each other. All these

resource management costs, direct or indirect labor costs, increase overall production costs.

## JIT MANUFACTURING BUILDING BLOCKS



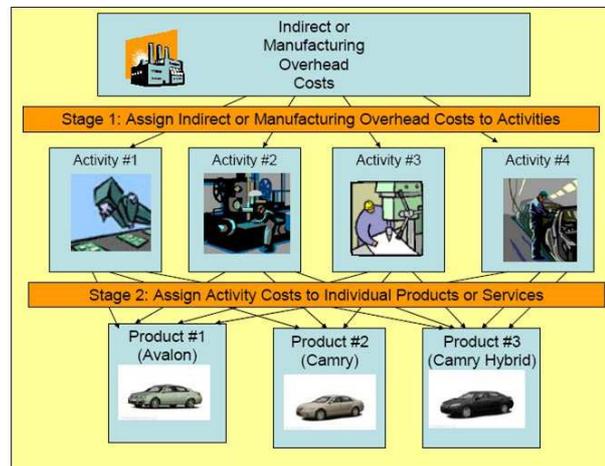
TRADITIONAL FACTORY LAYOUT\*



\*Departments organized by function, each with separate supervisor and specialized workers. The forklift trucks are needed to move inventory between departments. Factory reorganized into cells with various machines arranged in sequential order. Fewer workers, supervisors and forklift trucks. Much less work in process and no finished goods inventory.

Activity Based Costing (ABC)

Activity Based Costing (ABC) is a method of assigning indirect costs to products and services based on the activities they require.



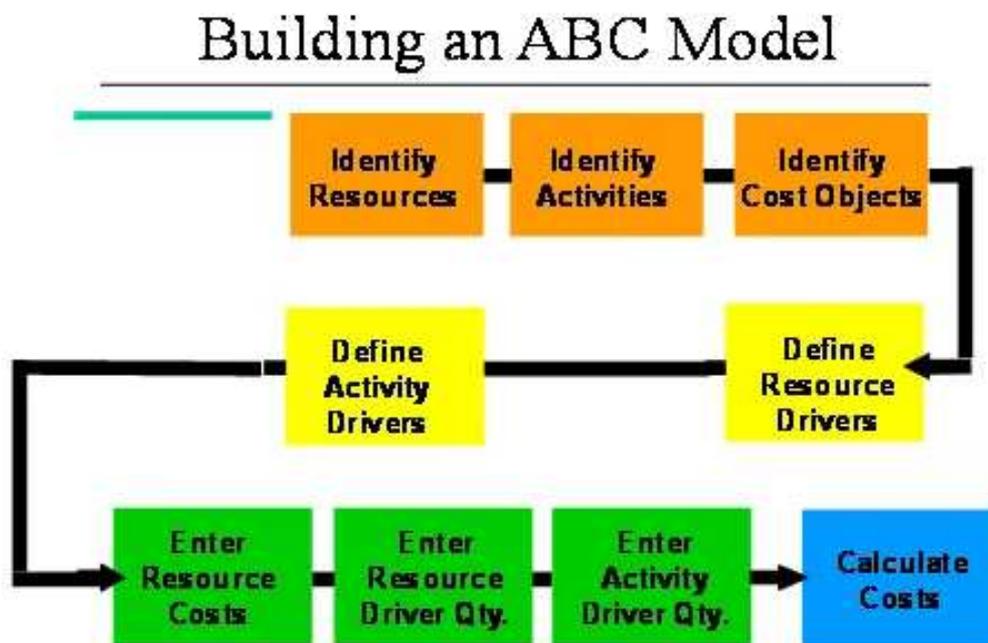
The activity of the business resources of the products consumed, hence the classification on the basis of indirect costs should operate with the concept of mobility and product with indirect expenses depending on the production volume between the direct relationship at a variety of levels without a cost and management. This approach is defined as activity based costing and in recent years has taken its place in business literature.

The ABC method's cost-determining factors have to firstly be determined after which installing operations cost outputs of need to be clarified. To ensure that focus upon specific operations and the reduction of operation costs is clearly maintained; managers become a very important topic. In recent years, the use of activity-based costing management to resolve this problem is emphasized. ABC's purposes can be expressed as follows. Interest in overall production costs by installing the product more accurately enables more meaningful cost information to be obtained; meaningful profit centers to create and make the product profitability calculation; the ease of making simple and understandable calculations; to provide a good understanding of the accounting and checking environment; to make products and services that create value by eliminating production costs; to determine and eliminate the activities which are the principal causes of the problem; identify and eliminate problems; to eliminate weak assumptions and insufficient resource distribution costs, to ensure the deployment of correct management decisions so as to procure accurate cost information.

The basic concepts utilized in the ABC method are: necessary cost concepts, resources, activity cost pool, cost drivers, and cost objectives. These concepts are briefly described as follows. **Operations:** if the operation is a function to generate an output, in order to fulfill this, the process will consume resources. **Resources;** in order either for the operations to be applied or costs to be administered the principal source elements of economic cost must be managed.

**Operational Cost Pool:** the total operation-related cost. **Cost driver;** defining the measure used in determining the cost of a work or activity. **Cost Object,** the highest cost point, the cause and ultimate goal of the activities is defined. Activity-based costing for the successful implementation of the method; upper management; activity-based costing method to identify realistic and achievable targets in the organization, you must understand the benefits related to the topic. Introduce the method of activity-based costing in the enterprise and the establishment of a project team in order to implement the required measures. Employees' understanding of the contents and application of the ABC application method with regard to business training is crucial for the success of the model. It should be ensured that sufficient resources to enable the application of ABC exist. Enough time should be allocated within working hours for analysis and data collecting. The application of the ABC method application should be kept as simple as possible and should be implemented in the starting phases of the

pilot project. Upper management should constantly develop the application through continuous feedback to render its implementation easier.



## Activity – Controllable and uncontrollable costs

### *Controllable and Uncontrollable Costs*

Indicate whether the costs below are controllable or uncontrollable.

Rs.	Activity	Controllable	Uncontrollable
10,000	Monthly purchase of bottled water		
400,000	Freezer repair		
48,000	Monthly purchase of rice stock		
24,000	Monthly purchase of beans stock		
300,000	Monthly wages for administrative staff		

30,000	Monthly wages for delivery staff		
40,000	Monthly shop rental		
60,000	Payment for shop maintenance		
600,000	Purchase of a small truck for local deliveries		
300,000	Purchase of plastic bags		
60,000	Monthly electricity and telephone bills		
200,000	Monthly insurance premium		
100,000	Commission to sales person		

*Controllable and Uncontrollable Costs – Answer Key*

Indicate whether the costs below are controllable or uncontrollable.

Rs.	Activity	Controllable	Uncontrollable
10,000	Monthly purchase of bottled water	X	
400,000	Freezer repair		X
48,000	Monthly purchase of rice stock	X	
24,000	Monthly purchase of beans stock	X	
300,000	Monthly wages for administrative staff	X	
30,000	Monthly wages for delivery staff	X	
40,000	Monthly shop rental		X
60,000	Payment for shop maintenance		X
600,000	Purchase of a small truck for local deliveries	X	
300,000	Purchase of plastic bags	X	

60,000	Monthly electricity and telephone bills	X	
200,000	Monthly insurance premium		X
100,000	Commission to sales person	X	

## Activity – Cost variance

### Case study – Fresh Harvest Supermarket – Cost Variance

Fresh Harvest Supermarket has a stable customer base and a group of highly skilled and loyal employees who have been working with the company for many years.

With a stable workforce and strong market demand for its goods, Fresh Harvest Supermarket has been profitable for the last five years. In fact, sales revenues have increased steadily between 20% and 25% annually in this time frame.

At the beginning of each year, the owner prepares a budget for expected orders and expenses for the following 12 months. Then, at the end of the year he compares the expected profit with the actual results. From time-to-time during the year he will look at his orders, expenses, and the balance of his bank account.

After paying his bills at the end of June, the owner of Fresh Harvest Supermarket realizes that sales revenues are about even with costs. When he reviews his estimate for upcoming orders, he begins to worry that by year end the company will be running a loss. Though not large, any loss is unusual for the company.

The owner knows that sales are up the prices he charges to customers have been steady, yet his costs have obviously risen as well.

**Questions for discussion:**

1. What could be the cause of this unusual situation for Fresh Harvest Supermarket?
2. What could the owner have done to not be surprised by the fact that his costs were about equal to sales revenues?
3. What measures could the owner implement to avoid surprises like this in the future?

### Cost Variance Answer Key

1. What could be the cause of this unusual situation for Indonesia Retail Enterprise?

- Costs have risen faster than sales.
- At the current pace, costs will keep rising to the point where they will overtake sales by the end of the year.

2. What could the owner have done to not be surprised by the fact that his costs were about equal to sales revenues?

- The owner should review cost and sales data more frequently, at least at the end of each month, if not more frequently.
- This way he will not be caught off guard in the middle of the year to the point where he suddenly realizes that he may end up with a loss for the entire year.

3. What measures could the owner implement to avoid surprises like this in the future?

- The owner should schedule regular reviews of his books.
- Not only will this help to avoid surprises, but he may be able to take action sooner to avoid long-term problems.