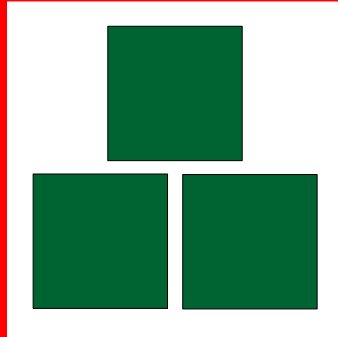


CONSTITUENCIES - ENTERPRISES CAN'T EXIST WITHOUT THEM



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CONSTITUENCIES **- ENTERPRISES CAN'T EXIST WITHOUT THEM**

Constituencies are the groups with whom an enterprise has relationships so as to conduct business. Constituencies form the basis for the governance disciplines: stewardship, strategy, and structure. The relationship between an enterprise and its constituencies is tightly coupled and can't be ignored.

The governance disciplines of an enterprise include:

- Stewardship - the responsibility for the performance of an enterprise and the delivery of value to constituencies
- Strategy - the beneficial positioning of an enterprise in the marketplace so as to deliver value to constituencies over time
- Structure - the enabler of relationships between an enterprise's infrastructure, product and/or services, markets, and constituencies that deliver value

Constituencies are the common element.

Constituency-based stewardship:

The consistencies of an enterprise consist of:

- Primary - employees, customers, suppliers, and investors
- Secondary - regulators and competitors
- Community-at-large

Primary constituencies are directly associated with income earning activities: employees perform, customers buy, suppliers deliver, and investors finance. Employees take care of customers who create demand for suppliers and provide potential for investors to earn a return. Secondary constituencies either permit activities or challenge them. Constituents are individual members of a constituency group.

Employees (primary):

- Full-time and part-time
- Permanent (including leased) and temporary

The definition of employment is determined by Federal immigration, and Federal and state labor and taxation laws and regulations. They are numerous and complex.

A common law employee is an individual performing services for salary or wages, under an oral or written contract, on an ongoing basis, and under the control of a principal for an enterprise.

Corporate officers are treated as employees if they perform services and are compensated; partners in firms, members in limited liability companies, and sole proprietors are not treated as employees.

An independent contractor performs work for a principal who may determine the end result, but not how the result is achieved, and is assumed to be temporary in nature. Severe penalties can result from the misclassification of employees as independent contractors. Independent contractors are enterprises in their own right.

Leased employees are technically employed by a Professional Employment Organization (PEO), but the client is responsible for the control of the work. The administrative burden of the human resources function, including payroll processing, is moved to the PEO. In effect, the employees are working for the client with an outsourced human resources department. By pooling employees from multiple clients, the PEO can reduce processing costs and can gain favorable rates for insurance due to the scale effect. Clients pay fees and amounts to cover payroll, taxes, and benefits directly to the PEO.

The rules regarding employment, self-employment, and unemployment taxes are complex. In some cases, independent contractors are considered to be statutory employees for employment tax purposes under the Internal Revenue Code. If not, they are responsible for their own employment taxes.

Customers (primary):

- Acquire "hard" products and "soft" service-related products
- Receive services at the time of product delivery
- Acquire supporting services

Customers may be internal or external to an enterprise. Internally, one unit can provide products and/or services to another, or pass work-in-process. For example, the administrative functions are service providers to the operational functions. Externally, customers can be individuals or enterprises. The relationship between enterprises is always with individuals. Hence, the reputation of an enterprise with its customers is very much dependent upon specific individual relationships, attitudes, and behaviors that may or may not be consistent with management's values and intentions.

Relationships with enterprises that consist of multiple entities and operate in multiple markets can be complex. Corporations often have subsidiaries and affiliates that are separate but related entities under a holding company structure for various business and legal reasons. A specific management team may be common to multiple entities, or just one. As a consequence, business practices may differ between entities within the same structure. Therefore, when establishing a customer relationship, it is important to obtain information about the exact business entity including legal name, especially for credit reporting purposes.

Customers begin relationships as prospects, which are either contractual or non-contractual. However, once a prospect becomes a customer, they should always be treated as such, regardless of whether they are active or not, and unless there is a legal reason to terminate the relationship. An existing customer is also a prospect for marketing products and/or services outside of the current active relationship.

Customers of professional services firms are generally referred to as "clients."

Suppliers (primary):

- Trade and professional
- Real estate
- Financial services
- Industry associations

Because enterprises are customers of suppliers, the same issues apply with respect to individual relationships and multi-entity structures.

Supplier relationships can begin either informally or formally through a "request for proposal" process. Quite often, a relationship begins on an "occasional" basis, and then migrates to a "recurring" basis based upon quality and value.

Trade and professional suppliers deliver materials and supplies, merchandise, and services. Trade suppliers may also extend credit. Real estate services include leasing, purchasing and sales, and facilities management. Financial services providers include commercial banks, finance companies, and insurance companies. As lenders, commercial banks and finance companies extend credit to the entities that make up enterprises. Industry associations provide memberships services, and provide forums where principals in enterprises can discuss common issues.

Investors (primary):

- Individuals
- Enterprises

Investors acquire and divest money market, debt, and equity securities (including derivatives) in entities under Federal and state securities laws and regulations. These laws and regulations are very strict. Investors include individuals and enterprises such as venture capital firms; commercial, corporate, and industrial companies; insurance companies; investment banks; and mutual and pension funds.

The United States Securities and Exchange Commission (SEC) facilitates capital formation by overseeing both private and public issuers of securities, and participants in markets such as brokers, dealers, exchanges, funds, and underwriters. Investors are either accredited or unaccredited under SEC regulations, which determine who may invest in private entities for which there is no market.

Bondholder investors are debt capital holders and shareholder investors are equity capital holders and owners. Partners in firms, members in limited liability companies, and sole proprietors are investors in their enterprises and owners.

Regulators (secondary):

- Federal
- State
- County
- Municipal

Regulators include domestic and foreign governments. Professional boards and institutes also serve as regulators, and may be closely tied to governments.

Regulators supply the right to do business in their jurisdictions in exchange for compliance with laws and regulations and the payment of fees and taxes. They may require licenses and permits. Laws and regulations vary between jurisdictions regarding property (situs) and physical presence (nexus).

Competitors (secondary):

- Traditional
- Non-traditional

Traditional competitors consist of providers of similar or substitute products. Non-traditional competitors consist of new entrant providers of similar or substitute products and disruptive providers. Disruptive providers are either existing or new, and introduce either replacement products and/or services or new delivery systems, often using new and emerging technologies. Disruptive providers are often responsible for paradigm shifts.

Community-at-large:

The community-at-large consists of markets where an enterprise offers its products and/or services; obtains materials, supplies, and services; has employees; or owns or leases property. The community-at-large can spread from local-to-global depending upon the influence and presence of an enterprise, ranging from a small radius around a single physical location to the entire world.

An enterprise can also be influenced by such groups as:

- Labor unions
- Unaffiliated industry, trade, and political groups
- Media outlets including the press, radio, television, and internet
- Philanthropic associations

Because of the effects of outsourcing and the internet, enterprises can extend their reach from a single physical or virtual location to worldwide markets. However, because of the effects of social networking, they have to aware of how they are perceived in local-to-global communities, whether they wish to take action or not.

Constituency-based strategy:

Constituency-based strategy narrows the gap from where the enterprise is to where it wants to be with respect to each of its constituencies. Constituency-based strategy is expressed in terms of specific objectives, goals, and strategic initiatives.

Constituency-based structure:

Constituency-based structure lays the ground work for efficiency through processes that are designed to serve constituencies. If processes are not designed to serve constituencies then chaos can result. As an employee, customer, supplier, or investor, it can be extremely annoying to be switched from organizational unit to unit because nobody knows exactly how to resolve an issue. The further removed a unit is from a constituent, the lower the likelihood of its ability to solve problems.

The "value chain" is the set of all activities that earn and add value to materials and supplies resulting in finished products and/or services. The value chain links suppliers and customers, through processes are performed by employees, and with facilities and equipment financed by lenders and investors.

Understanding constituencies is an enterpriship (entrepreneurship, leadership, and management) competency.

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About Nigel A.L Brooks...

Nigel A.L Brooks is a management consultant to entrepreneurs, business enterprise owners, executives, and managers, and the enterprises they serve. He specializes in developing the entrepreneurial, leadership, and managerial competencies that build sustainable advantage from vision to value. He is an author and a frequent speaker.

He obtained his professional experience as a partner at Andersen Consulting (now Accenture, Ltd.), as a vice president at Booz Allen Hamilton, Inc. (now Booz and Company), as a senior vice president at the American Express Company, as president of Javazona Cafes, Inc., and as president of The Business Leadership Development Corporation. He has been a contributing editor for the Bank Administration Institute magazine, and has served on boards of entrepreneurial networks. He was educated at the University of Exeter, Devon, United Kingdom.

His clients are in the financial services, food services, high-tech, manufacturing and distribution, pharmaceuticals, oil and gas, professional services, retail and wholesale, transportation, and government industries.

He has experience in North and Latin America, Europe and Asia-Pacific.

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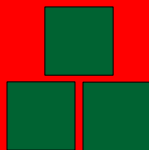
About The Business Leadership Development Corporation (BLD)...

The Business Leadership Development Corporation is a professional services firm that works with entrepreneurs, lifestyle business enterprise owners, executives, and managers, and the enterprises they serve.

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