The Institute of Chartered Accountants in England & Wales

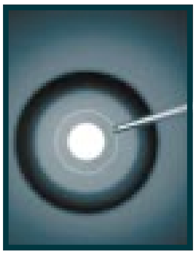
Faculty of Finance and Management

MANAGER UPDATE

ISSN 1467-5765 ISSUE 18 AUGUST 2001

Pricing revisited

Prices have come under pressure as markets have become more global and more competitive, and where comparative information is more readily available to the customer. Marketing managers need to adopt more creative and subtle ways of pricing their products and services. A variety of ideas and methods are reviewed that are particularly relevant in open and price-sensitive markets such as the Internet and retailing. It is still possible to achieve good margins with the right pricing strategies.



Susan Foreman
Marketing Faculty Group Leader, Henley Management College

The only element of the marketing mix that generates revenue is the price. However, this is more than simply a question of cash and cost. In fact, pricing not only represents the value of a product or service, but also determines the customer's perception of quality.

Pricing is widely acknowledged to be a 'critically important management activity with major strategic and operational implications', as well as one that is a much 'neglected and ineptly administered marketing responsibility', where 'numerous errors are made'[1].

Turbulent stock markets, the fast pace of technological change, and the intensity of market competition are all putting pressure on marketing decisions. This is particularly true of pricing, because of its direct effect on company revenue and shareholder value.

Pricing wheel

Shipley and Jobber[1] have stated that, despite the acknowledged importance of pricing, many managers cut corners when making pricing decisions, relying simply on established methods and practices. They have said that it is better to carry out a rigorous analysis of the internal and external factors that impact on pricing decisions.

Their work focused on a sequential process that they call the pricing wheel, and it identified the factors that managers need to take into consideration. The pricing wheel signals when pricing decisions need to be revisited. In other words, it encourages marketing managers to see pricing as a continuous activity rather than simply a one-off task.

The wheel encourages managers to take a flexible approach during changing market conditions. The six key factors are as follows :

1. *Considering the strategic role of price* : Managers need to consider the role of price in their marketing strategy. Is it at the forefront of the strategy, or is it an auxiliary factor ?

2. *Prioritising pricing objectives* : This a critical part of the pricing wheel. There are a number of key objectives, for example

   - sales volume and revenue;
   - profit targets;
   - competitive parity;
   - brand image.

   This emphasises the need to combine market sensing with prioritising objectives each time a price is set.

3. *Assessing pricing determinants* : This stage includes a systematic examination of the internal and external factors that affect pricing decisions. Instead of relying on just managerial judgement and intuition, the user should analyse demand, competition and cost. Managers, particularly in the demand area, need to concentrate on a number of scenarios based on customer needs and behaviours in various markets.

4. *Deciding on price strategy* : The focus is on two key strategies : new products strategy and positioning strategy. With new products, there are difficulties in pricing when the customers' valuation and the competitive position are unknown and difficult to quantify. The options suggested are not new :

   - skimming;
   - long-term real price strategies;
   - penetration strategies.

   All of these have advantages and disadvantages. Then, once the product or service has been established, the price and positioning options for the market offering need to be developed. There are numerous positioning alternatives, but strategies are outlined that are based on two dimensions :

   - price;
   - the 'perceived benefits of competing suppliers' offerings'.

5. *Choosing pricing methods and techniques* : The advantages and disadvantages of a number of pricing methods are considered. Managers are cautioned not to use a single approach; it is much better to adopt an integrative approach for market segments. Starting with the customer, managers should first investigate the customers' valuation of the product or service, and then use the price that the market will bear as the upper limit or ceiling. This needs to be balanced with an analysis of direct and average costs to determine the price floor. The actual price should then be set somewhere between the two.

6. *Implementing and controlling price* : The correct presentation of the price to the sales people, distributors, retailers, and the customer is important. The price implementation is not the end of the process; the impact of the price in the segment or market needs to be regularly assessed to measure its success or failure. This is just one iteration of the pricing wheel. Market conditions are constantly changing, and so marketing managers must continuously examine their strategies.

Shipley and Jobber suggested that many organisations do not take advantage of pricing opportunities and unfortunately are not completely aware of the full range of options.

Managers should consider using a systematic approach aimed at reducing errors and improving decision making, even though pricing issues may vary between industries and market sectors.

Pricing strategies for electronic exchanges

The World Wide Web has added a new dimension to marketing and, necessarily, the pricing element of the marketing mix. For some, it has threatened established practices, but for others it has provided new opportunities.

Pitt *et al.*[2] have looked at exchanges with customers, investigated the value of customers to firms, and considered the future direction of pricing decisions in electronic exchanges.

Their model is based on two dimensions :

- power;
- strength.

In the segment where there are weak buyers and sellers, the Web creates a convenient marketplace in which everyone can congregate and trade. However, in this situation, where prices tend to be fixed and well known, there is the danger that a product may be stranded at the commodity end of the range of exchanges.

Those firms that do not want to focus on price competition will then need to balance their pricing strategy with other marketing strategies, including differentiating the product and managing the brand on the Web. This will increase what Pitt *et al.* call 'information fuzziness' around the offering.

Auctions are preferable where sellers 'force buyers to make the price', in other words, where there are strong sellers and many weak buyers. Prices are kept relatively high, and, if the buyers wish to weaken the power of the seller, they need to consider alternative sellers or substitute products.

Pitt *et al.* suggested reverse auctions when the seller is weak and can bid for business. However, they warned that if more and more buyers adopt this approach, they may ultimately weaken their own position.

Finally, when both the buyer and the seller are strong, there are power and dependency issues for both parties to manage. For example, buyers and sellers may browse the Web to find other partners, alternatives and substitutes and pricing options, thus weakening their mutual dependence.

The time, cost and effort entailed in doing this electronically are much more manageable than in the traditional marketplace.

Pitt *et al*. reached the following conclusion :

> *Pricing may be the last frontier for marketing creativity. Ignored or used mechanically, the Internet might be the vehicle that destroys the last vestiges of managerial pricing discretion. In the hands of the wise, it might be the digital wagon that carries pricing pioneers on the edge of the digital frontier.*

Pricing strategies in price-sensitive markets

Potter[3] has considered a range of practical pricing options for firms operating in price-sensitive markets, for example because of numerous and powerful competitors.

Managers need to have market sensitivity and knowledge, and to be flexible even when markets appear to be intolerant of price rises.

Potter suggested that managers should consider changing the pricing structure. They have seven options :

- bundling options and joint promotions;
- unbundling benefits to maintain prices;
- using alternative service level agreements;
- linking current transactions with future transactions by, for example, offering fixed prices and buyback options;
- changing price effectiveness in a similar way to hedging by considering the average price and duration contracts;
- changing the levels of prices within the bundle;
- shifting price to suppliers.

Managers should be more subtle when setting prices in sensitive markets. In this way, firms can maintain and also ‘realise more revenue even when prices are falling’.

Potter suggested a number of action points. Firms might substitute broad-brush pricing policies with selective pricing to maximise the benefits from various customer valuations, although this may be more appropriate for the business-to-business customer than the end user. Additional tactics include

- changing prices by small increments;
- raising invisible prices for some ancillary products and services;
- matching price moves in the market;
- using strategic discounts to build relationships.

Potter suggested an approach based on exploiting patterns in pricing in sensitive markets and watching the actions of market followers and leaders.

A follower can, for example, use the price element to take market share from a leader by undercutting it on price. This is called the ‘leaders’ trap’; the leaders do not tend to copy this approach because it often leads to a loss of market share and profitability.

Another strategy is for a follower to match a leader and ‘ride on the leader’s coat-tails’.

Firms should seek out and establish relationships with channel customers, especially where there is evidence that the end users pull through demand for their products or services.

For those in a particularly sensitive and competitive marketplace where there is a danger that a self-destructive circle of lower and lower prices will build up, Potter offered several approaches. However, he emphasised the following :

> *The best price changes benefit both the buyer and the seller. Buyers pay the price that they deem fair and the sellers receive the prices that allow them to service buyers’ needs.*

Pricing strategies in the retail sector

Pricing is a particularly crucial element of retail strategy because it affects shopping behaviour and customer choice, and is closely intertwined with positioning, advertising and communications strategies.

Tang, Bell and Ho[4] investigated retail price formats, and looked at how they can be used to increase an individual's number of shopping trips to retail outlets and the spend at each visit.

A well known example of the retail price format approach is the Wal-Mart/Asda strategy of 'everyday low price'. According to Tang, Bell and Ho, this strategy has made Wal-Mart one of the world's leading retailers, with an annual turnover in excess of $100 billion.

The authors' research concentrated on two issues :

- customer shopping behaviour;
- shopping utility (that is, the comparison of the fixed and variable benefits and costs of choosing a particular retailer).

The fixed benefits include :

- the familiarity and knowledge gained from repeat shopping at one store;
- the service quality;
- the assortment of products.

The fixed costs include the time and expense incurred by a customer in reaching the store.

The variable benefits include the store itself, including elements such as

- incentives;
- discounts;
- familiarity with product categories carried at the store.

Finally, the variable cost is the price of the items on the shopping list.

Tang, Bell and Ho showed that a range of retail price formats are used in the market-place, from low-price, high-volume formats to high-price, service-based strategies.

They noted that, whatever the emphasis of the price positioning is, 'there is a logical and systematic approach to improving performance of different store types' for managers to consider.

For example, a volume-based store that emphasises low prices needs to

- encourage shoppers to visit the store often;
- build up the range, breadth and depth of the products available.

It should also emphasise the service elements that it offers, for example

- the parking facilities;
- the number of checkouts;
- the waiting times;
- the queuing policy.

A store that chooses a high-price strategy that emphasises customer service needs to increase

- the number of products bought during each visit;
- the value of the shopping list;

by

- encouraging and rewarding loyalty to specific categories;
- offering an extensive range and assortment of products.

Tang, Bell and Ho also identified 'losers', that is, those retailers that customers consider have low fixed and variable utilities. They need to consider the segmentation approach.

Pricing strategies for the individual

Simon and Butscher[5] have claimed that firms in traditional and online businesses could improve their profits by 10–40%, simply by introducing customised pricing policies.

Their premise was straightforward : each customer is charged the price that she or he is prepared to pay on the basis of his or her analysis of the product.

The authors offered five customisation strategies :

1. *Multi-dimensional pricing strategy* : Pricing is multi-dimensional rather than based on a single factor such as price per visit or weight. Instead, several dimensions can be used to provide more options for managers. Although it is possible in this approach to set the same pricing parameters for a group of customers, the price to each customer is based on individual usage rates.

2. *Multi-person pricing strategy* : The first customer pays a full price, and others in the group benefit from a discount. This strategy is particularly used in the

tourism and hospitality sectors. For this approach to be successful, however, the firm must have detailed information on what the customers are prepared to pay.

3. *Bundling strategy* : This is a popular solution to pricing dilemmas. While customisation is focused on the differences between people, this strategy enhances profitability by reducing the differences between them.

4. *Multi-product strategy* : The firm develops a less expensive alternative to one of its own products. This strategy is used to protect premium-priced brands from the threat of unbranded generic products from competitors. However, this approach requires a delicate balance of price, quality, service, brand and distribution strategy to limit cannibalisation of the premium brand while developing market share for the alternative.

5. *Internet auctions strategy* : Internet auctions are probably the most efficient way of matching products and services with the price that customers are prepared to pay, although the highest bid may still not represent the highest price that the customer would pay.

Managers thus need to have a thorough understanding of their customers when customising prices so that they can be clear about the customers' valuation of products as individuals and in customer segments.

The approach outlined is not one of pure customisation. It is based on group customisation, where segments can be identified and where there are differences in price elasticities.

In developing this approach, managers also need to think beyond the pricing strategy, and consider the wider impact on

- the organisation;
- its investments;
- the products and cost structure;
- the logistics and costs;
- the legality of potentially discriminatory pricing approaches.

Pricing is becoming ever more critical. The quantity and quality of information available is creating more knowledgeable customers in more complex and competitive markets.

Managers cannot afford to persist in using underdeveloped pricing strategies. They need to capitalise on the benefits that a methodical approach to pricing can bring, and to create value for the company, customer and the shareholder.

References

1 **'Integrative pricing via the pricing wheel'**
Shipley, D and Jobber, D *Industrial Marketing Management* Vol 30 (2001) 301–314

2 **'Pricing strategy and the Net'**
Pitt, L F, Berthon, P, Watson, R T and Ewing, M *Business Horizons* (March–April 2001) 45–54

3 **'Discovering hidden pricing power'**
Potter, D V *Business Horizons* (November–December 2000) 41–48

4 **'Store choice and shopping behaviour : how price format works'**
Tang, C S, Bell, D R and Ho, T-H *California Management Review* Vol 43 No 2 (2001) 56–74

5 **'Individualised pricing : boosting profitability with the higher art of power pricing'**
Simon, H and Butscher, S A *European Management Journal* Vol 19 No 2 (2001) 109–114

Performance and power

The belief that an emphasis on personnel management leads to good financial performance in the organisation is often merely a matter of faith. The human resources management budget can be the first one to be cut in a tight period. This article cites evidence that HRM really does affect the bottom line. The linkages can be quite complicated, though; some approaches work in some situations, but not in others. Careful HRM system design is a good investment.

Richard McBain
Director of Distance Learning Programmes, Henley Management College

A key objective of recent research has been to evaluate the impact of human resources management on a company's bottom line, and, more generally, on its overall organisational performance.

This article examines the link between human resources management (HRM) and organisational performance. It looks at the roles of human capital development, employee attitudes and behaviours in the design of a human resources system, and in the relationship between training and learning.

Interestingly, the distribution of power within organisations may have a subtle but significant impact on the nature and outcomes of human resources management activities, including the development of commitment and trust, and the construction of a coherent approach to HRM.

Limiting the high-performance paradigm

Any organisation can achieve high staff performance levels through high employee commitment programmes offering, for example,

- flexible working arrangements;
- greater task discretion;
- team-based organisation.

This, it seems, is the logic for most students of modern human resources management.

For advocates of this high performance paradigm, its effectiveness depends on it being comprehensively implemented or backed by complementary HRM practices such as

- the development of supportive managerial values;
- competence-based training;
- performance-related pay.

However, Godard[1], in a report on a five year study of 78 Canadian organisations, has challenged some of the universalist and unitarist assumptions of the paradigm that suggest, respectively, that the approach is applicable in all situations, and that the interests of all members of the organisation are the same.

He suggested that there are contextual factors that may limit effectiveness, for example

- workplace size;
- technology;
- product–market characteristics.

Also, the high performance paradigm may underestimate the impact of conflicting employer/employee interests.

Establishing trust and legitimacy in an organisation may then be both problematic and costly. Consequently, measures that are intended to secure high commitment, as opposed to seeking compliance, may lead to diminishing returns on investment.

His research focused on several dimensions of programmes designed to secure high performance :

- the level of teamwork and empowerment;
- the degree of programme intensity;
- the level of employee involvement.

He assessed the effectiveness of these dimensions in terms of improvements in

- costs reduction, including unit labour and inventory costs;

- behaviours, for example worker attitudes and absenteeism;

- output, including productivity and quality.

Godard did not claim that the high performance paradigm was wrong, and he did not suggest that high commitment measures should not be comprehensively implemented or indeed supported by other complementary practices.

His research actually found support for the comprehensiveness and complementarities viewpoints.

For example, he found that the intensity with which organisations adopted workplace reforms was positively associated with both costs and output improvement. He also found that greater levels of employee participation led to greater levels of output improvement.

Performance-related pay was found to be linked to improved worker attitudes and reduced absenteeism.

The relevance of Godard's work to managers is clear : reform programmes may generate diminishing returns over time because of the difficulties and costs of achieving trust and commitment. Other factors may also influence the effectiveness of such programmes.

In particular, the research suggests that the greater the level of capital intensity and technology employed is, the lower is the level of performance improvement.

The larger the organisation is, and the more it is involved in international markets, the greater is the improvement in terms of outputs from reform programmes.

In other words, context and conflict can be vital in deciding whether, and to what extent, high performance practices should be employed, or indeed replace a compliance approach.

Do employee attitudes and behaviours matter ?

The links between the capabilities and attitudes of employees, customer satisfaction, and organisational performance have been established in models such as the service–profit chain. However, there is scope for further research into the interrelationships of these three factors.

Koys[2], in a two year study of a regional restaurant chain in the USA, investigated the relationship between organisation profitability, customer satisfaction and three human resources outcomes :

- employee satisfaction;
- organisational citizenship behaviour (including elements such as conscientiousness and altruism);
- employee turnover.

Employee satisfaction, organisational citizenship behaviour, and employee turnover in one year predicted the following year's profitability.

Koys suggested that an even stronger relationship existed between employee satisfaction, organisational citizenship behaviour, and employee turnover and the level of customer satisfaction in the following year.

Thus it seems that human resources outcomes do impact upon profitability and customer satisfaction.

Interestingly, the study also suggested that profitability and customer satisfaction are influenced by different human resources outcomes :

- Organisational citizenship behaviour had an impact on profitability but not on customer satisfaction.

- Employee satisfaction had an impact on customer satisfaction but not on profitability.

The last point does not mean that employee satisfaction should be ignored though. This is because, as the service–profit chain suggests, employee satisfaction contributes to customer satisfaction, which does contribute to profitability. It can also have an effect on organisational citizenship behaviour, which also impacts upon profitability.

On this evidence, human resources

outcomes seem to influence organisational effectiveness, at least in terms of profitability and customer satisfaction, rather than the other way round.

Impact of human capital on strategy and performance

In the resources-based view of the firm, differences in resources and capabilities may lead one company to do better or worse than its competitors. Resources that are valuable and unique may give a firm a competitive advantage, especially if their rarity and complexity make them difficult to imitate and to change.

Knowledge, and in particular tacit knowledge (that which cannot be articulated and is built through experience), is probably the most critical competitive asset that a firm possesses. Most of an organisation's knowledge resides in its human and social capital.

Hitt *et al.*[3] have researched the effects of human capital, including education, experience and skills, on the performance of US law firms. They also looked at the capital's interaction with the firm's strategy.

The outcome lent additional support to the view that human capital is important to firm outcomes, and also important in the resources-based view of the firm.

While Hitt *et al.* recognised that the amount of variance explained by the effects of human capital was modest (3.6%), they argued that this was significant given the large number of factors that impacted upon performance.

The effects of human capital and resources on firm performance, defined in this context as the ratio of net income to total firm revenue, can be direct or indirect.

The research demonstrated that there was a curvilinear relationship between human capital and firm performance. In other words, costs and time are required to build social capital, and these early costs may exceed marginal productivity at first. However, with continuing investment, human capital accumulates, and synergy and productivity increase.

Firms can improve their performance by leveraging human capital through, for example, transferring knowledge to others and combining skills and knowledge in new ways such as mentoring. Managers should, though, be aware of the costs and barriers of leveraging human capital. Monitoring activity to ensure quality outcomes can be expensive and difficult.

Human capital is also important in implementing diversification strategies, for example when a firm decides to move into new services or new geographical areas. In the study, geographical diversification seemed to reduce a firm's ability to build local knowledge and social capital, and the law firms did not perform well when the degrees of both service and geographical diversification were high, regardless of the level of human capital. The achievement of synergies through the simultaneous use of both strategies is thus costly and difficult.

While Hitt *et al.* noted that managerial skills in leveraging human capital might not yet have been built into the law firms researched, some of their research findings were of more general relevance. Unsurprisingly, it seems that a firm needs to have adequate levels of human capital before seeking to diversify. The research also pointed to the development of competence in the management and leveraging of human capital being critical to the success of the strategies chosen.

Paradoxical nature of the relationship between training and learning

Although there has long been concern over the difficulties of evaluating training effectiveness, and the transfer of learning from training events to the workplace, the link between training and learning has traditionally been assumed to be a strong one.

In research based on three case studies of financial sector organisations in the UK, Antonacopoulou[4] explored this relationship from an individual manager's perspective. She examined how individuals learn and adapt during periods of change, and how they view the training and development activities provided by their organisations.

Antonacopoulou found a distinction between the espoused theory (what should be the case) and the theory in use (what the case is in terms of managers' perceptions of the relationship).

While managers often defined learning in terms of training, training was also paradoxically seen as one of the main obstacles to learning !

Effective learning requires motivation, and an individual's motivation to learn can be influenced by a variety of personal and situational factors, and by political forces underpinning the training and learning process and perceptions of the work environment.

For example, training may not actually promote learning when it

- is delivered at the wrong time;
- provides limited scope for questioning and experimentation;
- is not perceived as being relevant to the achievement of the manager's personal goals;
- is the result of a line manager forcing the individual to attend training that the individual does not feel is needed;
- exposes deficiencies rather than develops potential;
- provides limited opportunities for utilising knowledge acquired on the job.

A number of key differences between training and learning were suggested by the research :

1. While training is based on the control and conditioning of an individual's understanding, learning is about broadening and liberating that understanding.
2. Training is based on the prediction of outcomes and the suppression of individual differences, whereas learning can lead to a number of unpredictable outcomes.
3. Training supports single-loop learning, while learning is double-loop because it allows for an examination of the assumptions guiding existing practices.

Training, then, cannot be assumed to produce learning, and learning is not always an integral part of training. Even when training results in learning, the organisation may not provide the necessary infrastructure to support that learning after the training has been completed.

Antonacopoulou's research also suggested that training may not lead to an individual learning effectively because of historical and cultural factors that can determine a manager's perception of the training and learning process. For example, key limiting factors are individuals being

- preoccupied by meeting the organisation's expectations;
- concerned to play the political game.

The incompatibility between training and learning in the organisations studied was due to a bureaucratic culture and single-loop learning that clashed with the changing needs of the market environment. This changing environment, and the disorientation that managers felt with respect to organisational expectations, required double-loop, continuous learning.

Unsurprisingly, then, the relationship between training and learning was perceived as strong when individual managers were addressing organisational priorities, and weak when it came to addressing their own learning needs.

Designing and aligning a human resources system

Although the integration of human resources practices into a human resources system may give sustained competitive advantage, the development and interaction of the elements in such a system have not yet been extensively researched.

However, Monks and McMackin[5] studied the construction and operation of a human resources system, and its relationship to the business strategy, in a division of a major Irish financial services organisation.

They focused on one division, which in turn comprised three strategic business units, each of which had considerable autonomy and consisted of a number of other business units.

Three levels of a human resources system were identified, each of which should be consistent and aligned internally with the others, and externally with the business needs and context :

1. *system architecture* : the guiding principles;

2. *policy alternatives* : the mix of human resources policy alternatives;

3. *practices and processes* : the specific techniques for implementing the policies.

At the group level of the organisation, the human resources function focused on developing programmes that would create a competitive advantage. Its mission was to support business strategy by delivering outstanding human resources capability.

A framework (rather than a policy) approach underpinned the human resources system. A centralised human resources department operated within the division, and its focus was to create and disseminate a set of human resources policies that could achieve human resources objectives. It attempted to achieve not only general human resources objectives, but also a level of uniformity, through a set of human resources policies, that applied to all business units.

The successful conversion of policies into practice is not always easy. In this case, for example, differences in approach between the divisional human resources department and the strategic business units resulted in a fragmented and localised view of human resources issues at the strategic business unit level.

There were also different approaches to HRM within each of the three strategic business units. The managers of the units considered that they had almost total control over human resources issues, although the divisional human resources department did keep checks on business unit activities through reporting mechanisms.

Monks and McMackin were unable to identify the existence of a human resources system or a coherent approach to human resources matters within the strategic business units. Human resources practices were typically considered in isolation, and changes to individual practices were negotiated on an individual basis with the divisional human resources department to meet specific, perceived business needs. The need to negotiate changes with a centralised human resources department militated against the creation of coherent human resources systems.

However, one strategic business unit had adopted a more proactive approach to managing human resources issues, and was building a human resources system. It had adopted a set of values and a framework for aligning human resources practices that were based around a competency approach.

Even so, there were conflicts between the divisional level and the strategic business unit level with respect to various aspects of human resources. These were effectively a conflict between the policies and the practice/process levels of the human resources system.

Monks and McMackin's research identified several factors that influenced the process of transforming business and strategic initiatives into the design of a human resources system and the operationalisation of human resources policies :

- the power and influence of business unit managers;
- the power and influence of the human resources director;
- the structure of the human resources function (group and divisional activities);
- the knowledge of human resources options;
- the set of beliefs and the philosophy about the value of human resources;
- the appropriate architecture.

Considered as a whole, these variables may show why human resources practices are often not implemented in a coherent way.

The research shows that human resources system design is crucial at the strategic business unit level, and that a philosophy can play a particularly important role in the architecture of a human resources system. Monks and McMackin stated the following :

> [It] *may provide the infrastructure required to support the policies and practices and to convert them into the processes which are the concrete manifestations of the system at this level within the firm. It forms the glue that binds them together; without this specific set of beliefs, the system may lack a driving force or rationale.*

The role of other levels within the organisation should be to support rather than to interfere in this process.

A divisional human resources department should, while adopting a policy-oriented role, focus more on helping to develop appropriate policy alternatives than on ensuring that uniform policies are strictly adhered to.

However, the latter view may lead to a fragmented and piecemeal approach to human resources management, and the focus should be less on the precise mix of the human resources policy bundle than on the process of managing the human resources aspects of change.

References

1 **'Beyond the high-performance paradigm ? An analysis of variation in Canadian managerial perceptions of reform programme effectiveness'**
Godard, J *British Journal of Industrial Relations* Vol 39 No 1 (2001) 25–52

2 **'The effects of employee satisfaction, organizational citizenship behavior, and turnover on organizational effectiveness : a unit-level, longitudinal study'**
Koys, D *Personnel Psychology* Vol 54 (2001) 101–114

3 **'Direct and moderating effects of human capital on strategy and performance in professional service firms : a resource-based perspective'**
Hitt, M A, Bierman, L, Shimizu, K and Kochhar, R *Academy of Management Journal* Vol 44 No 1 (2001) 13–28

4 **'The paradoxical nature of the relationship between training and learning'**
Antonacopoulou, E P *Journal of Management Studies* Vol 38 No 3 (2001) 327–350

5 **'Designing and aligning an HR system'**
Monks, K and McMackin, J *Human Resource Management Journal* Vol 11 No 2 (2001) 57–72

Strategy and the Internet

Many articles have analysed the reasons for the bursting of the dot.com bubble, and identified the basic limitations of the Internet as a business channel. The views of strategy guru Michael Porter on the Internet are discussed below. He is perhaps sometimes too critical of the new economy, but he does identify some key weaknesses. Mass customisation is now thought to be beneficial only in certain sectors, and not all customers want it.

Ian Turner
Professor of Management Studies and Director of Graduate Business Studies, Henley Management College

In the five years since leading guru Michael Porter first presented his thoughts on strategy[1], a great deal has happened in the business world, not least with respect to the Internet, e-commerce, and what some observers call the 'new economy'.

Porter's reservations about e-business and the changes that the new economy prompted seem to date from the beginning of this period. However, it is only recently, prompted no doubt by the collapse of many dot.coms and the exaggerated valuation of some new economy companies, that he has explained them more fully.

Porter first looked at the impact of the Internet on strategy[2]. Readers will recall that his writings on competitive strategy focus on two main issues :

- identifying and securing industry attractiveness;
- creating sustainable competitive advantage for a company.

He believes that the Internet has destroyed the attractiveness of some industries by

- turning them into commodity markets;
- encouraging companies to embark on strategies such as outsourcing or alliances that undermine the basis of their competitive advantage.

He is also unconvinced by e-strategies, burn rates, click throughs and other phenomena of the dot.com world, and has stated that normal market behaviour has been distorted.

For example, customers have been attracted by propositions that are not viable because they have been subsidised by loss-making companies and/or suppliers that are eager to gain a foothold in the new electronic markets. Suppliers have compounded the problem by taking equity stakes in companies instead of demanding the full economic rate for their services.

In addition, costs have been underestimated because dot.coms only discovered belatedly that back-office facilities such as warehouses and inventory holding were needed to do business properly. Many companies were artificially propped up on the expectation that a new set of business rules would prevail. Unfortunately, now that the old rules have been restored, many of these businesses have proved to be no longer sustainable.

However, Porter has argued that not every aspect of the Internet is bad for business. For example, it can be used to enhance bargaining power and circumvent traditional channels to go directly to customers. Because it significantly reduces the importance of distance, it can create new markets and bring suppliers, producers and customers together in ways that would otherwise not have been feasible.

By reducing barriers and eroding differentiation though, the Internet reduces the attractiveness of many industries.

Porter has been particularly critical of companies that offer free services subsidised by other suppliers or producers. This needlessly destroys value in industries and erodes competitive advantage. Ebay, for example, has avoided this through its strategy of resisting free auctions and building a strategy based on customer attraction and retention by other methods.

New economy, old economy

Porter has also criticised ideas about the drivers of the new economy, for example that the spoils in the new economy will go to those that aggressively pursue first-mover advantages, building switching costs into their operation for their customers and creating so-called network externalities, that is, that the more people buy a product or service, the more valuable that product or service will become.

This is wrong, according to Porter. The Internet reduces switching costs, making it easier for customers to switch from one company's offering to another at the click of a mouse. Many of the so-called network benefits are not easy for a single company to capture because of the open nature of the Internet.

In this context, Porter contrasted AOL's strategy, with its emphasis on proprietary content and customer charges, with the strategies of other Internet service providers.

Overall, Porter sees the Internet as having a negative impact on industry as it continues to put pressure on margins. It will create more competition in most industries because of lower entry barriers and increased customer power. Competitive advantage will also be eroded.

The very pervasiveness of the Internet and the open nature of Internet applications can make it very difficult to convert operational effectiveness into a sustainable competitive advantage. In the absence of proprietary advantage conferred by this technology, Porter believes that the only way of sustaining a competitive position is strategic positioning, in other words, adopting an approach, offer or product that is different from those of one's competitors.

The main beneficiaries of the Internet will be those established companies that can leverage their brands, reputations and existing customer loyalty, as opposed to the 'pure play' dot.coms. (This is also the view of many current observers of the e-commerce world.)

Porter has argued that the problems of established companies, for example channel conflict, cannibalisation and legacy systems, have been overestimated. Internet channels can usefully complement traditional channels to market.

The Internet 'pure plays' can succeed as well, provided that they can mark out a distinctive position and create customer value, and not rely on ancillary forms of revenue such as advertising or supplier subsidies.

Porter regards the Internet as the latest stage in the ongoing evolution of information technology. It is more widely available, at lower cost, than previous stages in the information technology evolution. However, he believes that the power of the Internet and its input to the value chain should be kept in perspective :

> *While Internet applications have an important influence on cost and quality of activities, they are neither the only nor the dominant influence. Conventional factors such as scale, the skills of personnel, products and process technology and investments in physical assets will also play prominent roles. The Internet is transformational in some respects, but many traditional sources of competitive advantage remain intact.*
> (reference 2, p 75)

Porter and the Internet

Porter's perspective on the Internet is very much the producer's view. For him, the Internet has a negative impact on industry because it has reduced switching costs, enhanced buyer power, and provided greater customer choice.

This is bad for business, perhaps, but great for the consumer. Because companies are both producers and consumers of products and services, the Internet must surely be beneficial to them, for example by significantly reducing procurement costs.

Perhaps it is not accidental that Porter published his views[2] in March 2001. Early 2000 was the peak of dot.com expectation. In 2001, there is what one observer calls a 'trough of disillusionment'. Virtually all Internet business models were believed to be sure-fire winners a year ago, but technology stocks and new economy companies have become the weaklings of the stock market.

However, from the historical perspective, we are probably only at the beginning of the digital age.

We are just starting to feel the impact of broadband technology, mobile Internet communications, and the disaggregation of industry value chains, and it is too early yet to write off new economy features such as network benefits and first-mover advantages.

Porter's observations on hybrid, or combined, strategies, which enable a company to get the best of both electronic and traditional delivery methods, are sensible, although in reality often hard to achieve.

The more successful a company's use of the Internet as a channel to market is likely to be, the more challenges it will pose to the traditional way of doing business. This means that, at some point in the future at least, companies may well have to choose between being so-called Internet 'pure plays' and traditional 'bricks and mortar' type companies, or run the risk of being unsuccessfully stranded between the two.

Unfortunately, Porter's article[2] did not deal centrally with this issue of companies being 'stuck in the middle' on strategy. At one point, Porter does suggest that companies can achieve competitive advantage by 'operating at a lower cost, by commanding a premium price, or by doing both' (reference 2, p 70). This is an important concession, but not one he develops further.

He does not, as might be expected, take a firm position on the important debate, prompted by the work of Evans and Wurster[3], about whether the digital economy can enable companies to reconcile cost and differentiation, or, to use their terms, information reach and information richness.

Limits of mass customisation

An interesting article by Paul Zipkin of Duke University[4] dealt with the limits of mass customisation, that is, the notion that companies can individually tailor products or services to large customer groups.

Traditionally, the market consisted of

- the mass-production type business model, which was built, for example, on economies of scale and standardised products;
- customised products or services based on low-volume products or services designed to individual specifications.

Jeans manufacturer Levi Strauss and others have sought to reconcile this dichotomy by adopting the principles of mass customisation in order to provide, for example, custom-fitted jeans.

The mass customisation model imposes certain demands on the production process. It is a pull model rather than a push model : each customer provides unique information so that the product or service can be tailored, and the production process must then be supple enough to respond to the various requirements. There is no finished goods inventory, and the work in progress and parts inventory can be minimised.

However, customers may have to wait for the product, and the model requires a delivery capability that gauges the customer's needs directly.

Zipkin argued that the demand for customisation is, in many cases, relatively low. With the current state of technology, it is really only possible to vary a few attributes of certain products.

> *For mass customisation to deliver real value, those attributes must be ones on which peoples' preferences differ sharply – ones that are easy to discern. Certain industries meet those conditions : apparel, sports equipment and building accessories are some examples but it is clear that mass customisation is not for everybody.*
> (reference 4, p 82)

According to Zipkin, mass customisation requires three generic capabilities :

1. *elicitation* : the ability to engage with customers and ensure that the company has the specific information required to do the tailoring;
2. *process flexibility* : a production system that is sufficiently responsive to be able to vary output according to customer needs;
3. *logistics* : the ability to process and distribute the products in such a way that the identity of each item is tagged and the correct item is delivered to the customer.

The capability of elicitation is still in its infancy. Many customers are unsure of what their precise requirements actually are, and user interfaces are often still not sufficiently attuned to the level and needs of various customers : 'it is fair to say that electronic elicitation has yet to achieve the skill of the average barber' (reference 4, p 83).

There are limits to process flexibility. The most flexible operations today are those that process information. Physical products are more difficult to process. If the process is relatively one-dimensional (for example the manufacture of a golf club with a specific shaft length), or it is one that varies shapes in two dimensions (for instance printing on paper), there is little problem. Difficulties arise, for example, with three-dimensional fabrication. Asymmetrical shapes in particular are still beyond the capabilities of most of the available technology.

Logistics systems cannot yet ensure that products can be individually matched to the right person on emerging from high-volume processes. However, Zipkin argued that this should not be beyond the capabilities of companies such as FedEx Corporation and UBS in the future.

Advocates of mass customisation assume that everyone wants it, but Zipkin was more sceptical. He believed that many examples of mass customisation (for example soap stamped with someone's name) will serve needs that are essentially ephemeral or trivial.

There are other solutions to the problem of adjusting mass products for individual needs. For example, instead of configuring seats in a car to the individual needs of a customer, car manufacturers have provided seats that the customer can rapidly adjust to the optimum position.

Zipkin believed that companies should ask some hard questions about whether mass customisation would satisfy true customer needs at a cost that would make it a viable proposition for the company.

References

1 **'What is strategy ?'**
Porter, M E *Harvard Business Review* (November–December 1996)

2 **'Strategy and the Internet'**
Porter, M E *Harvard Business Review* (March 2001) 63–78

3 ***Blown to Bits* : *How the New Economics of Information Transforms Strategy***
Evans, P and Wurster, T S (1999) Harvard University Press

4 **'The limits of mass customisation'**
Zipkin, P *Sloan Management Review* (Spring 2001) 81–87

Socially responsible investing

Once at the margins of stock markets, socially responsible investing is becoming mainstream. Now one out of every eight investment dollars in the USA is in ethical or green funds, and the sector is also growing rapidly in the UK. Is this because of investors' increasing social awareness ? Perhaps, but such funds also often outperform the rest of the market. The trend raises important issues for accountants and general managers in companies that are dependent on the capital market.

Roger Mills
Professor of Accounting and Finance, Henley Management College

Socially responsible investing comes of age

> *Make as much money as you can, no matter where you find the opportunities – among sweatshops, tax cheats, nature's despoilers – then use your gains for ethical ends, or put your money to work in institutions that are ethical themselves – even if the gains are lower.*
> (reference 1, p 19)

For Glassman, the above options were the two main ways of investing with a social conscience. Fortunately, the second alternative has become more attractive in recent years and this type of investor is now moving into the mainstream.

According to the Social Investment Forum, an industry organisation based in Washington DC, socially responsible investing (SRI) now captures one out of every eight investment dollars in the USA, and it accounts for more than $2 000 billion in investment assets under management.

Broadly speaking, SRI aims to

- earn a return on investment;
- create positive social change.

For example, socially responsible investors will base their choice of stock on a company's social or environmental policy.

However, it is impossible to find a universally agreed-upon agenda for social change. Historically, many ethical funds have stayed away from the so-called 'sin stocks' such as alcohol and tobacco manufacturers and companies in the gambling industry.

Today though, funds are adopting a policy that is more inclusive than exclusive. They seek to invest in companies that are leaders in employing environmentally and socially responsible practices as opposed to simply excluding those whose business might be morally objectionable to just a few investors.

In the USA, the modern era of SRI began with a few funds that were created in the politically charged 1960s. A large segment of the population is now increasingly concerned about the impact of business on society. SRI is one way in which citizens can address economics and social concerns in a straightforward way.

Krumsiek has argued that some of this potential is already being realised[2], and a survey by Ray has reported a potential target market for SRI of 44 million Americans that cuts across all social groups[3].

SRI is moving into the mainstream as more and more individual consumers take control of their investment options. People are becoming better informed about the link between business and the community, and SRI's potential ability to have a positive impact on it[2].

Several market changes also support this trend, including the growth of mutual funds, concerns about social security, and more variety in retirement plans.

Between 1997 and 1999, socially responsible investments grew by 82%, nearly double the growth in the market overall.

Returns from SRI

Has this growth been the happy result of investors' increasing social awareness ? The answer is probably not. The simple truth is that these stocks have been a great way to make money.

Domini 400 Social Index

According to Glassman, the US Domini 400 Social Index, which tracks the performance stocks that are suitable for SRI, has returned an annual average of 18.9% over the past 10 years[1]. This compares very favourably with 17.4% for the Standard & Poor's 500 Index, the best proxy for the US market as a whole. The Domini 400 Social Index has also beaten the Standard & Poor's 500 Index over the past three and five years.

Recent SRI research by D'antonio, Hutton and Johnsen[4] compared returns on an SRI portfolio of a varying percentage of debt and equity with more traditional investment vehicle returns using several methods of asset allocation.

On a strict return basis, the SRI portfolio impressively outperformed the combined Standard & Poor's 500 Index/Lehman Brothers Government/Corporate Bond Index across all methods.

D'antonio, Hutton and Johnsen argued that, given the upward trend in the equity market for the period, these enhanced returns are probably attributable to differential risk factors associated with the Domini 400 Social Index.

Dow Jones Sustainability Group Index

Such impressive results are replicated at the global level. Companies in the Dow Jones Sustainability Group Index (the DJSGI), which tracks the performance of 236 companies from the broader Dow Jones Global Index, have superior records in terms of incorporating responsible economic, social, and environmental behaviour into their business strategy.

The Dow Jones Sustainability Group Index annualised return of about 28% over the last five years has outperformed[5] the broader Dow Jones Global Index by 5%. In addition, the companies in the Dow Jones Sustainability Group Index arguably create shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

The companies in the Dow Jones Sustainability Group Index include

- Nestlé (Switzerland);
- Norsk Hydro (Norway);
- Toshiba Corporation (Japan);
- Volkswagen (Germany);
- Bayer (Germany);
- Groupe Danone (France);
- Nortel Networks (Canada).

Environmental and social issues

SRI is no longer synonymous with stock market underperformance, and numerous SRI funds have consistently outperformed their mainstream equivalents.

Environmental and social issues regularly affect stock prices, with dramatic results. For example, many SRI fund managers have invested heavily in companies that undertake research into and produce alternative sources of energy.

One of the leading manufacturers of wind turbines is the Danish company Vestas Wind Systems. In January 2000, shares in the company were worth DKK33 (£2.80). Recently, the shares stood at DKK450 (£36.50).

Given the consumer and political pressures to reduce carbon dioxide emissions, it is clear that companies such as Vestas Wind Systems will please not only the green activists, but also the City.

UK ethical funds

Making money on the stock market without sacrificing one's principles has also been a driving force in the UK.

According to Lipper, the financial information provider, the average UK ethical fund has grown by 92% over the past five years, whereas the average UK All Companies unit trust grew by 87%.

Over the past one and three years, the picture has been similar, with the average ethical fund producing better returns than the average mainstream UK unit trust.

Unsurprisingly, many non-SRI fund managers are keen to get in on the act. For example, Norwich Union recently announced six new ethical funds. Investors who care about social and environmental issues will be able to choose between trusts invested in corporate bonds and European, global and UK portfolios.

FTSE4Good indexes

The growth in SRI in the UK has been underlined by the launch by FTSE in 2001 of a new set of SRI FTSE4Good indexes.

Four benchmark indexes, for the UK, USA, Europe and the world, will provide benchmarks against which institutions can measure the market performances of their ethical funds. There will also be a tradable index for each of the four regions. These will allow exchange-traded funds to be constructed, which are products that are similar to unit trusts but tradable like shares.

The universe from which each index will be built will be the relevant broadly based index. The UK benchmark index and tradable index are based on the 800 plus stocks of the FTSE All-Share Index.

The criteria for stock selection will include

- the environment;
- human rights records;
- social issues;
- stakeholder relations;
- exclusions of certain business practices.

An independent committee will meet every six months to review the indexes.

Revenue is generated from the licensing of the indexes to clients and a 50p charge on each trading screen showing the data. All the revenues, estimated at $1 million for the first year, will go to UNICEF, the United Nations children's charity.

The UK and European benchmark and tradable indexes were launched in July 2001, and the indexes for the other two regions will be launched by the end of 2001.

According to the FTSE chief executive, half the stocks in the FTSE All-Share Index do not meet the criteria for inclusion in the FTSE4Good indexes, and a little more than half of the stocks in the FTSE 100 Index meet the FTSE4Good criteria.

Interestingly, it has been reckoned that a company such as Huntingdon Life Sciences, which has been the subject of an enormous amount of controversy, would not necessarily be excluded, in spite of the views of animal rights protesters. While the testing of cosmetics on animals may be controversial, the testing of drugs for humans is considerably less so.

Increasing focus of attention on the environment

Environmental risk

History has repeatedly shown that a major environmental disaster can push down the prices of shares in the companies involved and also result in costly litigation and regulatory compliance requirements.

Which companies are most likely to get into these kinds of problems, and how much could it cost them if they did err ? This question was considered in a study by Repetto and Austin[6] that earned the Social Investment Forum's 2000 Moskowitz Prize for outstanding research in the field of SRI.

Repetto and Austin looked at 13 companies in the US paper and pulp industry, and weighed the likely impact on the firms of possible negative environmental outcomes. They found that future environmental risks and liabilities could amount to as much as 10% of the market value of three of the companies analysed.

The study raised issues relating to the disclosure of company-specific environmental information to investors. Much of the information used to evaluate the companies is currently difficult to obtain. However, it is arguable that investors and analysts would be well served by having access to more accurate and timely information on specific companies' environmental risks and opportunities.

Environmental thinking

It is likely that the impact of business on the environment will become increasingly important for managers.

Toms reviewed[7] why it makes financial sense for managers to think environmentally.

He reported on research that he had undertaken that included surveying investment professionals and analysing 695 annual reports from the UK's largest 250 companies in 25 sectors.

Green accounting

Most fund managers say that the best companies should exceed their existing legal obligations and anticipate future legislation by spending more on environmental issues.

They also believe that firms should start to appraise such expenditure in the same way as other capital investment.

Rimer[8] has stated that organisations of all sizes and complexities have started to examine new ways of evaluating their cost information, including that on capital and operating expenses.

The control of these expenditures, especially overhead costs such as those associated with environmental management, has become an important management consideration.

There has also been a transformation in the way in which facility level decisions about environmentally related capital expenditures (for example those related to pollution prevention and waste treatment) are being made.

As senior management recognises the increased return to stockholders that can be achieved by adopting 'green accounting', it is likely to turn more to new and innovative means of accounting for environmental costs to make informed decisions.

The identification and elimination of unnecessary environmental, health and safety costs offer a company many opportunities to improve its bottom line. In addition, companies undertake environmental, health and safety activities to comply with a myriad of local, state and federal regulations.

The development of an environmental management system and adequate, timely information on which to base decisions can lead to the elimination of unnecessary environmental expenses through the adoption of pollution prevention initiatives and best manufacturing practices.

Role of environmental managers and the accountant

According to Rimer[8], the single biggest task facing corporate environmental managers is to engage senior management in a dialogue about their problems and the positive results that can be attained by solving them. Those environmental managers must also understand that there may be other, equally important issues that a corporation must take into consideration besides the environment.

The argument that it is the forward-thinking accountant with the key skills to apply to the process who should be taking an active role in environmental management was put forward in a 1997 UK Chartered Institute of Management Accountants study[9].

Bennett and James[10] considered that one reason for this is the growing evidence that a company's environmental performance can influence its business performance.

A key role for the accountant is to support the managers responsible for environmental management. This is because it is reckoned that most environmental managers are not trained as accountants, and may not have business degrees either. This lack of financial training and expertise may put them at a disadvantage at capital budgeting time when they may be competing with more financially seasoned line managers who have a better grasp of their costs.

How, then, can the environmental manager level the playing field ? The answer is that he or she needs to provide senior management with a thorough understanding of the costs associated with the enterprise. For this to happen, there needs to be an effective way of identifying environmental costs.

Identifying environmental costs

Activity-based costing (ABC) may have the potential to help considerably in the management of environmental expenditure.

For example, all environmental, health and safety costs could be assigned to specific manufacturing and non-manufacturing activities, waste streams, remediation projects, or any other area deemed appropriate.

However, while some companies are already using activity-based costing to justify environmental, health and safety improvements, most are not. For those companies without activity-based costing, the burden of revamping a cost accounting system to allocate direct and indirect (overhead) costs more effectively is simply too burdensome.

On the other hand, as companies become more global, the adoption of enterprise-wide accounting solutions is inevitable. When a company makes the shift to such an enterprise-wide system (for example one based on Oracle or SAP), activity-based costing accounting is often introduced.

What can companies that are not contemplating enterprise-wide solutions, or that are simply unwilling to undertake the effort to convert to an activity-based costing system, do ?

One approach is to make estimates of environmental outlays associated with manufacturing operations on the basis of whether a particular activity or piece of equipment is an environmentally related activity. This can be achieved, for example, by categorising costs according to three types of environmental expenditure : compliance, preventive, and green :

- Compliance costs are associated with an activity or piece of equipment that is directly required for environmental reasons, and that would not be used if regulations were not the driver.

- Preventive costs are associated with an activity or piece of equipment that prevents or minimises the applicability of a particular regulation.

- Green costs are associated with an activity or piece of equipment that is used to reduce the company's impact on the environment voluntarily, and is not specifically required by regulation. For example, in today's marketplace, pollution prevention (waste minimisation or cleaner production) is considered to be a green cost.

Postscript : stakeholders revolt !

In the mad rush to maximise shareholder value, many companies have ignored other interested parties. It is argued that those groups are fighting back with a vengeance.

In this article, the focus of attention has been on SRI and environmental issues, but it is important to recognise that there are other stakeholders in addition to SRI investment groups.

Caudron recognised four stakeholder groups in addition to SRI groups whose presence managers cannot afford to ignore[11] :

- *Special interest groups* : The belief that large businesses lack social accountability is causing more and more special interest groups to demand that companies pay attention to such issues as

  - the environment;
  - health;
  - human and civil rights;
  - democracy;
  - safety.

  These groups are influencing business in a myriad ways :

  - In April 2000, after months of protests by human rights and student groups, Starbucks Corporation agreed to buy coffee from importers that pay developing world farmers a premium over world market prices.
  - Environmental groups have encouraged companies such as BP Amoco and the Royal Dutch/Shell Group to take a serious look at the threat of global warming and shift their focus toward renewable resources.

- *Consumers* : The highly publicised efforts of special interest groups have created a ripple effect. Now consumers, using their purchasing power as leverage, are starting to demand that companies pay attention to broader social issues. A good example of the impact of consumers in the USA was when people started to accuse Wal-Mart of violating child labour laws. Sales dropped, and the company responded.

- *Communities* : People concerned about the negative effects that companies can have on their communities are also starting to fight corporations. One example was when Kmart Corporation planned to build a 100 000 ft^2 store in South St Louis, USA. 20 neighbourhood associations swung into action, concerned that such a superstore would destroy small businesses and ruin the neighbourhood. The coalition elicited the support of local citizens.

- *Employees* : Groups putting pressure on companies to focus on values in addition to profits is not limited to those outside the business. Employees from companies that have downsized, outsized, and otherwise given them the impression that they are expendable are also starting to rebel now that the tables have been turned and companies need to retain workers. Employees are fighting for

  - more reasonable hours;
  - family-friendly benefits;
  - ongoing training and education;
  - a say in their work and work environment;
  - the opportunity to share in the riches that their companies generate.

So far, there have been more actions of such stakeholder groups in the USA than in Europe. However, given past experience, it may not be too long before they are a feature here too.

References

1 **'Ethical investing can unite conscience and profit'**
Glassman, J K *International Herald Tribune* (19 March 2001)

2 **'The emergence of a new era in mutual fund investing : socially responsible investing comes of age'**
Krumsiek, B J *Journal of Investing* (Winter 1997)

3 **'The emerging culture'**
Ray, P H *American Demographics* Vol 19 No 2 (1997)

4 **'Socially responsible investing and asset allocation'**
D'antonio, L, Hutton, B and Johnsen, T *Journal of Investing* Vol 9 No 3 (2000) 65

5 **'Good deeds deliver'**
Kroll, K M *Global Index Industry Week* Vol 250 No 1 (2001) 59

6 ***Pure Profit* : *The Financial Implications of Environmental Performance***
Repetto, R and Austin, D (2000) World Resources Institute

7 **'Eco-logical'**
Toms, S *Management Accounting* (January 2001)

8 **'Identifying, reducing, and controlling environmental cost'**
Rimer, A *Plant Engineering* (March 2000)

9 **'Environmental management : the role of the management accountant'**
(1997) Chartered Institute of Management Accountants, UK

10 **'The green bottom line – management accounting for environmental improvement and business benefit'**
Bennett and James *Management Accounting* (November 1998)

11 **'Stakeholders revolt'**
Caudron, S *Business Finance* (January 2001)

MANAGER UPDATE

This Faculty publication is produced in parallel with the Braybrooke Press publication *Henley Manager Update*. Accordingly, references in the text to issues of *Manager Update* prior to April 1997 relate to the Braybrooke edition.

Manager Update helps the general manager keep abreast of the latest articles in specialist management journals. The most useful ideas in the fields of strategy and organisation, marketing, accounting and finance, and human resources management are carefully selected from a wide range of publications with the busy general manager in mind. Experts in each field explain and discuss the relevance, practicality and usefulness of the key new concepts and ideas, thus enabling the senior executive to keep really up-to-date.

The articles represent the personal views of the authors and not necessarily those of their organisations or of the Faculty. The nature of some subjects will preclude the articles from being definitive or mandatory. Being general in nature, the points made in *Manager Update* may or may not be relevant to specific circumstances.

The Faculty committee intends that *Manager Update* will act as an aide-memoire for members, provide new ideas, and encourage good practice, but cannot accept responsibility for their accuracy or completeness. Responses from the membership will be a very important part of the successful development of the series. Comments please, to Chris Jackson on 020 7920 8486 (or by e-mail to chris.jackson@icaew.co.uk).

Manager Update is compiled and edited by Professor Keith MacMillan, Academic Dean and Deputy Principal of Henley Management College.

Feedback

Comments and suggestions should be addressed to Chris Jackson BA FCA, Head of Faculty, telephone 020 7920 8486, e-mail chris.jackson@icaew.co.uk, or write to the Faculty at the address below.

This issue of *Manager Update* is produced by Amanda Harper, Letterfit Publishing Services, Godalming, and printed by Silverdart Limited, London SE1 0LH, on behalf of the Faculty of Finance and Management of the Institute of Chartered Accountants in England & Wales.

Faculty members

Each member of the Faculty in the year of publication will receive one copy of every *Manager Update* published by the Faculty free of charge. Copies are not available to non-Faculty members.

Issues of *Manager Update* published to date are :

Issue 1 :	April 1997	Issue 12 :	February 2000
Issue 2 :	July 1997	Issue 13 :	May 2000
Issue 3 :	October 1997	Issue 14 :	August 2000
Issue 4 :	February 1998	Issue 15 :	November 2000
Issue 5 :	May 1998	Issue 16 :	February 2001
Issue 6 :	September 1998	Issue 17 :	May 2001
Issue 7 :	November 1998	Issue 18 :	August 2001
Issue 8 :	February 1999		
Issue 9 :	May 1999		
Issue 10 :	August 1999		
Issue 11 :	November 1999		

Any members who have not received the above should contact Chris Jackson at the Faculty using the contact details set out below.

The Faculty of Finance and Management
The Institute of Chartered Accountants
in England & Wales
Chartered Accountants' Hall
PO Box 433, Moorgate Place, London EC2P 2BJ
Telephone: 020 7920 8486
Fax: 020 7920 8784

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

The Faculty's website address is – www.icaew.co.uk/members