Module 2
Unit 3

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Keywords

Social management, legislation, customers, suppliers, technology, synergies, competitors, business structure, operational structure, resources, cost-benefit analysis, break-even analysis, benchmarking, SWOT analysis, balanced scorecard, core skills, knowledge management, leadership styles

Learning Objective

Firstly, this unit will explain some specific points regarding Social Enterprises Management. Further on the curse will look at the organizational environment which outlines all the environmental factors that can significantly influence your company operations. It will help you understand what happens both inside and outside your company and it will provide suggestions and methods on how to integrate environmental analysis into your business strategy. In order to perform an environmental analysis, managers must first understand how organizational environments are structured.

Estimated Time

It should take you around **90 minutes** to complete this unit.

Introduction

Although a Social Enterprise needs specific managerial skills, the basic knowledge remains the same as for traditional SME.

This is why it is important that you not only know the internal environment of your company extremely well, but that you are also able to analyse the business processes and the organizational and hierarchical structure of your company, as analysis is the first step towards improvement. Break-even analysis and Cost-benefit analysis are techniques that focus on your company, your suppliers and your customers, while Benchmarking and SWOT analysis techniques will give you insight into your competitors.

The external environment is a crucial factor that determines to a great extent the success of your company. You have to fulfil customer expectations, while on the other hand suppliers must provide you with important resources. Technology is the driving force behind your processes and your competitors want to expand their market shares at the cost of your company. Porter's Five Forces model will help you analyse all stakeholders and your company position in terms of the competition. Strategic groups are another, more detailed way, to observe your company's position with regards to market competition.

3.1 Specific Management in Social Enterprises

Keywords
Manager, legislation, products, skills, management

Introduction
As the number of social enterprises in Europe grows, the managers who run them are faced with an increasingly difficult task: not only they establish their organisations and legitimate them, but they must also find suitable ways to manage their key assets including their social mission and efficiency constraints, committed volunteers and employees, and enlarged governance structures.

3.1.1 What are the challenges for a social enterprise?

The identity of European social enterprises overlaps with that of many of the existing providers of social services. Social enterprises are an emerging form, and they have been, and continue to be, subject to all the constraints consequent on their lack of legitimation in the institutional environment, and sometimes to attempts to prevent their legitimation by established and pre-existent competitors.

The key challenges to be addressed in establishing a new, more specific model of management for social enterprises are as follow:

Supportive legislative and regulatory environment
The social nature of social enterprises is not yet taken for granted. Although in some countries, social enterprises have been able to gain tax exemptions or priorities in bidding for services on the basis of their status as non-profit organisations (for example Germany, Poland, UK); current legislation is still far from defining a clear support framework for social enterprises. The Single Market Act (COM(2011) 206, final) proposes twelve levers to boost growth and strengthen confidence and Lever 8 is especially for the social entrepreneurship. The European Agenda for Entrepreneurship (COM(2004) 70 final, 11.02.2004) introduced the Commission's action on promoting entrepreneurship in social sectors. As far as the application of the Value Added Tax (VAT) is concerned, the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax allows Member States to authorize social enterprises not to charge VAT on the goods and services they provide for various activities carried out for the general interest.

Ensuring the quality of products and services
The particular nature of social services requires social enterprises to invest constantly in the quality of the service delivered to customers. A high and stable level of quality is a crucial requirement for social enterprises to be able to compete effectively with public-sector, for-profit and traditional non-profit organisations.

Upgrading skills and jobs

One of the major areas of investment to ensure quality is skills and human resources (particularly in a context of growth). Service organisations rely heavily on the expertise, skill and motivation of employees.

Securing management expertise and support

In their early stages, all organisations strive to attract people with the competencies and skills that they require. Social enterprises are a new form of organisation and for this reason they require professional expertise and support to enhance their viability.

Financing

Though some studies appear to demonstrate that the capital requirements of social enterprises are limited, and that they are easily fulfilled once the start-up phase has been completed, financing may be important; especially when, as in traditional co-operatives, self-financing is difficult and the financial structure tends to be undercapitalised.

Developing networks and co-operations

A condition for the creation of joint structures of financing is the development of network-based relations of support among social enterprises, both locally and globally. Whilst limited size facilitates keeping customers closer to social enterprises, it constrains the ability to exploit economies of scale and to undertake new ventures, and it may prevent a more proactive approach being taken to strategy-making.

Establishing adequate governance structures

Social enterprises must devise an architecture which reflects the existence of different stake holders, with different interests, while preserving their democratic and locally bounded organisational structures.

3.1.2   What kind of manager for a social enterprise?

In the light of the foregoing discussion, it appears that the role of managers in social enterprises at their present stage of development is to establish legitimacy externally and internally. Whilst external legitimation has been partially acquired and may benefit from the profound changes taking place in European welfare systems, internal legitimation requires an endeavour to identify the key characteristics of a new organisational form. Sole reliance on the spontaneous nature of the values embedded in the mission of social enterprises when managing their key assets may prove to be a risky strategy. However, it should be pointed out that our research shows that social enterprises are adapting to the institutional framework in which they operate. Consequently, the core characteristics of the social enterprise organisational form have become embedded in a variety of specific, local organisational forms. These differences entail a variety in management styles and behaviours.

Since their inception, the managers of social enterprises have had to cope with a largely unenthusiastic external environment. In several European countries, the rise of social enterprises has been perceived as eroding the traditional public-sector role in welfare, and as a threat to long-established non-profit organisations. Social forces like the trade unions have repeatedly accused social enterprises of taking work and activities away from the public sector and, if not actively at least passively, they have opposed their growth. For this reason, the managements of social enterprises have concentrated on the external arena, in order to lobby politicians and regulators and in order to create a shared, positive perception of their identity in society. Many managers have been actively involved in this debate, because they not only run social enterprises but also were their founders and volunteers, and therefore have a marked sensitivity to social issues.

Moving to the internal challenges for social enterprises managers, two issues appear critical, given the present state of such organisations. These are governance structures and human resources management. Besides improvement of the internal effectiveness of these forms, we argue that even a share of external legitimation will be determined by the ability to define governance structures and human resources models specific to social enterprises and different from those of other organisational forms.

Managers must recognise the specific nature of social enterprises if they are to deal satisfactorily with the issue of governance.

Summary of Key Points

The emergence of a new kind of management is paramount to the success of social enterprises in Europe. The characteristics of the role of social enterprise managers are different from those of their counterparts in traditional non-profit, public, and for-profit organisations. If the managers of social enterprises are to meet the challenges of the future, they must deal with those confronting them now. This will require a more active endeavour to establish social enterprises as a legitimate organisational form, both externally and internally. The latter has been underestimated, but it will require social enterprises managers to invest in the development of their skills. This endeavour should be matched by policies from universities and research centres aimed at developing a full body of theoretical and practical knowledge on the specifics of social enterprises.

3.2   The External Environment

Keywords
Key forces, customer, markets, organizational markets, Suppliers, bargaining power, technology, synergies, branch, strategic group, competitor, entrants, substitute products, labour market, employee

Introduction

The contextual and transactual environment consists of customers, suppliers, competitors, job seekers and employees, technology and synergies.

Customers are one of the most important stakeholders of your company. When running a business you should obviously be aware of who your customers are and what bargaining power they can develop, depending on the characteristics of your products or services. The aggregation of customers is defined as "market". You can distinguish between different types of markets such as consumer markets and organizational markets and the type of market can have a major impact on your company success.

Technology, suppliers and synergies are the three important external factors that can have a major impact on your sectors and subsequently on your own strategies. Suppliers can influence the profits of your company, depending on the negotiating skills of the supplier. Synergies can help you save resources in one process, but often at the cost of another process. Technology helps you produce and communicate.

Competition is often perceived as a threat, but at the same time it can serve as a driving force in the development of your company.

The labour market is a virtual market place, where employers and (potential) employees are matched. Labour Market models focus on the bargaining power of each individual employee. Generally you can say that the higher the education, the higher the wage.

3.2.1 What are Key Forces of the external Environment?

Your company is affected by many forces, which have to be observed in order to optimize your business strategy.

Customers and their aggregation in the form of markets are defined as the demand side of business transactions. From a seller's perspective a market is the group of customers who are either actual or potential buyers of a respective product or service. Customers are the central stakeholders, and hence you should carry out a detailed analysis on them.

Suppliers on the other hand provide your company with raw materials, products and services, which are necessary for you to produce your goods. Suppliers influence the profitability of a sector / business, due to the fact that the products and services they sell are used as input for the value creation process of a sector / business.

Technology is the driving force behind a great number of processes in a company. You need technology not only in your production processes, but also for communication procedures, logistics, etc. The labour market functions through the interaction between workers and employers. Newer models of the labour market focus on the bargaining power of both sides.

Competitors are also an important part in the analysis of the supply side of the market. Competitors can be found in similar sectors – e.g. transport – a bike can be a substitute for a car – and in the same strategic group.

Another opportunity to strengthen your competitive position is to perform a search for potential synergies. The whole process of performance creation – the so called value chain – must be observed with regards to cost and differentiation advantages. Sometimes the advantage of the combination of value chains is contradicted by the increase of complexity of the process and accordingly higher coordination efforts and a loss of insight into every company parts.

3.2.2 Why is observing your Competitors an important Issue?

Your competitors play a decisive role in the analysis of the supply side of the market, as they can help you gain a better understanding about your position with regards to market competition. For this reason the competition environment can be divided into three levels:

- **Branch**: A branch is defined as a group of (competing) companies that offers similar products or services. This definition leads to the assumption that the attitude of companies, which compete with one another, is the decisive issue in sectoral analysis. Therefore the intensity of the competition is a crucial factor in the success of your company.

- **Strategic groups within a branch**: A branch analysis offers you a picture of the processes that determine the profitability of the branch as a whole. However, this is not enough to help you determine the actual ranking of your company, as far as competition is concerned. This can be achieved by observing the strategic group, in which the company is located.

- **Individual competitors:** The direct observation of an individual competitor is the last element of the competitive environment. It is aimed at gathering information on the attitude of a single, direct competitor. This is especially important for companies, which may have only one or just a few competitors in the sector where it operates. In such a situation all companies are interested in collecting much information on the objectives and strategies of the other companies in the market. In other, fragmented sectors it would be difficult to analyse and discern all companies in it.

3.2.3 Who are our Products aimed at?

Knowing your customers is very important. You should also keep in mind that in a market, the needs and desires of different customers are manifold and therefore the same strategy should not be applied to all of your customers. Obviously it is impossible to satisfy all customer needs in a particular market.

Markets can be separated in 2 different types:

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- **Consumer markets**, which consist of individuals and households that are purchasing goods and services for their personal needs, and
- **Organizational markets,** which can be segmented into producer markets, reseller markets and government markets.

These market types have their own characteristics and operate under their own rules that are important for the strategic development of your company. Therefore it is suggested that you should focus on 6 crucial questions:

EXERCISE: Take some time to think about the following issues for your sector / company:
- Who exactly are the market participants?
- What is purchased on the market?
- When is it purchased?
- Who will purchase it?
- Why will it be purchased?
- How will it be purchased?

3.2.4 SWOT Analyses

The following key factors have to be taken into account when analysing your position in the market.

Customers

Knowledge about your customers is very important for your company. Here are some tips which can help to analyse your customers:
- Your customers have needs that have to be satisfied;
- Distinguish between customer groups and undertake market segmentation;
- Analyse the competition in your sector and determine how you differ from your competitors;
- Keep the following question in mind: *Why do customers buy my products and not the products of my competitors?*
- Finally you have to decide, which competitive strategy you use in specific markets: Will you use a price leadership or differentiation strategy with regards to competition? Decide, which markets you will enter and in what order.

In order to make the right decision you must ask yourself the following questions:
- Who are the target groups?
- How big are the markets?
- What are the factors that are decisive for customers when buying?
- What market share do I/my company want to achieve?

Suppliers

The success of your company depends heavily on the prices of your suppliers. Hence the bargaining power of suppliers is an issue of major importance and depends on several factors:

- *Degree of concentration:* The lesser the number of suppliers in a sector, the bigger their influence in this sector. However, if there are many suppliers and only a small number of customers, the demand side of the market can define the prices;
- *Degree of standardizing:* The design of products and services are also an important factor in terms of the bargaining power of suppliers. The more standardized they are, the easier it is to substitute them. If they are very specific in their design there are normally high substitution costs – due to the high expenses which will occur, when changing the supplier, e.g. the introduction of new logistics software;
- *Possibility of forward integration:* The bargaining power of a supplier is increased by his ability to increase his activities in your sector, as it may be easier for him to find other customers;
- *Importance of the sector:* Bargaining power also depends on the importance of the sector for the supplier. If a producer earns a major part of his profits or his revenues in your sector, then you can expect that he will care about the companies in your sector and that he will try to respond to your needs. If, on the other hand, the sector is of minor importance for him, his bargaining power is strengthened.

EXERCISE: Now you should take some time to consider the following questions. Which of the following producers possess the highest bargaining power? Which of them has the lowest? Analyse them with regards to the above mentioned factors.

- Intel – hardware industry
- Organic farmers – supermarket chain
- Nail producers – joinery workshop
- Mobile phone producers – mobile phone service provider
- Bakery – caterer

Technology

In observing the technology used in your sector, you should consider the following points:

- *Production technology*
  - Observe the trends in the development of process engineering. Being ahead of your competitors can be a decisive success factor for your company;
  - Is it possible for you to innovate your processes or products while using the current production technology?
  - Can you automise or standardise production with the help of new technologies?
  - Do you undertake process control with the aid of computers?
- *Substitution technologies*

Substitution technologies are technologies that can replace other technologies in different sections and processes of your company.

- o Is an existing substitution technology an innovation to the technology you are already employing in your processes?
- o What is the cost of the substitute technology when compared to your current technologies?
- *Product innovation*
  - o What are the development trends in product technology?
  - o Is there further potential for product innovation?
- *Informatics and communications technology*
  - o Which communication technologies are necessary to help you stay competitive in the market?

Labour market

Your employees are one of the most important resources your company has. As the labour market is the source of potential employees, it is worthwhile to observe the labour market regularly. The behaviour of workers and labour unions can influence the performance of your company significantly. The bargaining power of each individual employee or job seeker depends mainly on following two criteria:

- The costs that occur in your company as a result of releasing an employee. Such costs depend on the qualification of the worker, the complexity of the work and duration of employment in the company. These workers cannot be replaced easily, so that they can enforce wage claims easily and there is little chance of them being let go;
- Labour market conditions. The lower the unemployment rate in the market, the lower the chance of finding a suitable replacement. In this case, the bargaining power of the employee increases and he is able to achieve a higher wage. If there are a high percentage of unemployed people, it is easier for employers to find another worker. Therefore, the bargaining power of the employees decreases.

Synergies

Synergies may sound like a good idea but you have to be careful when adopting such strategies. You have to take into account that synergies normally incur high costs, as they are time and resource consuming. So if you find possible synergies in your company you have to calculate, if the gain in one sector outweighs the losses in the process coordination.

SWOT analysis

The following five steps will help you to use SWOT analysis in your company and to decide on the best course of action based on the results. The table below provides an outline of how to implement strategies when considering your strengths, weaknesses, opportunities and threats.

SWOT analysis

	Strengths	**Weaknesses**
Oppor-tunities	**SO-strategies:** Placing empasis on strengths to use opportunities	**WO-strategies:** Overcome weaknesses to use opportunities
Threats	**ST-strategies:** Placing emphasis on strengths to avoid threats	WT-strategies: Minimize weaknesses and avoid threats

Key rules for SWOT analysis

Identification of decisive success factors: It is very helpful for the strengths-weaknesses analysis to identify decisive success factors. This is an important task, but normally you know them and you can easily sketch them.

1. Determination of strengths and weaknesses: In a strengths-weaknesses analysis the competitive position of your company in relation to the strongest competitor(s) is identified. In considering comparable factors you should only take into account those points that are really comparable (is such data really available?). Consider that all identified strengths and weaknesses are relative. As they are relative they gain informative value only through benchmarking (see previous subsection).

2. Determination of opportunities and risks: This part of the SWOT analysis discovers opportunities and threats that result from new trends and changes in your environment. Factors that do not influence your company directly are considered to be external factors in the SWOT analysis. E.g. high customer loyalty can be classified as an internal strength, but can turn into a threat, if traditional customer ties become less important.

3. Processing of the questionnaire and answering of key questions: In this step you should answer questions that mostly relate to the sector in which you are engaged.

4. Deduction of strategic conclusions: If you can anticipate and react to present and future changes, you have achieved one of the major goals of a SWOT analysis.

EXERCISE: Can you identify the success factors in your sector? Which are your strengths and weaknesses, opportunities and threats?

Summary of Key Points

The external environment consists of manifold forces to which your company is exposed. Key forces of the external environment are customers, suppliers, competitors, the labour market, synergies and technology.

All of them can have a major impact on your company.

Customers are the central stakeholders, and hence you should engage in a detailed analysis of them.

The analysis of a single competitor is especially important for companies, which have only one or just a few competitors in its business segment.

Suppliers influence the profitability of a sector, as they sell products and services that are used as input for the value creation process of a sector. For that reason the analysis of their bargaining power is very important.

Your employees and technology are some of the most important resources of your company. The bargaining power of each individual employee or job seeker depends on the labour market situation and the costs associated with releasing an employee.

In your company, technology is used not only in production, but also for communication, logistics as well as several other areas.

3.3 The Internal Environment

Keywords
Organizational structure, operational structure, process, skills, knowledge management, leadership, motivation

Introduction
There are two different ways of looking at your business structure: organizational structure and operational structure. While the organizational structure point of view offers a static view of your resources, the operational structure provides insight into the structure of a process.

Company resources are classified as material resources (e.g. machines, employees) and immaterial resources (licenses, know-how, corporate culture, etc). Material resources can only be used in one location at one time, while immaterial resources can be used simultaneously in various locations.

3.3.1 What is a Business Operational Structure and what Type of Resources does a Company have at its Disposal?

When considering business structures there are two different approaches, namely the organizational structure and the operational structure. In this module we focus on the operational structure of a company. While the organisational structure depicts the structures and human resources, the operational structure illustrates the processes of a company. Normally, these processes are focused on output (i.e. the organization's outputs from products and services).

An operational structure describes a logical and chronological structure of an operation of single sequences and events in processes. A symbolic illustration of sequences and events over an absolute or relative timeline is typical for an operational structure. The composition of the elements is based upon the relations between them with applied classification principles. Location must also be considered.

Resources are described as all elements that a company needs as input for the production process. You can distinguish between financial (e.g. capital resources), physical (e.g. machinery), human (e.g. skills of employees and managers) and organizational (e.g. logistic systems) resources. Furthermore it is possible to distinguish between material (tangible) and immaterial (intangible) resources. The first category includes for example machinery and the employees. Immaterial resources are elements such as licenses, expert know-how, ideas, innovation competences, scientific and R&D skills, corporate culture and reputation of the company.

Material resources have the characteristics that they can only be used in one location at a given time. Therefore their contribution is limited regarding the creation of a competitive advantage. Immaterial resources however have multiple effects, as they can not only be used simultaneously in different location but can also contribute to an increase in value by their multiple usages. (Grant 2002)

Why are Company Resources decisive Factors for Business Success?

Identifying your most important processes for the production of your goods and services and ordering them systematically is a crucial process, which should be done really carefully. In order to have a clear illustration of the routines and also their environment and objectives, it is useful to adopt models which make these processes visible. Material and immaterial resources have a decisive role in the creation of competitive advantages because they are a source of development of unique skills. These competitive advantages are the result of the knowledge base that exists in the company. The creation of optimal prerequisites for knowledge creation and knowledge transfer in the company constitutes an important prerequisite for the constitution of unique skills.

How to identify Business Processes?

Every business process is build upon a chain of single activities. A detailed illustration of every key process as well as important support processes is necessary to analyse your company and if necessary improve your processes. Do

not underestimate the importance of your support processes, as they can influence your key processes as well. A way to illustrate them systematically in chronological and logical course of action is the so called business process map.

Identifying Company Resources

You should be aware, which resources your company possesses and how you can make use of them. For this purpose you can draw a table, and classify your resources not only as immaterial and material ones, but also as tradable and non tradable resources. This classification of resources can be done, using the following matrix as a guide:

Classification of Resources.

	Material Resources	Immaterial resources
Tradable resources	• Machines • Employees • Standard software	• Licenses • Individual expert knowledge
Non tradable resources	• Self-constructed facilities (e.g. a special machine to produce bakery products) • Self-programmed facilities (e.g. a special software)	• Corporate culture • Unique relations to stakeholders • Company-specific training • Implicit knowledge

This matrix can give you a brief overview over your resources and will indicate how you can use them in an efficient way.

EXERCISE: Use this type of matrix to list and classify your company resources.

3.3.2 Core Skills, Knowledge and Knowledge Management

Core skills or core competencies are defined as systematically focused combinations of individual technologies and production skills that support a multitude of product lines of a company. In other definitions the whole value chain is included. A synthesis of both definitions would lead to following statement:

Core skills are integrated through organizational learning processes and are coordinated collectively through the use of technologies, know-how, processes and attitude;

- that are of value for the customer;
- that are unique compared to your competitors;
- that are difficult to imitate
- and that have the potential to give you access to a multitude of markets.

Therefore core competences are the bundled skills, technologies and processes, which keep the value creation mechanism running and which are responsible for positioning your company among the leading companies.

Sustainable competitive advantages can be obtained, if a company's skills fulfil the following four criteria:

- The skills have to be valuable. The skills have to increase the efficiency and effectiveness of the company and lead to improved market performance;
- The skills have to be rare, because if your competitors also have the same skills, it is impossible to differentiate between them;
- They must be hard to imitate/ copy. If a competitor succeeds in recreating a similar resource, he can destroy the advantage of your company. In many industries it is hard to protect your products and applications for a long time, since your competitors are able to eliminate your advantages within a few months;
- It has to be hard to substitute them. If a competitor is able to offer an alternative to your capabilities, your competitive advantage will be eliminated.

Today, organisations are beginning to recognize that "in order to remain at the forefront and maintain a competitive edge, organisations must have a good capacity to retain, develop, organise, and utilise their employee competencies.

Essentially, "Knowledge Management (KM) is about creating, identifying, capturing and sharing knowledge. It is about getting the **right knowledge**, in the **right place**, at the **right time**, particularly in influencing an action or a decision." (Servin;2005)

According to the Gartner Group KM promotes an integrated approach to identifying, capturing, retrieving, sharing and evaluating an enterprise's information assets. These information assets may include databases, documents, policies and procedures, as well as the un-captured tacit expertise and experience stored in individual workers' heads. (Hicks et al. 2006)

In addition, although information is not knowledge, it is an important aspect of knowledge. The knowledge goes through several transformations where data is transformed into information, and information is transformed into knowledge. (Hicks et al. 2006)

Why are Company Resources and Knowledge Management important?

It is almost impossible to transfer or to buy a company's resources and skills, because the circumstances are always different. A competitor is therefore forced to run through an equivalent development process, which is time and resource consuming.

The benefits of implementing Knowledge Management strategies can be seen in terms of reducing costs and risks, improvement in the decision-making process and strategic planning, faster development of new technical approaches, and reduction of employee training costs amongst others.

Where are core Skills and Knowledge Management needed?

Core skills of a company are critical processes that are important criteria in terms of stakeholder satisfaction and which are important in ensuring that your company satisfies stakeholders better than your competitors or other reference companies.

The primary objective of any corporate Knowledge Management (KM) program is to support the achievement of strategic business objectives. In other words, the "starting-point" for KM is to understand what the organization's business objectives are. (Hariharan 2002)

How do I identify core Skills and implement Knowledge Management in my Company?

Core Skills

The following four questions will help you diagnose core skills in your company:

1. Does your company possess technologies, know-how or processes that raise your competitiveness or the level of benefits to your customers to such a degree that is higher than that of your competitors?
2. Are your core skills protected so that it is difficult or impossible for your competitors to imitate them?
3. Do the core skills serve more than one business unit?
4. Do they establish a point of entry to new business segments for your company?

The higher the percentage of positive answers, the higher is the probability that your business actually possesses core skills.

Here are some tips to help identify your core skills:

- Ignore your beliefs about what your business is or could be;
- Explore and go beyond the borders of your business field;
- Don't be afraid of talking about things you do not understand;
- Paradoxes are good, paradigms are bad;
- Put yourself in the place of your customers;
- Do not think in terms of claims, but in terms of desires.

Knowledge Management

Actively managing knowledge is one way to conduct knowledge management (push strategy), while pull strategies take place on a more ad-hoc basis. Knowledge

management strategies for companies can include:

- Rewards as a means of motivating for knowledge sharing;
- Storytelling as a means of transferring tacit knowledge. This happens in your company all the time. A low organisational hierarchy and good working climate facilitate this form of knowledge transfer;
- Cross-project learning deals with knowledge transfer from one project to another. In many companies this type of transfer takes place in an informal way, but some companies establish formalized, standardized and conscious channels.

- De-brief processes for analyzing *what* happened, *why* it happened, and *how* it can be done better, by the participants and those responsible for a project;
- Knowledge mapping (a map of knowledge repositories within a company) is all about keeping a record of information and knowledge you need such as where you can get it from, who holds it, whose expertise is it, and so on;
- Communities of practice are groups of people who share a concern or a passion for something they do and they learn how to do it better as they interact regularly;
- Best practice transfer is often based on the results of benchmarking. The essence of best practice transfer is not to copy the best practice, but to adapt it for the circumstances of the business unit;
- Competence management (systematic evaluation and planning of competences of individual organization members) aims to identify present and future competence needs, facilitate comprehensive communication between business units regarding training, subsequently turning competence goals into business results;
- Proximity & architecture is an important point, which is often overseen by management. Proximity facilitates storytelling too;
- Master-apprentice relationship is a traditional way of knowledge transfer. Well-trained apprentices should be kept in your company to preserve knowledge in your company;
- By using collaborative technologies (groupware, etc) widely dispersed work teams can easily share information, whether they're located across the country or around the world;
- Knowledge repositories (databases) are computer systems that continuously capture and analyse the knowledge assets of an organization;
- Measuring and reporting intellectual capital is a way of making knowledge explicit for companies;
- Knowledge brokers are organizational members that take on responsibility for a specific "field" and act as first reference on whom to talk about a specific subject;
- Social software such as wikis, social bookmarking or blogs can easily be established in a company and serves as "database" of knowledge

3.3.3 Leadership and Motivation

A leader is a person who is able to direct people towards the attainment of a certain goal. Consequently, the notion of leadership implies that people think

outside the box in order to get things done, through leadership, managers affect the behaviour of people in the business. Douglas McGregor's "X-Y theory" provided a fundamental distinction between management styles and has become the basis for further development of the subject of leadership.

What are the most important Leadership Theories?

Leadership and management are two opposite but complementary concepts. Leadership is the understanding of how tasks are done, how to develop a vision and help others understand it, be inspired by it and adjust it into their own work duties. Management entails day-to-day activity in the company, it focuses on processes and systems, organizing staff, taking control and solving problems. In a company, the manager should posses both leadership and management skills in order to succeed.

EXERCISE: It would be logical now to think about the leadership style you should adopt, with regards to the strategy within your enterprise.

According to Erven, "There is not a best leadership style. The same manager can effectively use a variety of leadership styles depending on the competence and commitment of individual employees". Nowadays interest in the subject of leadership and its relationship to employee motivation is constantly increasing.

Why is Leadership an important Element of Success for your Company?

There is no doubt that a good leader can move mountains. A good manager might know the business and the company in detail, however, if he/she cannot inspire others failure could be around the corner. "Motivated employees are one of the most important results of effective leadership. Most successful managers are also successful leaders. They get people to help accomplish any goal. Accomplishing goals, however, is not enough to keep employees motivated. Helping employees accomplish their own personal and career goals is an important part of motivation. Leadership and motivation are interactive. The more motivated the followers, the more effective the leader; the more effective the leader, the more motivated the followers" (Erven). For this, it is important to have certain knowledge about leadership and motivation and how both interact in the life cycle of any company.

Where can McGregor's Leadership Theories be applied?

Finding the right approach to leadership in your company is an issue of critical importance. In the area of management there is an important concept of leadership, namely the X-Y- and Z-theory of leadership by McGregor. McGregor

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believed "that leadership strategies are influenced by a leader's assumptions about human nature". As a result of his experience as a consultant, McGregor summarized two contrasting sets of assumptions made by managers in industry". (Bolden & Gosling 2003)

Managers that believe in theory-X have an authoritarian leadership style. He/she is goal-orientated, but not employee-orientated, because employees are seen as means to an end. Y-theory-based managers on the other hand possess a cooperative and participative leadership style, and are therefore employee- and goal-orientated.

How do X-, Y- and Z-Leaders perceive their Workers?

McGregor identified two major perspectives held by managers: Theory X and Theory Y. Generally speaking, theory X is the assumption that employees are lazy, dislike work and responsibilities, and must be coerced to perform well. On the contrary, theory Y is the assumption that employees like their work, are creative, seek responsibility and can exercise self-direction. (Jeremiah 2009)
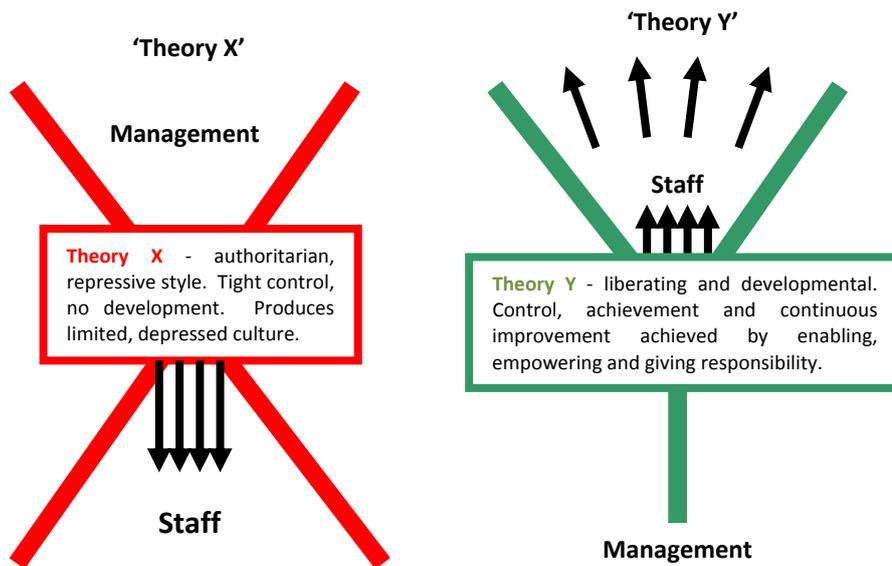
The work of McGregor was based on Maslow's hierarchy of needs. He grouped Maslow's hierarchy into "lower order" needs (Theory X) and "higher order" needs (Theory Y). In the diagram below SA stands for self-actualisation.

Theory X and Y in the framework of Maslow's hierarchy of needs.
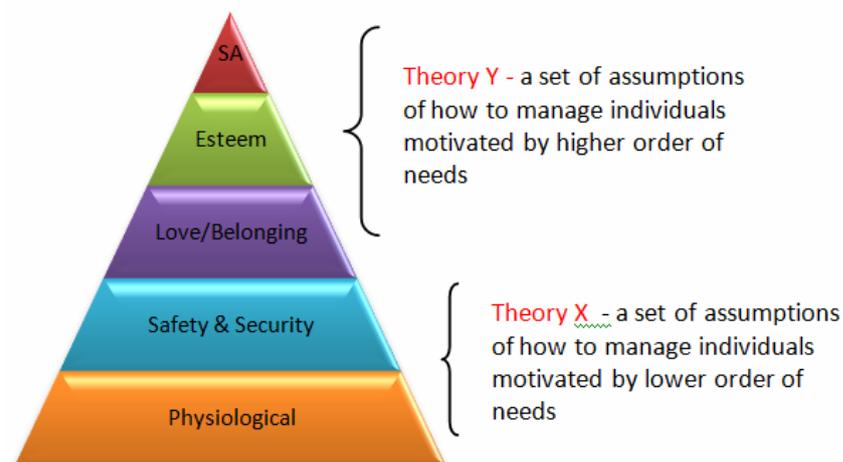
McGregor stated that a theory X trainer "will insist that the exercise be conducted strictly according to the rules, while a theory Y trainer will expect participants to stay within acceptable boundaries of behavior. The latter will also be willing to watch where the learning process takes the group". (Sleigh 2007)

Theory X and Y in a company.

'Theory X'

Management

Theory X - authoritarian, repressive style. Tight control, no development. Produces limited, depressed culture.

Staff

'Theory Y'

Staff

Theory Y - liberating and developmental. Control, achievement and continuous improvement achieved by enabling, empowering and giving responsibility.

Management

Theory Z is an extension of Theory Y from McGregor and was developed by William Ouchi. Ouchi based his work not only on McGregor arguments but also "built Theory A (American style) and Theory J (Japanese style) to build his hybrid Theory Z".(Layson) One of the most striking differences between Theory X-Y and Theory Z is that the first two theories focus on personal leadership styles of individual managers, while Theory Z focuses on the culture of the entire organization and how it can affect the way in which the organization is managed.

Each manager should try to find a point of interaction with the company staff whereby staff opinion and feedback, will be highly appreciated and in this context task assignment and authority will be respected.

Summary of Key Points

An operational structure describes a logical and chronological structure of your company processes. One way of depicting your operational structure is the business process map.

The resources used in your company can be distinguished between material and immaterial resources. Material resources can only be used in one location at any given time. Immaterial resources can be used in parallel in different locations.

Central skills or key competences help your company to create a competitive advantage in your sector. When searching for key competences in your company you should dismiss preconceived opinions, look beyond the borders of your business and think of preferences instead of assumptions. Specific knowledge can be a central skill of your company. Knowledge management helps your company in distributing and preserving knowledge. You

can establish formal structures or facilitate informal channels to promote knowledge transfer.

A leader, who wants to be effective, should:
- help others interpret situations and events;
- build and maintain consensus on target objectives, priorities and strategies of the company;
- foster trust and dialogue among the working team;

In addition to the aforementioned traits, if the leader can motivate his/her colleagues, then they can all move towards the same direction and speak the same language. It does not really matter which theory of leadership or motivation will be applied, since no single theory is perfectly applicable to an organization. The most important issue is to understand the organizational culture and environment of the company, as well as the business and its employees in order to offer all of them something to gain from the process.

Summary of Learning Objectives

You are aware of the specifics of Social Management in details.

After reading this unit you should be accustomed to the external environment of your company and also key analysis methods which can be employed in order to gain a better understanding of it. The starting point is the introduction of the contextual and perceptual environment of your company. Furthermore, the unit presented you with the principles of strategic groups, which is a more detailed approach to the external environment of your company.

The internal environment of your company covers a huge area, which can leave much space for improvement. First we dealt with business structures, focusing on operational structures rather than organizational structures. Company resources were the next issue, where we distinguished different types of resources in your company. Cost-benefit analysis and break-even analysis are two tools that can help you improve your strategy. You should now be familiar with both tools. Benchmarking is a method that can help you learn from other firms, while the balanced scorecard and the SWOT analysis methods can help you refine your strategy according to company strengths and weaknesses. The next two subtopics dealt with the issue of leadership. The differences between management and leadership were presented , as well as ways to motivate your employees. Lastly you were presented with the main principles of the X-Y-Z theory of leadership.

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Glossary of terms

Organisational structure consists of activities such as task allocation, coordination and supervision, which are directed towards the achievement of organizational aims. It can also be considered as the viewing glass or perspective through which individuals see their organization and its environment.

Operational structure describes a logical and chronological structure of an operation of single sequences and events in processes. A symbolic illustration of sequences and events over an absolute or relative timeline is typical for an operational structure.

Cost-benefit analysis considers and quantifies future benefits that are not only of a monetary character. It is a rather strong method which can deduce the value of investment alternatives.

Break-even analysis is a mathematical method to determine the quantity of production and sale that is necessary to gain profits.

SWOT analysis deals with strengths and weaknesses of your company as well as with opportunities and threats posed by the external environment and it analyses the internal processes of company as well as external factors.

Balanced scorecard allows managers to have a wider overview of an organization since it contains financial and non-financial measurements in a single report.

Core skills are defined as systematically focused combinations of individual technologies and production skills that support a multitude of product lines of a company. In other definitions the whole value chain is included.

Knowledge management is about creating, identifying, capturing and sharing knowledge. It is about getting the right knowledge, in the right place, at the right time, particularly in influencing an action or a decision.

Leadership style a leader's style of providing direction, implementing plans, and motivating people. There are many different leadership styles that can be exhibited by leaders in the political, business or other fields.