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Management Quarterly

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Management Quarterly

A new way to keep ahead

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CONTENTS OF PART 5

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STRATEGY

TOOLS FOR UNDERSTANDING STRATEGIC ENVIRONMENTS

Julie Verity, Cranfield School of Management

Continuing the theme of environmental analysis from the last issue, this article considers further tools for understanding potential changes facing companies. The widely used PEST approach is reviewed, together with more sophisticated tools such as scenario analysis. The article concludes by suggesting that companies should perhaps create their own futures, and attempt to control the environment, rather than just react to it.

Introduction

The previous article in this series showed that there are at least two schools of thought on just about any strategic question that business thinkers pose for themselves. The issue of the wider environment is no exception.

The traditional approach

In the positive camp of thinking about the environment, the environment is key, and the wider environment is extremely important in determining what organisations can do. This was the line that was taken by traditional thinkers about planning, and it was from this perspective that tools for thinking about the environment were conceived back in the 1960s. In that model, the organisation was perceived as a passive agent which operated in a complex and uncertain environment. The planners’ role was to make sense of external complexity and reduce the uncertainty to predictable outcomes; it was important for the organisation to understand these in order for it to plot successful strategies. Key to an understanding of the environment was the recognition that what was important was that which resided mostly in the future, as strategies are largely conceived for tomorrow. How distant the morrow was depended on the industry in question and, largely, on the size of the investment under consideration.

Among the first models used to order planners’ thinking was one which categorised the environment under the headings of social, technological, economic and political factors (this is known as the STEP, or PEST, approach). Pictures of the future environment were developed from interactions between relevant trends in, for example, technology or society, and from these forecasts planners were expected to predict what might impact their organisation. In essence, the theory was that organisations should then ‘correct’ their strategy, bringing it back into line (maintaining the ‘fit’) with the dominant trends in the environment. The assumption which grounded this theory was that the future environment *could* be predicted, that is, that it was determinate. The intention was that organisations should gain a degree of control by anticipating *the* future environment changes, and, by inference, gain competitive advantage over rivals.

Example

A key trend over the past 20 years has been the shift in political philosophy away from state controlled economies toward free market liberalism.

At the beginning of the 1980s, it was difficult to predict how far and fast this trend would spread around the world, which made the future more difficult to predict for companies which operated historically within the influence of government control.

Industries such as tourism, air transport, financial services, oil, telecommunications, and power generation and supply would find their markets changing radically if, and when, their governments responded to free market ideas (see *Figure* 1). After deregulation, those companies that prepared new strategies ahead of the market changes proved to do significantly better than rivals who did little to plot their strategic response.

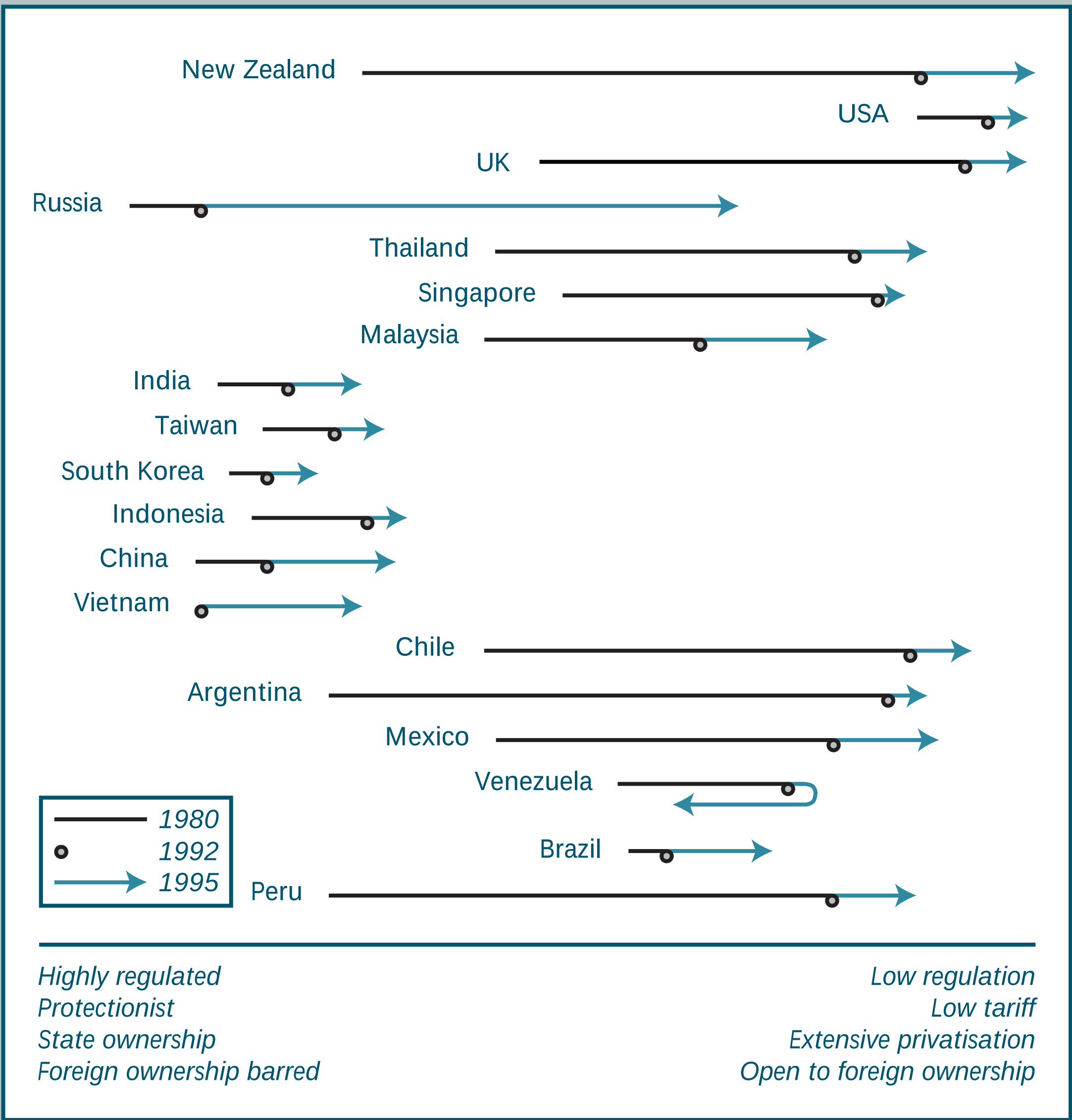


Figure 1 Progress in liberalisation

The observation of those who think about the environment and its impact on organisations is that, of the four STEP environmental drivers, the most common and the most powerful in forcing change are technological innovations and social trends. The effect of technology can be seen historically in the number of changes brought about by the introduction of the electric motor. The current changes being driven by IT, and especially the Internet, will impact on every individual's working and private lives. The new emerging technology which will have vast implications is biotechnology, and especially gene technology, which will change medical practice, agricultural husbandry, and related food and retail industries beyond recognition.

Example

BT estimates that, by 2025, a memory storage device will have been developed that will be capable of storing all of the data processed by the human brain during the average human 80 year lifespan, that is, 10 Tbyte of data, or the equivalent of 7 142 857 standard floppy discs.

If this storage device were implanted in a human, it could act as the equivalent of an aircraft black box, and the police, for example, could theoretically use the victim's device to play back an attack, rape or murder in order to catch the criminal.

One of the key social trends that has been increasing over the past decade, and that is now creating opportunities for companies, is the degree to which people feel stressed, and in particular stressed in terms of time. Time has become a commodity that is valuable, to differing extents for various groups of people. Time stress is particularly rife among high earners and women, and particularly among high-earning women. This is a reflection of the difficulty that women find in disposing of or delegating their responsibility for the household chores, plus the greater availability of jobs for women in modern economies. This trend has contributed to the increase in Internet shopping, direct banking, virtual and home working, childcare provision, and the willingness of certain groups of people to pay to save time (see *Figures* 2 and 3).

Examples

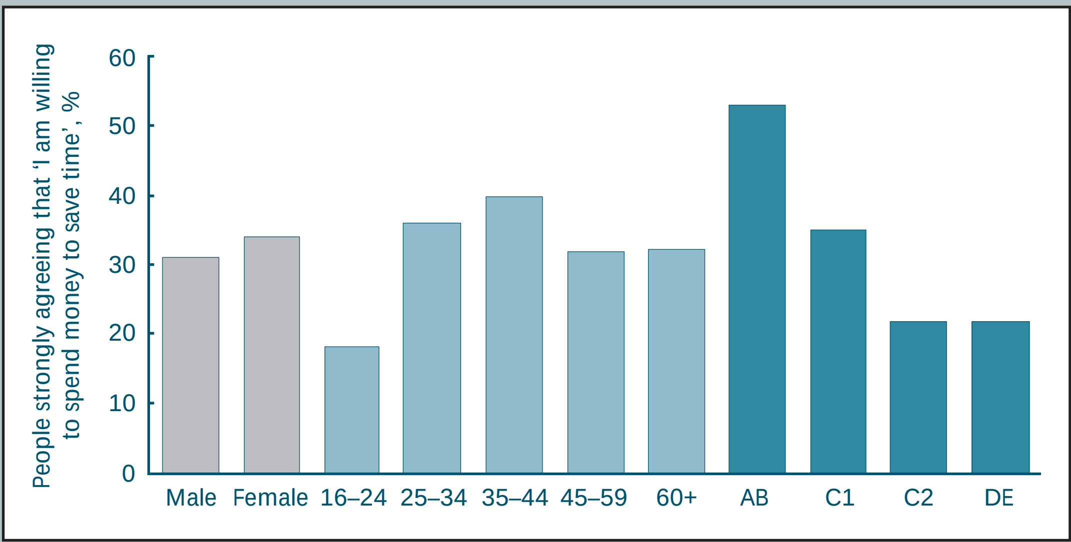


Figure 2 Some people would be willing to spend money to save time
[Source : The Henley Centre]

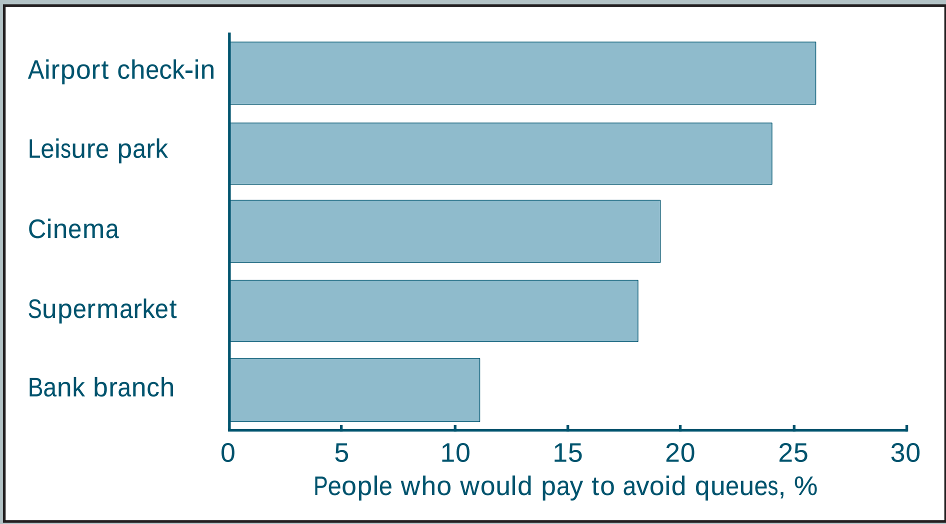


Figure 3 A significant number of people would pay to avoid queues

While a STEP analysis can appear to consist of simple lists of factors that are likely to impact the organisation, the skill in using it lies in the derivation of models that show how forces interact with each other and what the effect of those forces will be on the organisation, as well as indicating when strategies are likely to need corrective action. Critics of this approach highlight the fact that STEP analysis does not search for discontinuities, which are often more influential than trends (examples were the oil shocks of the early 1970s and 1980s).

Evolution to scenarios

By the 1970s, the limitations of STEP forecasts were beginning to be evident. One problem was that it was not all that easy to read the implications in the way suggested. More seriously, there were doubts about the single-point, deterministic approach to describing the future. The experience of forecasters was that there was a low probability of getting it right ! The answer for planners came in the form of scenarios (see *Table* 1).

Table 1 Forecasts, trends and scenarios

Forecast	Trend	Scenario
Dictionary definition: prediction, calculated in advance	Dictionary definition: a general tendency, a direction	Dictionary definition: a summary of the plot of a play
Based on the belief that the future can be predicted		Based on the belief that the future cannot be predicted
The 'best' answer; emphasises certainty		Descriptions of 'plausible and relevant' futures; emphasises uncertainty
Quantitative	Quantitative and qualitative	Quantitative and qualitative
Short-term	Short/medium-term	Long-term
Uses limited information from the total available		Uses much more information from the total available
Gives decision maker a feeling of security (could be false)		Leaves decision maker with responsibility

The trick with scenario thinking was to build more than one picture of the environment. Scenarios were literally, as the name implied, 'plots' that could be played out. They were logical and realistic, and built from the same type of observations of the environment as STEP analyses, but there were always alternatives. Their purpose was to sensitise managers to future possibilities and enable them to craft flexible strategies. Peter Schwartz said the following about scenarios :

> *'Often, managers prefer the illusion of certainty to understanding risks and realities. If the forecaster fails in his task, how can the manager be blamed ? But in the long run, this denial of uncertainty sets the stage for surprises, shattering the manager's confidence in his or her ability to look ahead. Scenarios allow a manager to say : 'I am prepared for whatever happens'. It is this ability to act with a knowledgeable sense of risk and reward that separates both the business executive and the wise individual from a bureaucrat or a gambler.'*

Scenario thinking first emerged following the Second World War as a method of military planning. The US Air Force tried to imagine what its opponents might do, and prepare alternative strategies. In the 1960s, Herman Khan, who had been part of the US Air Force effort, refined scenarios as a tool for business prognostication. He became the USA's top futurist.

Pierre Wack is widely acknowledged as taking the technique to a new level of sophistication in the 1970s. Pierre Wack was a group planner for the Royal Dutch/Shell Group. He and his colleagues were interested in understanding more about the future of oil prices (a key determinant of how well the oil business would fare). Early in the 1970s, he led his team in presenting two scenarios to Shell management. One told the story that 'fitted' with Shell's conventional wisdom, which was that oil prices would remain stable. The possibility of that happening, however, was very small, and it depended on events such as the discovery of new oil fields in non-Arab countries in a very short period of time. The second story looked at the more plausible future : an oil price crisis some time before 1975 sparked by a driving up of prices by OPEC.

Apparently, when these stories were presented to Shell management, they were received politely, and the implications were understood, but the stories did not change management behaviour in any way. This led Wack to change the scenarios he presented away from stories of possibilities to descriptions of the full ramifications of possible oil price shocks. He tried to make people actually feel the shocks, and forced managers to picture the decisions that they would have to take as a result. When the oil price shock happened in 1973, Shell was the only major oil company where the management were emotionally prepared for the change in the business, which enabled them to respond more quickly than the competition. It was this event which started Shell's transformation towards being the second largest (and arguably the most profitable) oil company in the world. From then on, Shell retained the practice of scenario building, revising its global scenarios every two to three years.

Example

As well as asserting that it predicted the first oil crisis of 1973, the Royal Dutch/Shell Group also claims to have foretold the events which resulted in the end of the Cold War in the 1980s. The 1983 global scenarios were named 'incrementalism' and 'the greening of Russia'. 'The greening of Russia' described events that started with the idea that a virtually unknown man named Gorbachev would come to power, and that this would be followed by a massive economic and political restructuring. Gorbachev, as an individual, would not cause the changes; rather, his arrival in power would be a another symptom of the same underlying causes. When this scenario was presented to Soviet experts in government agencies, every one told Shell that it had got it wrong. The CIA agreed with the Soviet experts, even though it had access to similar, and surely more, information than Shell did.

The purpose of scenarios was to change managers' views of reality; the outcome was claimed to be better strategic decisions.

Chaos rules

Few organisations adopted scenario planning with the enthusiasm and persistence of Shell. While the exploration of alternative environments could make managers more flexible and more open to various futures, the value of this in relation to the costs of the time and resources required to generate and assimilate the scenarios was thought to be insufficient. There was also a growing awareness that uncertainty and unpredictability were becoming more prominent phenomena through the 1980s. In economics, the breakdown of the post Second World War welfare consensus and the rise of Thatcherism and Reaganomics turned old assumptions on their heads. Analysis could tell you almost anything you wanted it to. Cutting taxes could raise revenue … or maybe decrease revenue ? The breakdown of the certainties of the Cold War added to this sense of the world being chaotic. The rise in power of the stock markets and the diminishing influence of governments fuelled the feeling that there was no point in trying to predict what might happen next in the environment.

There was also a shift in business thinking during the 1980s. The focus for managers became the internal workings of their organisations. Competitive strategy, competitor benchmarking, core competencies, business reengineering and financial restructuring became the mantras of the decade. Also, change became something that was in the air, a business phenomenon in its own right that successful companies embraced in order to gain competitive advantage. The buzzword of flexibility enabled companies to deal with change; this appeared to be a substitute for trying to analyse what was going on in the wider environment, which was anyway in such a state as to be incomprehensible.

Thus we have moved from the positive camp of thinking about the environment, in which the environment is key and organisations need to adjust to it in order to survive, to the negative camp, where it is acknowledged that responding to the environment is too difficult because chaos rules.

Self-determination

Then, in the 1990s, there came an interesting twist to the story. The logic that said that models which tried to make sense of the environment could not any longer cope with chaotic reality moved on a step with the thinking of Gary Hamel and C K Prahalad. In their book *Competing for the Future*, they used the messiness of the environment as a basis for extolling the virtue of companies creating their own futures :

> '*We are standing on the verge of a revolution … the environmental revolution, the genetic revolution, the materials revolution, the digital revolution, and, most of all the information revolution … Existing industries – education, health care, transportation, banking, publishing … will be profoundly transformed … Thus the question of which companies and countries create the future is far from academic … The wealth of a firm, and of each nation in which it operates, largely depends on its role in creating tomorrow's markets … in emerging opportunity areas … the rules are waiting to be written. In existing industries the rules are waiting to be rewritten.*'

Thus visions, purpose, positive thinking techniques, and BHAGs (big hairy audacious goals) arrived. The theory is that, if you have no clue about what will happen to the environment in the future, then all you can do is to articulate your vision and strive to realise it. The winners will be those companies that have the strongest sense of purpose, the most passionate desire to achieve it, and perhaps the size to influence it. The assumption underpinning this approach is that we live in extraordinarily fluid times. There are many possible futures, but only one will happen, and this will be dictated by the relative strength of the agents in the game. Organisations are now big enough and powerful enough, and have the technology and the know-how, to be *the* significant force determining the future.

The beginning of this article stated that planners tried to understand their environment in order to gain some degree of control. Applying the thinking initiated by Hamel and Prahalad, we see that organisations gain control by dictating what the future environment will be ! The wave of mergers, acquisitions and joint ventures that has occurred in the 1990s is a testament to companies' need for size and dominance, and it has helped those organisations to achieve the kind of control that will enable them to be significant agents in the game. The view that this reflects is 'if you can't control your environment, then own it'.

The other key idea that was prevalent in the 1960s model was that an organisation was largely a passive agent that had to take what it was given in terms of environmental change. The 1990s idea is very different. Now, what organisations do is very important in determining what the environment will be. Those with the greatest sense of purpose and drive will be able to influence a fluid, chaotic environment the most. The biggest will be able to control more of the domain. In this world, the most dangerous thing that companies can do will be to sit back and wait to see what the future will bring !

Further reading

- ***Competing for the Future***

  Hamel, G and Prahalad, C K (1996) Harvard Business School Press

  A classic text.

- ***The Art of the Long View***

  Schwartz, P (1997) John Wiley

  An interesting explanation of the scenario approach and an introduction to techniques for using it.

HRM

PERFORMANCE MANAGEMENT

Philip Stiles, Judge Institute of Management Studies, University of Cambridge

An organisation's performance management systems must be tailored to suit its business strategy and environment. This article discusses the performance management system in terms of the setting of objectives, evaluation, and rewards, and identifies some key factors in successful performance management.

Working in organisations can be precarious. Even if you survive restructuring and downsizing, and avoid being shunted to the periphery, you will find your job beset by insecurity and your career increasingly tenuous, and face constant demands to update your skills while working in chaos and rampant uncertainty. This view of the employee's lot is familiar, and so too is the exhortation by organisations that it is only performance that counts. The traditional employment deal of a job for life and regular promotions has been torpedoed by the new realities of the business environment. The major issue now is that of how organisations get the best out of their employees under these conditions.

The management of performance is the most crucial and yet the most problematic of organisational processes. If competitive advantage is driven not just by product offerings and the market position of the company, but crucially by its human capabilities and the stock of knowledge and expertise it possesses, then performance management becomes the key lever in ensuring organisational effectiveness. However, when it comes down to the nuts and bolts of administering a performance management (PM) system, there is a common view that the process is difficult, demanding, and frequently disappointing. In this article we shall look at the reasons for this tension and discuss ways in which organisations can make PM more effective.

Performance management

Performance management consists of three key elements :

1. objective setting;
2. formal performance evaluation;
3. linkage of evaluation outcomes to development and rewards in order to reinforce desired behaviour.

This system is cybernetic, that is, it involves feedback from both employer and employee which drives modifications at each point in the system. The importance of PM is that it is a system which links directly to the shared strategy, vision and purpose of the company. For a PM system to be effective, it must reinforce the aims of the organisation, and ensure that all employees understand these aims and are aligned to them.

Objective setting

Underlying the performance management process are some basic assumptions about how individuals are motivated to perform their tasks. A common principle of motivation theories is that the goals employees try to achieve at work have a major impact on their levels of motivation and performance. Much depends of course on the types of goal that employees have, and research suggests that higher levels of performance are achieved by individuals who are assigned difficult and specific goals (for example ‘sell six cars a week’) rather than more general, vague goals (‘work to the best of your ability’). The degree of employee participation in the setting of the goals is also important; involvement helps to boost acceptance of the goals and increase commitment to them.

Goals are effective insofar as they indicate a level of performance that is specific, attainable, demanding and desirable. If a target is imposed that is seen as unrealistic or unattainable, or unrevisable in the light of changing circumstances, motivation to achieve it may be lost.

Performance evaluation

Feedback is essential in ensuring that an individual is motivated to achieve his or her goals. Feedback is intended either to reinforce behaviour or to suggest changes. The major formal source of feedback for employees is the performance appraisal (PA), the aims of which include

- auditing of employee performance;
- determination of individuals’ pay;
- identification of opportunities for training and development.

The results of PA are also used as data for promotion decisions, and, in some cases, for redundancy purposes.

Employees can be appraised using a variety of approaches. The three principal ones focus on the outputs, the behaviour, or the skills of the individual.

- The output approach highlights only the end state of performance (for example sales achieved, deals made, revenue secured), and performance is evaluated on whether these targets or standards have been achieved or surpassed. The monitoring of output gives employees a good deal of discretion in how they reach their targets, while providing relatively objective criteria for evaluation.
- The behaviour approach is often used in situations where it is difficult to rely on outputs as reliable guides to performance, for instance where the job is just not open to evaluation of output in this way, or where environmental circumstances make the targets too volatile for them to be used reliably as an indicator of performance. Performance management then becomes a case of describing the behaviours that are valuable to the organisation, and judging employees on good or poor examples of these.
- A third method of appraisal is to measure the skills of the individual, primarily through the use of competency frameworks. Competencies can specify behaviours, skills, and knowledge that it is deemed desirable for employees to exhibit, and criteria for their attainment are set by the organisation.

Usually, firms employ elements of all these three approaches simultaneously. Again, participation in the process is very important. Research in PA has shown that involvement in the process by the individual leads to higher acceptance of the appraisal, increased satisfaction, and improved performance.

The responsibility for carrying out the appraisal usually falls on the immediate boss of the individual, but with organisations increasingly adopting team-based working and group oriented output, just relying on input by the immediate manager into the appraisal may reduce the efficiency of the process. With tasks becoming increasingly interdependent, multiple sources of feedback, including bosses, peers, subordinates and customers ('360° feedback'), can add breadth and depth to the process.

Feedback is most effective when it is given often and near in time to the observed behaviour. Formal appraisal usually occurs annually (although it sometimes takes place half-yearly or quarterly), and this may not be frequently enough for the full extent of an employee's contribution to be captured. For most organisations, then, the formal appraisal is supplemented by the provision of feedback on an ongoing, informal basis. Since feedback is used by organisations to promote continuous improvement, the effective use of both formal and informal methods will be a fundamental element in achieving enhanced organisational performance.

Linkage of evaluation outcomes to development and rewards

Rewards

The linkage of appraisal outcomes to rewards is crucial if motivation is to be secured. The reward process is intended to align employees with organisational strategy through the provision of incentives for employees to act in the firm's interest and perform well over time. Expectancy theory carries a clear message that employees must feel confidence that their efforts will affect the rewards they receive. In other words, if employees do not perceive their efforts to be strongly linked to their rewards, the performance management system will fail to be effective.

How pay is distributed influences the attitudes and behaviour of employees, and it can influence the recruitment and retention of employees. It is also often the largest single cost to the organisation, so getting pay right is a major task. A major issue is that most individuals believe they are not paid what they are worth, and most believe they contribute more to the organisation than they are rewarded for. High levels of employee satisfaction with pay are therefore difficult to achieve.

Most organisations use some mix of cash and benefits to reward their employees. The cash reward is determined usually by market rates, and it often also includes considerations of productivity. In virtually all organisations, employees are given a base salary that is usually reviewed once a year. In some organisations, there is a mix of basic and variable pay, where the latter is a percentage of the cash compensation, and depends on the performance of the individual, his or her group, or the organisation, or some mix of the three.

Expectancy theory, however, places a premium on the 'line of sight' for employees, that is, employees want to see a clear link between their efforts and their rewards. If the incentive scheme is not linked closely to individual performance, for instance if it is a bonus scheme that is based on profit sharing which pays out only when the organisation is profitable, this may demotivate employees, as they will then feel that they have little control over the factors that make up the overall profit performance of the organisation. However, because many organisations are moving towards team-based working, incentives based on individual performance are no longer enough, and some mix of methods is required.

The most common practice in large organisations is to run both short-term and long-term incentive schemes. The short-term schemes include bonus payments, based either on individual performance (for example merit rankings), group or team performance (for example project completion) or organisation performance (for example profit or share price performance). Long-term incentive plans are designed to tie key employees into the company, and they are usually based on share price performance or shareholder value growth over a specified performance period, typically three years. Increasingly common are the all-employee share schemes (which come in three forms: share options, share purchases and free shares), the aim of which is to incentivise the entire workforce.

In addition to cash compensation, organisations usually provide a series of benefits in the reward package. These can include healthcare, a company car, a pension, paid holidays, and childcare. An increasing number of companies are adopting flexible or cafeteria benefits schemes which allow employees to choose between benefits, and even to waive cash in favour of increased benefits. This flexibility is intended to reflect the diversity within organisations (that is, the fact that some people may value pension provision rather than a ‘perk’ car), and this element of choice may positively affect morale and commitment.

Development

Evaluation of employees also feeds into the determination of training and development needs. Again, this is a linkage which is of strong strategic importance to the organisation. Training and development as a process helps to fulfil both an individual’s learning goals and the mission of the organisation. It is here that deficiencies in competencies can be corrected, and employee skills and behaviours realigned.

Major issues in performance management

Performance management is crucial to the effective operation of an organisation. However, time and time again, managers and staff line up to say that their system malfunctions, and that the ideals of the process are not matched by the reality. There are a number of reasons for this.

Change

The first cause relates to the changing nature of organisational life. A major dilemma in the management of performance is that the tendency is for administrative systems such as performance management systems to evolve and develop over a number of years. The amount of documentation and formalisation required to implement processes, and the need to be able to embed the monitoring and evaluation process so that employees can have a consistent expectation of the effort/reward bargain, makes them rather fixed and difficult to adapt. The new competitive landscape, encompassing rapid technological advances, globalisation, reduced product lifecycles, and the intensification of competition, has made traditional assumptions about the following problematic :

- the consistency of job roles and descriptions;
- the clarity of cause/effect relations with respect to the actions that employees take;
- their outcomes.

Change will constantly challenge the elements of the performance management system and their interlinkages. Goal setting in changing circumstances can be difficult, with the specification of goals being problematic, because the consistency and continuity of the external environment, and in many cases the nature of work, are unclear. The changing environment will also make appraisal of performance difficult, simply because an individual's performance is becoming increasingly difficult to identify as jobs become more interdependent, and work roles may exist for increasingly short time spans as organisations restructure and reorientate rapidly. These effects impact on pay and development designs, which have to become extremely flexible to cope with the shifting patterns of employment.

In such environments, firms tend to specify goals loosely, and ensure they are open to frequent revision. There is also greater participation by employees in their goal setting, as managers may not be in the best position to assess the changing demands of a particular employee's work. In these circumstances, reliance on evaluating employees by output alone is impractical, and the use of competency frameworks is widespread. Behaviour is not tightly controlled through these competencies; they have enough flexibility to allow for creativity and innovation, these virtues being central competencies themselves.

Appraisal as a formal process now tends to be conducted through multiple perspectives, typically through 360°. Just as important is the reliance on informal feedback processes to maintain monitoring and motivation as employees encounter new situations and problems.

Pay is linked in tightly to the competency framework. Although pay systems have encompassed the introduction of team-based working, team incentives have not replaced individual incentives, but rather complemented them. From being largely centralised, pay management has been decentralised down to the business unit level, and managers have a fair degree of discretion in relation to the distribution of rewards, working within a broad overall framework, which has increased flexibility and accountability.

The reward mix, too, is becoming increasingly flexible. In training and development, formal programmes have been supplemented by increased use of coaching and counselling in order to promote self-development. With the flattening of organisational structures, there is less focus on development being seen as a series of jobs in which the employee moves up the organisation over time; rather, development in-role is viewed as desirable, and secondments and mentoring have helped this process. Responsibility for development rests with the individual and the line, rather than with HR staff.

Subjectivity

The problem of subjectivity is the second major issue affecting PM systems. The administration of the performance management processes is complex, and for performance management to work, sufficient attention must be paid to key processes by line managers. However, managers are busy people, and they can be constrained by the short-termism within their organisations. This has led in some cases to managers and employees concentrating on narrowly prescribed tasks at the expense of broader organisational goals, such as teamwork.

Even when managers are willing to conduct performance management tasks, a number of biases can creep into the process which can lead to inaccurate judgements of employees. Some managers tend to be overly harsh when appraising their staff, while others are overly lenient. Some tend to award the same ranking to all their staff, which has the effect of rendering them all average. The following are other typical biases :

- *Halo effect* : A manager rates an individual as excellent on the basis of the overall good impression that he or she has made, rather than on his or her performance during the specific period under review.
- *Similar-to-me effect* : A manager awards a highly positive appraisal to an individual who resembles him or her in some way.

Here, the frequency and the source of feedback are important. Regular and frequent feedback can increase perceptions of appraisal fairness and accuracy and reduce bias in performance ratings. Input into the evaluation process, where employees are asked to provide their own assessment by conducting self-appraisals, provides for strong two-way communication in the appraisal process, which increases employee perceptions of fairness and credibility in the process. The use of multiple sources of feedback can also alleviate the problem of managerial bias.

How managers provide feedback is also crucial. Positive feedback aims to reinforce the right behaviours, and it boosts the self-esteem of the individual who receives it. Negative feedback, on the other hand, is extremely tricky to present, since it can challenge an individual's self-esteem and result in a lack of motivation and subsequent performance. Training in this area for managers is very important. The basic rule of thumb is always to give specific positive feedback before delivering negative comments, so that the individual is given a balanced assessment. This also helps to avoid a defensive reaction that could create an insecure employee who will resist changing his or her behaviour.

The fairness of the performance management system is a key feature of its effectiveness. Not only the outcomes of the process (performance rating, the pay award, the development programme), but also the process itself (how these decisions were arrived at, and the transparency of the process), are essential.

Attention to fair process has been shown to increase performance, commitment, job satisfaction, and morale.

Conclusions

Performance management has the potential to impact organisational effectiveness significantly. However, tensions are inherent within any system, and the search for a perfect process is probably doomed to failure. In this article, we have explored the main features of PM and some of the difficulties in the process, and suggested some ways in which these problems can be reduced. The key to success lies not just in the substance of the individual parts of the process, but also in the linkages between them; ensuring that the process works as an integrated whole rather than a set of discrete parts is therefore essential. Flexibility and transparency of the system is also crucial. Both these features build perceptions of fairness and trust in the process and in those who administer it. Without these elements, the aims of the PM system will never be achievable.

Further reading

- **'High technology performance management'**

  Mohrman, A M, Mohrman, S A and Worley, C C in *Managing complexity in high technology organisations*, Von Glinow, M A and Mohrman, S A (eds.) (1990) Oxford University Press.

  An astute examination of the major issues facing performance management in fast-moving, high-tech environments.

- **'Control theory in strategic human resource management: the mediating effect of administrative information'**

  Snell, S A, *Academy of Management Journal* Vol 35 (1992) pp 292–327.

  A detailed, complex empirical study of HRM that focuses on its role as a control system, and features the major aspects of performance management; chiefly for academics.

- ***Managing human resources and industrial relations***

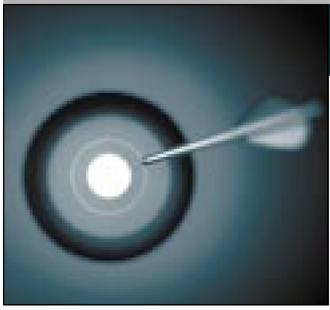
  Storey, J and Sisson, K (1993) Open University Press.

  Few human resource management texts deal with performance management as a system, preferring to dwell instead on the constituent parts; this excellent, clearly written text is an exception.

MARKETING

RELATIONSHIP MARKETING

Helen Mitchell, Cranfield School of Management



Relationship marketing is an important development in the field of marketing. The article describes this approach, and considers the wide range of markets that a company needs to manage. Using real life examples, it then discusses how a company can apply the model in order to assess and improve its relationships.

From transactions to relationships

The term 'relationship marketing' is becoming increasingly familiar to many marketers. This model has been behind a number of innovations that have impacted upon both consumers and organisations over the last decade: loyalty cards, co-managed IT systems, and customised communications, to name but a few. It reflects a change from a focus on traditional marketing practices, with their short-term, transactional emphasis, to those in which establishing and maintaining long-term relationships is considered vital to an organisation's success. A relationship marketing approach calls for a focus that is different from the single-sale emphasis of transactional marketing (see *Table* 1).

Table 1 Features of transactional marketing and relationship marketing

Transactional marketing	Relationship marketing
Focus on single sales	Focus on customer retention
Product features orientation	Customer value orientation
Short timescale	Long timescale
Little emphasis on customer service	High degree of emphasis on customer service
Limited customer commitment	
Moderate amount of customer contact	High amount of customer contact
Quality is primarily concern of production department	Quality is concern of all

Much of the original thinking behind relationship marketing was developed at Cranfield School of Management, and it was derived from the work of Christopher, Payne and Ballantyne, who developed a theory of relationship marketing which recognised a range of 'key markets' that organisations need to consider (see *Figure* 1).

Traditionally, marketing has been seen from the perspective of managing relationships with customer groups. However, a much broader viewpoint is appropriate in the relationship marketing model. It suggests that companies have a much wider range of markets to which they need to direct marketing activity and for which they must formulate marketing plans. In addition to focusing on existing and potential customers, companies need to consider five other markets. Let us consider these six sectors in more detail.

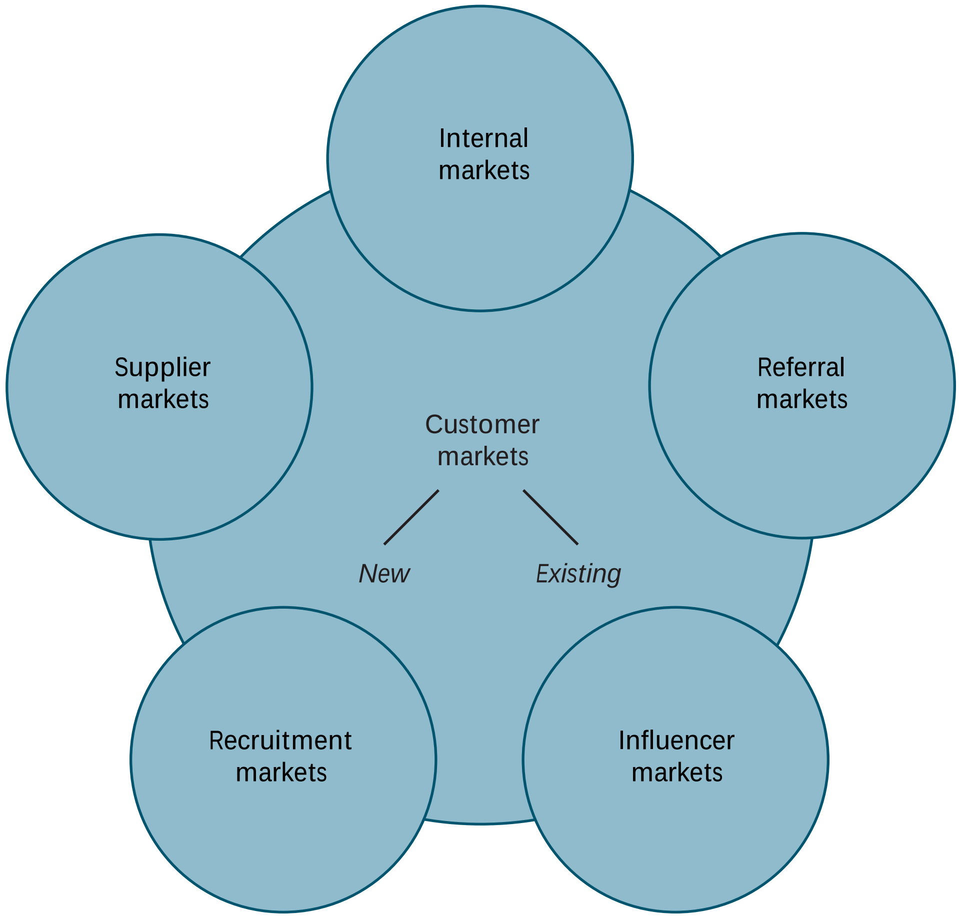


Figure 1 Cranfield multiple markets model
[Source : Christopher, Payne and Ballantyne (1991)]

Customer markets

In relationship marketing, the primary focus of marketing remains the customers, who are central to the model, although more recently the focus has changed from being a transactional one, that is, where the emphasis is on the individual sale, to one that emphasises long-term relationships. A large number of companies devote the greater proportion of their efforts to seeking new customers, placing too much focus on marketing exclusively to them. As a result, companies often experience the 'leaking bucket' effect, where existing customers are lost because too little attention is paid to them once an order has been secured. Davidow pointed out this problem :

> *'It has always seemed incredible to me how insensitive companies can be to their customers. Most of them don't seem to understand that their future business depends on having the same customer come back again and again.'*

Referral markets

It is said that the best way of marketing is to get your customers to do it for you. The existing customer base can provide great opportunities for customer referral through recommendation of the company. However, there are also a number of other sources of referrals, and these have been called, for example, 'intermediaries', 'third-party markets', 'agencies', 'networks' and 'connectors'. A detailed bank study, for instance, revealed numerous key referral sources. These included insurance companies, property brokers, accountants, solicitors, surveyors, valuers, and other banks, as well as existing customers and internal sources.

Supplier markets

There is mounting evidence that there is a shift away from adversarial customer–supplier relationships towards suppliers and their customers cooperating in a win–win partnership. In the past, companies played one supplier off against another on price, but the unknown cost of this approach has been variability in supply or quality, or both. This new type of relationship has been called ‘co-makership’ (by Philips), ‘co-marketing’ (by AT&T) and ‘relationship marketing’, and it is based on the concept of both parties agreeing and thus creating a better future for both of them. The move towards improved supplier relationships involves the company marketing these principles both internally and externally.

Recruitment markets

Companies are increasingly finding that there is strong competition to attract a sufficient number of suitably motivated and skilled employees. Many firms are learning that the real factor that can limit their success is the availability of people to work for them rather than the availability of resources such as capital or raw materials. Recently, large companies have paid increasing attention to attracting high calibre graduates, and have marketed specifically to this age group, most noticeably in the financial services sector, which had been seen as old fashioned and dull by many undergraduates.

Influencer markets

The above markets do not include all those to whom marketing messages need to be directed. Other examples are finance markets and analysts, regulators and government. These are additional markets that can have some influence on a company’s products or share price. Companies need to formulate marketing plans that maximise the advantages to be derived from such relationships.

Internal markets

Regarded by many as the most important relationship of all, the internal market consists of the company’s own employees. There are two key aspects to the successful development of this market. The first is that, because an organisation consists of customer–supplier relationships, staff must recognise that both individuals and departments have customers, and must consider how to improve these relationships *within* the organisation. The second is that staff must also work together in a manner that is attuned to the company’s goals and mission. Internal marketing is vital in ensuring that an organisation is customer focused. In practice, it is concerned with communications, responsibility, and generating a unity of purpose.

The importance of customer retention

It is becoming increasingly important for organisations to realise that it is cheaper and easier to sell products and services to existing customers than to new customers. Extensive studies by Bain *et al*. have shown that it is more expensive to secure new customers and that retained customers are a valuable profit source over time. Increasing the customer retention rate increases the net value of a customer. In the research, a credit card company that increased its retention rate from 90% to 95% of its customers saw total customer lifetime profits rise by an average of 75%. This was because satisfied and well served customers continued to come back and conduct repeat business with the company. In addition, the initial recruitment cost of finding those customers is offset by their increased level of profit contribution. Even a tiny change in customer retention can impact through a business system and multiply over time. The resulting effect on *long-term* profit and growth can be enormous.

Creating and managing long-term relationships

The application of a multiple markets approach to an organisation has four stages :

1. assessing and reviewing the desired level of marketing emphasis for each market;
2. identifying the key segments in each market domain;
3. researching the key segments;
4. determining marketing strategies and compiling marketing plans.

Stage 1

A relationship marketing network diagram (also called a spidergram) can be used to review the desired level of emphasis for each market (see *Figure* 2). The diagram has seven axes (two of which are for existing and new customers). The scales of 1 (low) to 10 (high) on each axis allow managers to assess the current marketing emphasis (in terms of resources, focus and time) for each market.

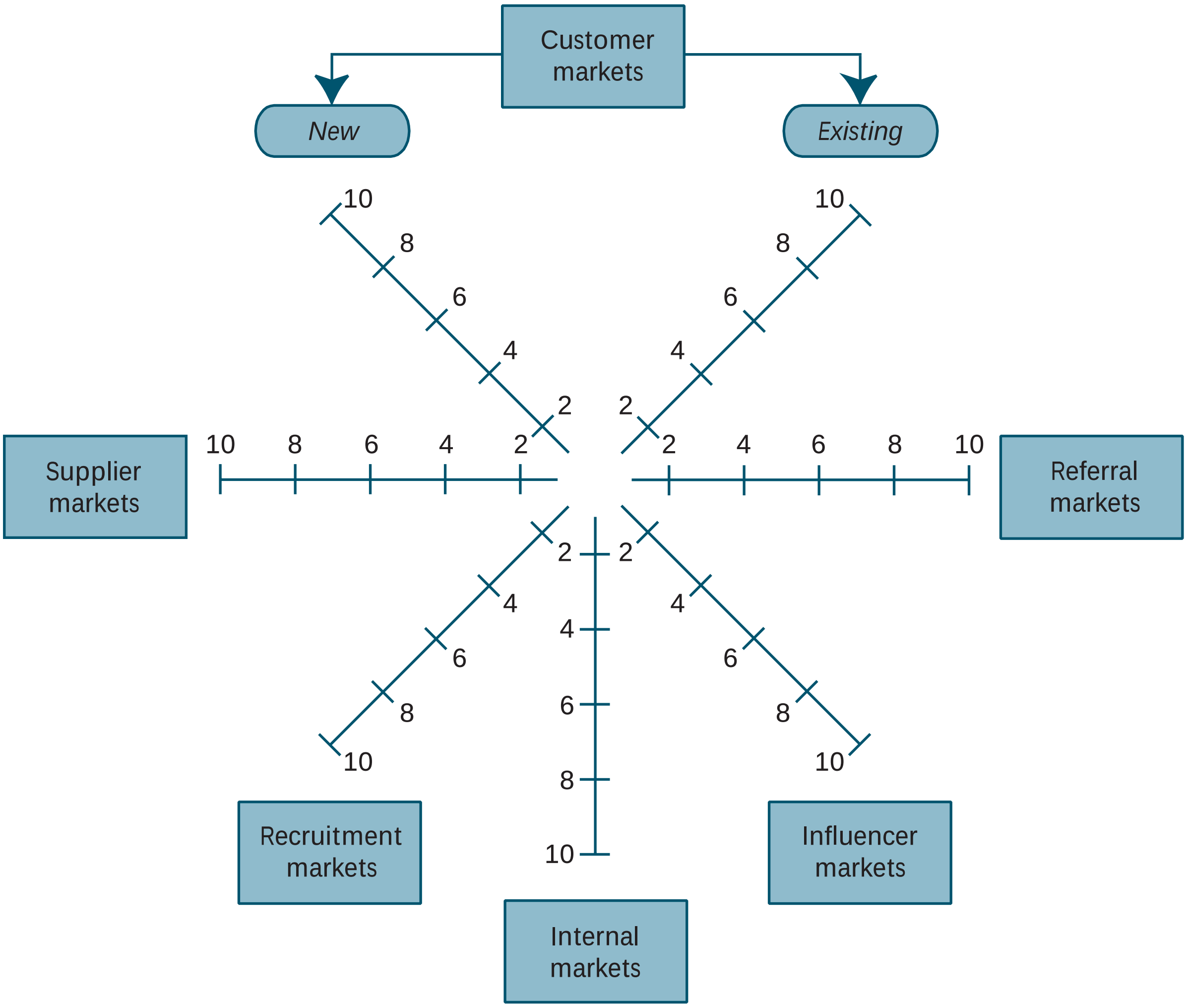


Figure 2 Relationship marketing network diagram

The next step is to assess the desired emphases, and place these on the diagram as well, to allow comparison. This approach is illustrated by a spidergram for British Airways (see *Figure* 3). This diagram is based on the assessment of a number of British Airways staff, including senior executives, and it shows a series of assessments over time. In the 1970s, the company was in poor

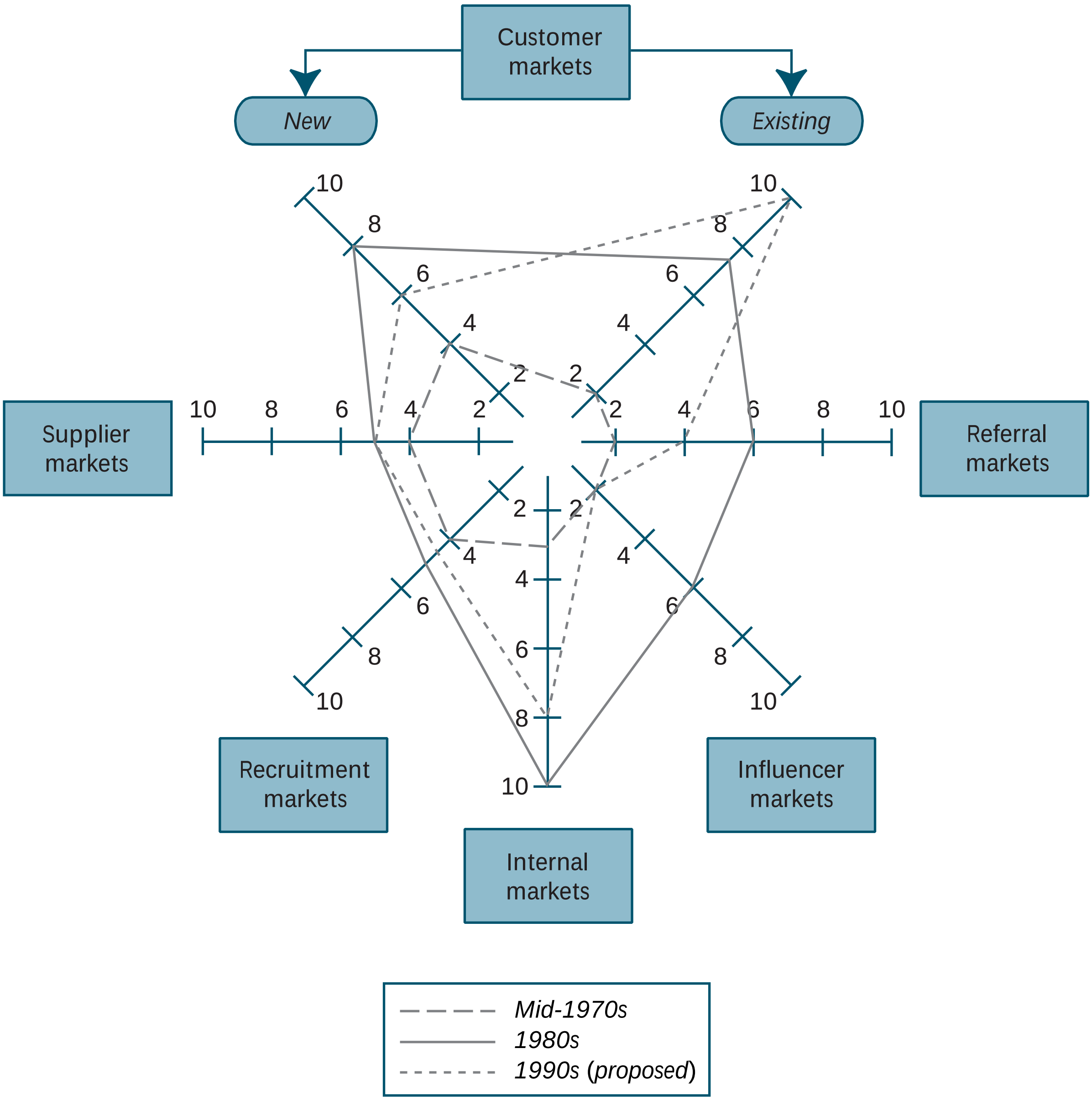


Figure 3 Relationship marketing strategy spidergram for British Airways

shape. Emphasis was placed on the internal market and a series of customer programmes. Towards the end of the 1980s, emphasis was placed on customer retention, and this led to the successful Air Miles programme. As a result of improving relationships with internal markets, existing customers and new customers, as well as referral markets (travel agents), the performance of British Airways greatly improved.

Stage 2

The second stage is the identification of the key segments in each market domain. Network diagrams can also be developed for each market domain. As an example, *Figure* 4 shows a spidergram for referral markets for an accounting firm.

Stages 3 and 4

The final two stages allow marketers to identify the needs of each identified segment and devise appropriate marketing strategies for them. The marketing planning process for each market can be carried out to obtain the best outcome for the selected segments (this process was described

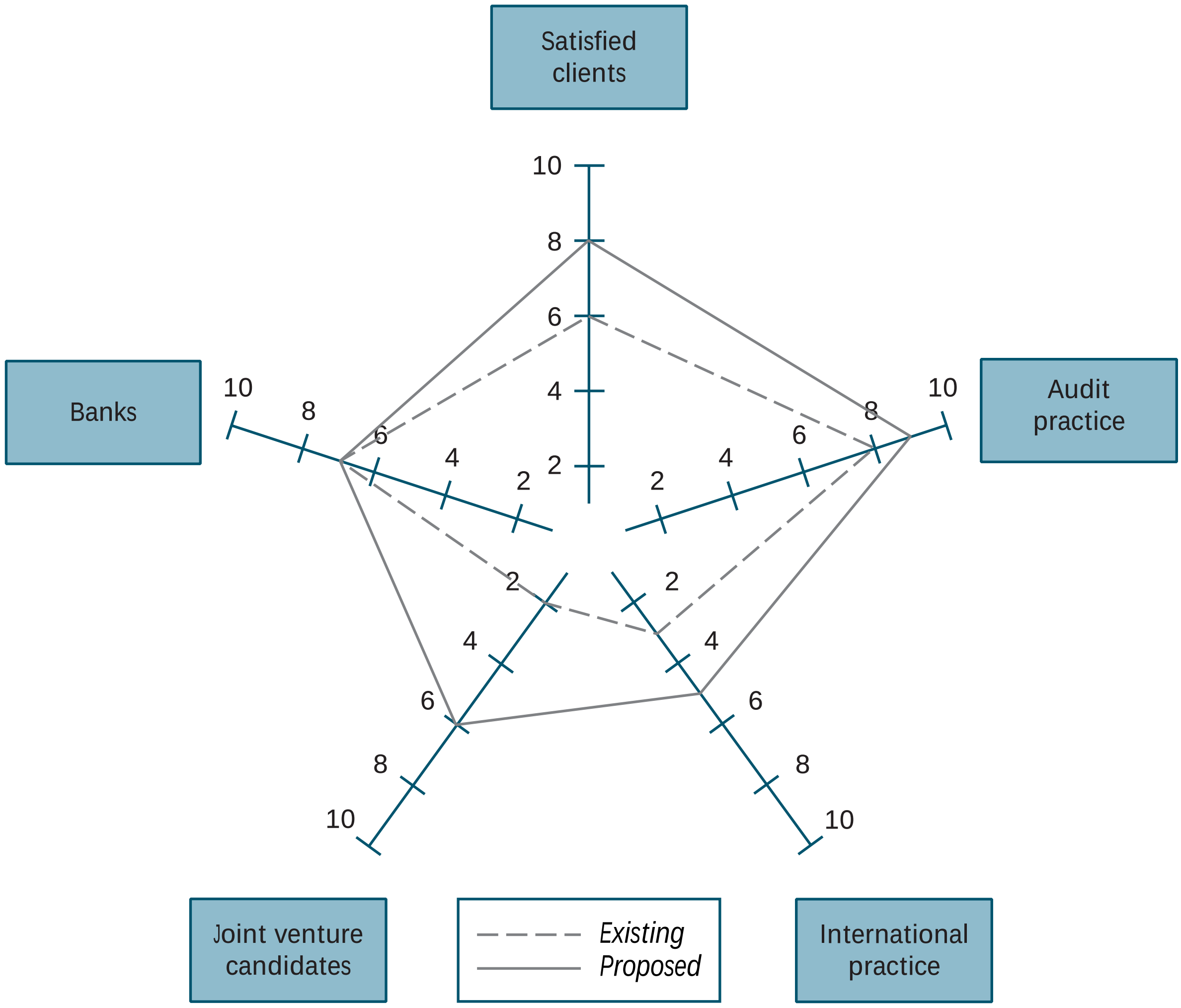


Figure 4 Referral markets for an accounting firm

in detail by Professor Malcolm McDonald in MQ2). Marketers need to set specific market objectives for each segment, carry out research on segment expectations and needs, assess the resources allocation, and continue monitoring the impact of the marketing strategy.

Summary

Relationship marketing is a cross-functional process that is concerned with maintaining a balance of resources and marketing effort across the key market domains. Since its development in 1991, the multiple markets model has been used by many organisations to help develop in-depth and relevant marketing plans for each of their markets. Companies that have embraced this approach have seen remarkable success. For example, Tesco has risen to become the number 1 supermarket retailer in the UK since the launch of its loyalty card in 1995. The Clubcard helped it to collect important information that allowed it to deliver superior customer value to both its existing and new customers. Together with its suppliers, it has revolutionised everyday shopping and made the UK retailing market one of the most sophisticated in the world.

Most importantly, adopting a relationship marketing approach has helped organisations to become aware of the whole supply chain and to realise that each market is important in adding long-term customer value.

Further reading

- ***Relationship Marketing : Bringing Quality, Customer Service and Marketing Together***

  Christopher, M G, Payne, A F and Ballantyne, D (1991) Butterworth–Heinemann

  The original text on relationship marketing.

- ***Advances in Relationship Marketing***

  Payne, A F (ed.) (1995) Kogan Page

  A collection of essays by leading academics outlining developments in relationship marketing.

- ***Relationship Marketing for Competitive Advantage***

  Payne, A F, Christopher, M G, Clark, M K and Peck, H (eds.) (1995) Butterworth–Heinemann

  A collection of writings by leading academics; examines how following a relationship marketing approach can lead to sustainable competitive advantage.

- ***Relationship Marketing : Strategy and Implementation, Text and Cases***

  Peck, H, Payne, A F, Christopher, M G and Clark, M K (1999) Butterworth–Heinemann

  A comprehensive collection of real-life cases illustrating the implementation of relationship marketing, highlighting practical issues, and focusing on each of the six markets in turn.

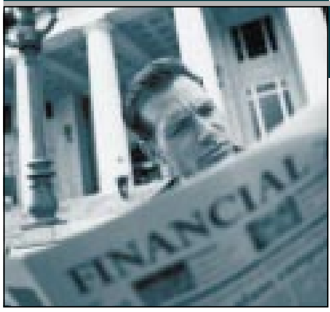
- ***The Loyalty Effect***

  Reicheld, F F (1996) Harvard Business School Press

  A fascinating book that makes the financial and economic case for loyalty, and is especially interesting for accountants, as the author takes you through the numbers to prove it ! – a fresh approach to valuing customers as assets.

FINANCE

THE COST OF CAPITAL



Jack Broyles, Warwick Business School

We conclude our series about the cost of capital with an article that brings together key points from the earlier contributions. It explains how to calculate the weighted average cost of capital, which is suitable for the appraisal of projects where the risk profile matches that of the organisation as a whole. A method of adjusting for project risk is illustrated by a useful worked example.

An important criterion for board-level decision making is the directors' perception of the cost of capital. Used as a discount rate, the cost of capital determines the values of acquisitions, new products, projects and divestments. It is a cost element in the product pricing decision. Pricing of issues of securities, target setting in financial control, and rate setting for regulated public utilities all require estimates of the relevant costs of capital. If the value created by a strategic investment does not cover the cost of capital, it cannot increase shareholder value. Clearly, accurate estimation of the cost of capital is of universal importance in finance.

Best practice is to adjust the company's weighted average cost of capital (WACC) for the non-diversifiable risk of the capital investment under consideration. Non-diversifiable risk (measured as indicated below) is the risk that remains in shareholders' well diversified portfolios. The WACC is a weighted average of the expected after-tax costs of debt and equity capital, where the weights are the expected target proportions of debt and equity financing.

There is little theoretical support for an optimum proportion of debt financing. The reason is that increasing the proportion of borrowing increases the cost of equity. Any net effect on the cost of capital (due to taxes for example) becomes dominated by the increased risk and expected costs of financial distress. Good practice is to ensure that the extent, maturities and currency denominations borrowed are prudent, that is, that they do not exceed the levels that could be serviced in an unfavourable economic and business climate. Sensitivity analysis on spreadsheet company financial forecasts is the best aid to choosing prudent levels of debt.

The WACC is a suitable discount rate for projects that are expected to be of average risk for the firm. The company's overall WACC is not suitable for projects with risks that differ significantly from the average. Untypical projects require a relevant risk-adjusted weighted average cost of capital. The adjustment procedure is as follows :

1. Estimate the company's WACC for the life of the project.
2. Extract the company's risk premium from its WACC.
3. Adjust the company's risk premium to obtain the risk premium for the project or for its risk class.
4. Adjust the WACC for the difference between the project's risk premium and the company's risk premium.

Let us consider each of these four steps in more detail.

1. Estimate the company's WACC

The formula for the weighted average cost of capital is

$$\text{WACC} = W \times \text{expected cost of debt after tax} + (1 - W) \times \text{expected cost of equity}$$

where W is the expected or target proportion of debt financing during the life of the project.

Cost of debt

The cost of debt is itself a weighted average of the expected after-tax costs of the various forms of expected debt financing. Discount the tax rate for the expected time lag between payment of interest and when the resulting tax deductions will impact actual tax payments. The lag depends upon the tax collection cycle and on whether the company is temporarily non-tax-paying.

Cost of equity

The cost of equity in the WACC is less straightforward. There are two approaches. The first is the discounted dividends approach. The second and more modern (though not always more accurate) method is to use the capital asset pricing model (CAPM).

Discounted dividends approach

For stock-market listed companies paying generous dividends and expecting modest growth, the most reliable way to estimate the equity cost of capital is usually the discounted dividends approach.

The idea is that the current share price equals the expected stream of dividends discounted at the company's equity cost of capital. The equity cost of capital then equals the internal rate of return on a share, with the current share price being treated as the investment.

Suppose that you are reasonably confident of your dividend expectations over, say, the next five years. Discount the next five years' dividends per share and the expected share price at the end of the five years :

$$P_0 = \frac{D_1}{(1 + R_E)^1} + \frac{D_2}{(1 + R_E)^2} + \cdots + \frac{D_5}{(1 + R_E)^5} + \frac{P_5}{(1 + R_E)^5}$$

where D is the relevant dividend, and P_5 is the share price after five years. The internal rate of return for this cash flow stream gives the equity cost of capital R_E. The problem here is that of estimating the share price at the end of the period.

Suppose now that you are willing to make a simplifying assumption in the above formula. The assumption is that dividends (including the first five) will grow forever at an annual compound rate of growth G. On this basis, we can solve for the equity cost of capital :

$$R_E = \frac{D_1}{P_0} + G \cdot$$

This is the Gordon dividend yield plus growth formula.

The Gordon formula gives an unbiased value only if the assumed long-run growth rate G is within a particular range. It is unrealistic to assume that a company's compound rate of growth can exceed the rate for the economy indefinitely. At the other extreme, G must not be so low that the resulting estimate is less than or equal to the company's expected after-tax cost of borrowing R_D. Thus the feasible range for G in the Gordon model is as follows, where G_{dp} is the expected long-run (nominal) growth rate for the economy (domestic product):

$$\left(R_D - \frac{D_1}{P_0}\right) < G \leqslant G_{dp} \; .$$

Perhaps half of listed companies fall within this narrow range. However, if initial growth is much outside this range, it is better to use the earlier equation.

Rearranging the Gordon formula and keeping G within the feasible range, we can estimate the year 5 share price:

$$P_5 = \frac{D_6}{R_E - G} \; .$$

Thus

$$P_0 = \frac{D_1}{(1 + R_E)^1} + \frac{D_2}{(1 + R_E)^2} + \cdots + \frac{D_5}{(1 + R_E)^5} + \frac{D_6}{R_E - G} \times \frac{1}{(1 + R_E)^5}$$

$$\left(R_D - \frac{D_1}{P_0}\right) < G \leqslant G_{dp} \; .$$

This formula can be a good means of estimating the equity cost of capital for listed companies paying generous dividends. If dividends are abnormally low because of, for example, cash accumulation or temporarily low earnings, the formula is unsuitable. In such cases we can use the capital asset pricing model.

Capital asset pricing model

The CAPM says that the expected required rate of return on the company's equity is equal to the sum of two costs: the expected risk-free rate plus a premium for the non-diversifiable risk of the equity. The risk premium is equal to the risk premium on the market portfolio multiplied by the company's equity beta factor. Thus

$$\text{cost of equity} = \text{risk-free rate} + \text{equity beta} \times \text{premium on market portfolio} \; .$$

Textbooks usually suggest the expected future rate on 90-day Treasury bills as a surrogate for the risk-free rate on equities. The expected rate should relate to the periods that fall within the life of the capital project. The rate on a gilt, however, is considered inappropriate even if the maturity matches the life of the project. The reason is that gilt yields reflect premiums due to liquidity preference and to price risk attributable to unexpected changes in interest rates. Interpretation of gilt yields is a subject in its own right.

Although the risk premium on the stock market index has averaged around 8% over the past half century, it appears to have fallen to around 4% during the sustained equity bull market. The beta factor scales this risk premium up or down by the degree to which the equity is more or less volatile than the market portfolio.

Beta factors tend to be lowest for companies with fortunes that are less sensitive to the economic cycles of the relevant country. The London Business School's Risk Measurement Service and Datastream both publish equity betas measured from stock market data for thousands of UK companies. Unlisted companies have to estimate their equity betas by comparison with similar companies that do have published betas. The gearing adjustments required when making these comparisons can be found in the standard textbooks.

Having determined the costs of the company's debt and equity, one can easily calculate the company's expected weighted average cost of capital using the WACC formula given earlier.

2. Extract the company's risk premium from its WACC

The company's WACC reflects its risk premium, which is easily extracted as follows :

$$\text{company risk premium} = \text{WACC} - \text{cost of debt after tax} .$$

For consistency, we use the same cost of debt after tax that is used in the WACC calculation. This prevents double counting of the credit risk premium in the subsequent calculations.

3. Adjust the company's risk premium to obtain the risk premium for the project or for its risk class

Having obtained the company's risk premium, we must now adjust it for the relative risk of the project or of its risk class :

$$\text{risk premium for project} = F \times \text{company risk premium}$$

where F is the project's relative risk factor. For example, if the project's present value is twice as volatile as for the average project, then $F = 2.00$. We can estimate the relative degree of volatility by comparing the project with a benchmark project. The benchmark project should be typical of the company and of average risk. Compare the sensitivity of the projects' present values to unfavourable economic scenarios.

The procedure is as follows :

1. Estimate the sensitivity of the benchmark (average or typical) project.
2. Estimate the sensitivity of the project in question.
3. Divide the sensitivity in step 2 by the sensitivity in step 1. This gives the value of the project's relative risk factor F.

Sensitivity is the percentage difference in the present value of the project's cash flows (other than investment cash flows) resulting from a change from the assumed economic environment to a plausible less-favourable economic scenario. Using the company WACC as the discount rate for both projects in both scenarios is sufficient for this purpose.

4. Adjust the WACC for the project's risk premium

Obtain the risk-adjusted WACC by simply adding to the company's expected WACC the difference between the project's risk premium and the company's risk premium :

$$\text{adjusted WACC} = \text{WACC} + (\text{project risk premium} - \text{company risk premium}) .$$

The resulting risk-adjusted WACC provides a suitable discount rate that reflects the different risks of the company's projects.

Risk adjustment is cumbersome if used to determine the cost of capital for each individual project, and most companies using risk-adjusted discount rates divide projects into risk classes. They use the discount rate assigned to a particular class for all projects falling into that class. You can use the same procedures to estimate the typical cost of capital for each risk class.

It is worth noting that many companies fail to alter discount rates frequently enough to reflect changes in expected financial market costs of debt and equity capital.

Example

Telemedicine Communications International is an Internet business. Its mission is to enable physicians to be in regular contact with their patients worldwide and to practise medicine via email, medical data transfer and teleconferencing links on the Internet. The company requires a discount rate to help it to evaluate one of its proposed networking systems. The data shown in *Table* 1 are potentially relevant.

Table 1 Company financial data

Growth rate	100%
Dividend yield	0%
Equity beta	1.60
Expected risk premium on market	4%
Expected T-bill rate	5%
Expected borrowing rate	7%
Target proportion of debt financing	60%
Corporate tax rate	30%
Relative risk factor for project	1.20

Analysis

1. Estimate the company's WACC for the life of the project

First we estimate the costs of debt and equity for the WACC. The cost of debt is as follows :

$$\begin{aligned} \text{cost of debt after tax} &= 7 \times \left(1 - \frac{0.30}{1.07^{0.25}}\right) \\ &= 4.94\% \,. \end{aligned}$$

This calculation assumes that corporation tax is 30% and that payment is delayed by three months. Thus it discounts the corporation tax rate at 7% for one quarter.

The cost of equity is as follows :

$$\begin{aligned} \text{cost of equity} &= \text{prospective yield} + \text{growth rate} \\ &= 0\% + 100\% = 100\% \,. \end{aligned}$$

The dividend yield plus growth formula gives a nonsense answer in this case. The reason is that the expected growth rate is too large in relation to the rate of economic growth. Thus we have to use the CAPM :

$$\begin{aligned}\text{risk-free rate} &= \text{expected T-bill rate}\\ &= 5\%\end{aligned}$$

$$\begin{aligned}\text{cost of equity} &= \text{risk-free rate} + \text{equity beta} \times \text{premium on market portfolio}\\ &= 5\% + 1.6 \times 4\% = 11.4\%\ .\end{aligned}$$

We can now calculate the expected WACC for the company :

$$\begin{aligned}\text{WACC} &= W \times \text{expected cost of debt after tax} + (1 - W) \times \text{expected cost of equity}\\ &= 0.60 \times 4.94\% + (1 - 0.60) \times 11.4\% = 7.52\%\ .\end{aligned}$$

Thus the discount rate for the typical or benchmark project would be 7.52% for the period. However, the project under consideration is 1.20 times as volatile as the benchmark, so we have an adjustment to make.

2. Obtain the company's risk premium

The company's risk premium is as follows :

$$\begin{aligned}\text{company risk premium} &= \text{WACC} - \text{cost of debt after tax}\\ &= 7.52\% - 4.94\% = 2.58\%\ .\end{aligned}$$

3. Adjust the company's risk premium to obtain the risk premium for the project or for its risk class

The project risk premium is calculated as follows :

$$\begin{aligned}\text{project risk premium} &= F \times \text{company risk premium}\\ &= 1.20 \times 2.58\% = 3.10\%\ .\end{aligned}$$

4. Adjust the WACC for the difference between the project's risk premium and the company's risk premium

The WACC is adjusted as follows :

$$\begin{aligned}\text{adjusted WACC} &= \text{WACC} + (\text{project risk premium} - \text{company risk premium})\\ &= 7.52\% + (3.10\% - 2.58\%) = 8.04\%\ .\end{aligned}$$

Result

The estimated risk-adjusted discount rate for the new system is 8% .

Concluding remarks

Most companies set a hurdle rate for revenue-earning projects that exceeds the cost of capital. To be acceptable, a proposed project must have an internal rate of return that exceeds the hurdle rate. At least two reasons are given for using a hurdle rate that exceeds the cost of capital. First, project revenues must be high enough to cover in addition the costs of the non-revenue-earning projects. Second, companies with easy access to the capital market are in the minority. The majority of companies suffer a degree of capital rationing, and high hurdle rates are a rough and ready method of limiting capital expenditure. Adding a uniform 5 or 10% to the risk-adjusted WACC, for example, would be a method of setting hurdle rates that still reflect the differing risks of projects.

Assembled here are procedures you can use to estimate the risk-adjusted cost of capital for any project or project risk class. Many UK companies do not calculate their cost of capital correctly and most use the same hurdle rate for all projects. A company that uses the same discount rate or hurdle rate for all projects is prone to rejecting low-risk projects that add shareholder value and accepting high-risk projects that actually reduce value. High-risk projects add value only if the extra return expected from them is commensurate with the extra risk for shareholders. A contributing factor to this problem has been the lack of required procedures. The purpose of this article has been to remove this impediment to maximising shareholder value.

Further reading

- ***Principles of Corporate Finance***

  Brealey, R A and Myers, S C (6th ed., 2000) Irwin McGraw–Hill

  Probably still the text that sells best internationally; very comprehensive coverage, MBA standard of difficulty.

- ***Corporate Finance Europe***

  Buckley, A, Ross, S A, Westerfield, R W and Jaffe, J F (1998) McGraw–Hill

  The European version of the famous US text by Ross, Westerfield and Jaffe.

Editor's bibliography

- **'The cost of capital'**

  Pallett, S (1999) Corporate Finance Faculty, Institute of Chartered Accountants in England & Wales

OUTLINE SYLLABUS

Management Quarterly is designed to be a three-year endeavour, setting out key management techniques in core disciplines. Over that time, it is expected that the content may develop and change. However, here we set out the current anticipated syllabus for the journal.

Strategy

What is strategy ? ✔ *Part* 1, *October* 1998
What does corporate HQ do ? ✔ *Part* 2, *January* 1999
Strategic alliances ✔ *Part* 3, *April* 1999
Competitive strategy ✔ *Part* 4, *July* 1999
Strategic analysis tools – the external environment ✔ *Part* 5, *October* 1999
Strategic analysis – assessing internal resources
Linking external and internal analysis
Strategic choice : stakeholders
Strategic decision making
Strategic change
International strategy
The future of strategy

Human resources

Introduction to people management ✔ *Part* 1, *October* 1998
Changing roles and responsibilities ✔ *Part* 2, *January* 1999
Strategic HRM and the management of change ✔ *Part* 3, *April* 1999
Performance management: motivating and monitoring ✔ *Part* 5, *October* 1999
Developing the organisation
Personal development and people management competencies
Managing conflict and difference
The role of trade unions and collective representation
Impact of the European Union
International HRM
Ethics and corporate governance

Marketing

Marketing in today’s world ✔ *Part* 1, *October* 1998
Marketing planning ✔ *Part* 2, *January* 1999
Understanding customers – the consumer ✔ *Part* 3, *April* 1999
Understanding customers – the organisation ✔ *Part* 4, *July* 1999
Relationship marketing ✔ *Part* 5, *October* 1999
Market research and information technology
Market segmentation and positioning
Analytical tools for marketing
Managing the marketing mix
Developments in marketing
Branding
International marketing

OUTLINE SYLLABUS – *Continued*

Finance

Planning and reporting ✔ *Part 1, October* 1998

Operating and business systems ✔ *Part 2, January* 1999

Interest and discounted cash flow ✔ *Part 3, April* 1999

The cost of equity ✔ *Part 4, July* 1999

The cost of capital ✔ *Part 5, October* 1999

Shareholder value

Valuation of companies

Financial instruments

International finance

Mergers and acquisitions

Project finance

Venture capital

Articles are also being commissioned to cover: information systems, just-in-time operations, and total quality management. Further material on people management, concentrating on the individual rather than the organisation, will also be included.

Copies of the journal articles referred to can generally be obtained through the Institute library. A charge is made for these articles, based on the number of pages to be copied.

IN THE NEXT ISSUE ...

Strategy ***Strategic analysis – assessing internal resources***

This article examines how a company determines its core competencies, and how it can achieve the ultimate goal: sustainable competitive advantage.

Human Resources ***Developing the organisation***

The differences between training, development and education are discussed. The article considers new trends in management education and career development, and how these suit individuals' learning styles.

Marketing ***Market research and information technology***

Why is market research valuable, and how should it be carried out? Various techniques of data collection and analysis are considered, and the use of information technology is put into context.

Finance ***Shareholder value***

Shareholder value is seen by many as the key business objective. This article discusses what shareholder value is, and considers various techniques for calculating it in practice.

Organisational Behaviour ***Influencing others***

The ability to influence others is a key skill for management. This article looks at the differing needs of stakeholders, and sets out some 'rules' of influencing.

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