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Creativity and Innovation in Organisations

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There is a beautiful story that is told about Chatrapathi Shivaji. At one time, Shivaji was very frustrated and found running his kingdom a big burden. So he went up to his Guru, Samarth Ramdasji, and told him that he was fed up and wanted to renounce everything. Ramsadji heard him out and gave him permission to do so. Shivaji was happy at the very thought and immediately relaxed.

That's when Ramdasji said to him, "I have accepted everything. Now I am the king and you are my servant. Will you do whatever I ask you to do?"

Shivaji said he would do anything for him. So Samarth Ramdasji said, "Very good. Will you run this country for me?" And Shivaji replied, "Yes, I will run the country for you."

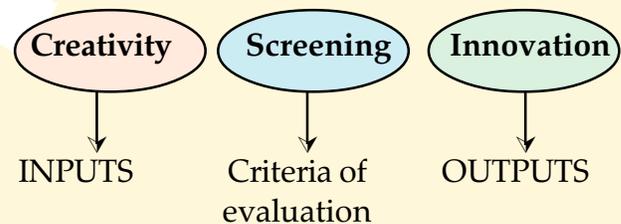
Total renunciation had rekindled his zeal and enthusiasm and henceforth Shivaji ruled happily.

When you are continuously on the job, it leads to wear and tear. You can act when you are tense, but to be creative you need to be relaxed. Creativity is not an exercise; it only happens when the body, mind and spirit are in tune with each other.

Creativity & Innovation

Creativity is the ability to produce new and original ideas and things. Innovation makes the idea practical and usable. The innovative activity in any business enterprise depends upon the creative contributions of its members. It also depends upon how the organization taps the creativity of its talented members.

Thus one can say creativity is about generating new ideas; innovation is about their implementation. In this context, innovation not only relates to products and services offered in the marketplace, but also covers business processes and organizational structures which underpin them at the workplace.



INPUTS

- Ideas
- Daydreaming
- Observing
- Brainstorming

OUTPUTS

- Results
- Better
- Faster
- Cheaper
- Aesthetic

Elements of the Creative Process

The overall creative process has four elements: Preparation, Incubation, Illumination and Verification

Preparation is the stage when the body, mind and spirit are in tune with each other and one is relaxed.

Incubation requires partially turning off the process of conventional thinking. This involves holding of or keeping in check the normal tendency to criticize and judge the value of what is taking place in the flow of thought. A lot of free thinking without any



constraints should be encouraged in the stage.

If incubation is successful, there follows the moment of illumination, which often is like a flash of lightening. The sudden insight of people is linked to a mystical experience. People who have experienced illumination have generally expressed as “Ah-ha” effect.

The final stage of creative process is verification. Here the mind returns to the pursuit of more conventional patterns and works out the creative solution in detail, polishes it in a more final form, and chooses some tests or method of proof so that the idea becomes creditable and accepted.

You do not have to be an expert to be creative as the following examples will indicate:

- *The bell was invented by an astronomer – Edmund Halley*
- *The pneumatic tyre was invented by veterinarian – John Dunlop*
- *The safety razor was invented by a sales man – KC Gillette*
- *The vacuum cleaner was invented by a bridge builder – Hubert Booth*

Creativity in Individuals

Although all human beings are born with creative abilities, the socializing process, the norms and sanctions of society, training in the family, rewards and punishments attached to social behaviour, in fact, all types of indoctrination kill this creativity.

You have to nurture your creativity – intellectually as well as with skill. So whether you are writing a piece of fiction, molding a statue, designing an air-craft or thinking out your moves in chess, you have to

continuously keep working at it, reinventing yourself, improving your skills – it’s a process that becomes a part of you.

Age can also bring its pressures, but they can be overcome. At 70, you may not have the energy to do what you did at 30, so you reinvent yourself. You may need to change the form, even the method of work.

Characteristics of Creative People

Do creative people have common characteristics that we can identify, so that we can hire the right people? Many theorists and practitioners think that there are common characteristics, such as tolerance to ambiguity and risk taking. However, many others argue that there are none. Some of the common characteristics of creative people could be:

- Optimistic about the future
- Open to alternatives
- Day dreamers
- Highly curious and observant
- Independent Thinkers
- Good at turning innovative ideas into practical solutions
- Take action and make things happen
- Adventurous with multiple interest

Creative Organisation

Generally organizations have a fixed routine way of working. They do not like to unnecessarily experiment due to risks involved. But in order to stand out, one has to take risks to be more creative.

In today’s global marketplace, factors promoting creativity are both external and internal to organizations. The main external drivers are a turbulent operating environment,



customer expectations, competitor and quality pressure, branding pressure, shareholder expectation and globalization of markets. Another external driver is the need to retain the existing customer base or find new markets.

Internal drivers, on the other hand, arise from shorter product cycles, accelerated innovation and purposeful activities which lead to continuous improvement, management that seeks a unique status for the organization

Designs of an Innovative Organisation

The following designs can be considered for being an innovative organization.

- a) ability to take risks
- b) belief in flexibility
- c) emphasis on environmental scanning
- d) commitment to market new or novel products
- e) strong experimental orientation
- f) change in recruitment policy
- g) adoption of unique, pioneering, inspiring mission
- h) periodic self assessment

Barriers to Creativity

Managers can very often be heard telling or listening to remarks like the following:

- Be as practical as you can
- Follow all the rules
- That is not logical
- I am not paid to think
- Some one else may already be doing it
- To make a mistake is wrong
- If I share my ideas someone else may steal.

All these can be considered to be barriers to the creative process. Some of these inhibitors are cultural – they are embedded in the psyche of the organization, while others are structural – they are embedded in the physical processes and the work environment in which they are carried out. Cultural inhibitors are caused by the lack of a can do mind-set: “we’ve tried it years ago and it didn’t work”, tribalism syndrome: “that’s the way we do things around here”, and risk aversion: “we’ll think about that at a later date”.

The main structural inhibitors are time pressure on managers to deliver quick results, employees not having enough time or space and the lack of a coherent vision on creativity.

Implications for Managerial Life

Managers have two important roles to encourage creativity and creative problem solving. First, every manager should try to be creative himself in whatever role he plays. He might introspect and plan strategies of overcoming the blocks. When faced with problems or opportunities to try out new things he should try generate as many alternative ideas as possible before choosing a solution. He can use problem solving techniques (brainstorming, force field analysis, etc.). Secondly, every manager should create such an atmosphere in his own department that the creative abilities of his subordinates are not hampered. He should encourage subordinates to try out their own mechanisms of solving problems and give them adequate support. He should provide an atmosphere that encourages experimentation.

References: Udai Pareek, T V Rao, D M Pestonjee, Behavioural Processes in Organisations. Newspaper Clippings Internet



Lean Management

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Lean means “manufacturing without waste.” Waste (“muda” in Japanese) has many forms. Material, time, idle equipment, and inventory are examples. According to Strategos Consultants and Strategiest, most companies waste 70%-90% of their available resources.

Resources in any form are limited for organizations, be it capital, manpower or time. The challenge of these days is how to allocate these resources optimally so that quality output is maximized.

Taiichi Ohno and Shigeo Shingo developed and implemented Lean Manufacturing at Toyota over a period of 20-30 years. Their approach provides a mental model for other implementations. Ohno first visualized an ideal production system, in terms of workflow. Ohno’s ideal system was inspired by his observations at Ford Motor Company. It had a series of adjacent workstations that were balanced and synchronized with no inventory between stations. It delivered finished product to the customer exactly when needed (Just In Time) and drew materials, Just In Time. According to legend, Ohno asked Shingo and others what prevented the realization of this ultimate, no-inventory system. As the reasons surfaced, Ohno requested his deputies to “eliminate the reasons.”

The resulting elements of Lean Manufacturing aim at eliminating (or at least reducing) the reasons for inventory. While the real goal is to eliminate waste, Ohno understood that inventory mirrors waste. This is an example of what Edward DeBono calls “Lateral Thinking.” By imagining an ideal, but impossible situation, we can often see more clearly, the path to its realization. Ohno and Shingo did not intend to develop some sort of “Unified Field Theory” for all manufacturing. They simply wanted to solve Toyota’s specific problems. The solutions they chose, while broad based, do not necessarily apply in all situations. Your solutions may be different.

Most waste is invisible. Nor is elimination easy. A set of techniques that identify and eliminate waste has evolved the concept of “Lean Manufacturing.” In the context of financial institutions, this could be read as ‘Lean Management’. The core disciplines under this technique are :

- Cellular Management
- Pull Scheduling (Kanban)
- Six Sigma/Total Quality Management
- Rapid Setup
- Team Development

These are core disciplines. Not every organization requires them all. Others require supplementary disciplines. Determining which disciplines are most important and/or urgent is the subject of study of applicability of the concept in specific organisation. The core disciplines are interdependent. Each acts upon and improves the others in a continuous “Virtuous Circle”- reinforcing the momentum over time. Results for the system are greater than the separate effects.

Value Stream Mapping and Process Mapping are two popular tools that can help identify



leakages, eliminate waste and streamline work. To function well, people and technology must integrate in a system exploiting the strengths and minimizing the limitations of each component. This psychological component in every core discipline needs to be reckoned.

There is a dearth of information and some of what is available is misleading or impractical. For example, according to Strategos Consultants, one published approach emphasizes phases of:

1. Stability
2. Continuous Flow
3. Standardized Work
4. Pull Systems
5. Level Production
6. Continuous Improvement

These phases of lean are supposed to roll through the entire plant one after another giving little time to breath. However, for most firms this is unrealistic as it ignores the interactions and systemic nature of Lean Management. Barry Richmond calls this "List Thinking." List thinking is perceived to be pervasive, helping organizations to have a more practical approach in implementing Lean Management in their processes.

List thinking however has its own set of limitations. It is realized while implementing. To elaborate, we may imagine the laundry list. All the elements in the Laundry List have value in some situations. However, the list gives no guidance for priorities, precedence or impact. So the applicability of this concept has to be examined strategically and systemically. A set of questions that may help us in this process are:

- Do we need the entire list of "Tools and Techniques?"
If not, which do we employ?
Which elements come first?
- Do we implement Lean management company-wide or in focused areas?
- How does Kaizen fit into the picture?
- How detailed should the plans be?
- How long will it take?
- How do we know when we are really Lean?

Another key to effective planning is to identify appropriate phases as outlined below:

- I. Core Disciplines
- II. Consolidation
- III. Continuous Improvement

In this case, the initial challenge is to plan for Phase I. This starts with an assessment. Then the appropriate "core disciplines" are selected and prioritized. Strategies are developed and project plans worked out.

The Key Point

'Systems Thinking' visualizes causes and effects, interactions and dynamic behaviors. Both Systems Thinking and Lateral Thinking are important when developing a Lean Management Strategy for a particular organisation. This is where leadership plays a key role.

Conclusion:

In order to achieve the successful implementation of any new improvement initiative, it is important to consider the final outcome that is required and the "marketplace" in which the business operates,



before deciding on the most effective ways of achieving the desired result. The balancing act consists of combining improvement opportunities and recommendations derived from systematic performance analysis, with the motivational needs of the people who are the organisation in order to achieve customer-required standards.

Hear a systematic analysis approach including tools, job aids and practical examples

- ✓ Identify improvement opportunities and performance improvement actions within your organisation
- ✓ Define the risks of a systematic approach without addressing critical people issues
- ✓ Realise the benefits of a clear organisational structure, process, resources, measurement, policies and procedures
- ✓ Examine the impact of staff motivation on business success
- ✓ Enabling Sustainable Business Change....not Building Process Models

The focus is on defining an end-to-end view of the business, streamlining processes, getting better buy-in from end-users and driving alignment across the organization. Not as easy as it sounds, as it requires changing hearts and minds, and working practices. But it is achievable and the benefits are significantly greater than simply automating the current processes to reduce cost which is often described as “your mess for less”. The Lean journey for all successful companies, across different industries, starts very simply by empowering their people to find waste in their work areas. Appreciating the importance of empowering employees, especially in a people dependant industry like Financial Services is the key to successful implementation of the concept in such industries. We all need to realize that finally, it’s a culture based on continuously ensuring that the processes meet and exceed customer expectations.

References: Lean Resources-Strategos Consultants, Engineers, Strategists; Study material-Ixperion 6-sigma conferences

Fringe Benefit Tax – an insight

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Apart from the salary the ‘Employers’ also forward various benefits to their employees. Certain benefits like concessional/free home facility were taxed in the hands of the employees as perquisites under section 17 (2) of the Income tax Act. While certain others like free tickets for travel provided to the employees by the employer were neither being taxed in the hands of the employees nor any tax was being paid by the employer on

such expenditure. The pay packages of the employees, especially at the higher level have been so designed as to pass on to them their income partly in cash and partly in kind. This helps the employee to pay lower taxes than what he would have been Actually liable to pay. A tax payer receiving entire income in cash bears a higher tax burden than a tax payer who receives his income partly in cash and partly in kind. It disturbs the horizontal equity,



where by two persons who receive equal payments in different forms have an unequal tax liability. Thus, Fringe Benefit Tax (FBT) has been introduced.

The FBT is in addition to the Income tax chargeable under the Income tax Act. It has come into force with effect from 01st April, 2005 on any privilege, service, facility or amenity provided by the employer to the employees. The provisions relating to the levy of the FBT are contained in Chapter XII-H (sections 115W to 115WL) of the income tax Act, 1961. The Central Board of Direct Taxes (CBDT) has also issued a circular (Circular No 8/2005) which tries to explain at length the provisions of the Act and its implications.

The Finance Minister has a clear message for the employers- Either pass on all the dues to the employees in a transparent manner and allow him to pay tax there on or be ready to pay FBT at the rates specified in the Act. The amount paid as FBT shall not be an allowable expense under the income tax Act. The FBT is a presumptive tax. If any employer fulfils the conditions as specified, he has to pay FBT even though the intension of incurring an expense may not be to extend a hidden benefit to the employee.

What are Fringe Benefits (FBs)

Fringe benefit has been defined under section 115WB of the Act. As per the sub-section (1) of the section 115 WB, fringe benefits have been defined as under:-

- a) Any privilege, service, facility or amenity, directly or indirectly, provided by an employer, whether by way of reimbursement or otherwise, to his employees (including former employee or

employees);

- b) Any free or concessional ticket provided by the employer for private journeys of his employees or their family members; and
- c) Any contribution by the employer to an approved superannuation fund for employees.

Characteristics of FBT

1. It is a tax on expenditure and not on income.
2. It is a tax on employer in respect of the value of various FBs extended to the employees. It cannot be recovered from the employees.
3. The intension laid in the Finance Bill was to tax the benefits that are usually enjoyed collectively by the employees and cannot be attributed to individual employees. But the Finance Act, 2005 as actually passed, does tax certain FBs which can be attributed to individual employees.
4. It is a presumptive tax i.e. it adopts a presumptive approach to tax the benefits being forwarded to various employees. However, certain benefits like free/concessional tickets and contribution to approved superannuation fund shall be taxed only if actually provided.

Applicability of the FBT

The FBT is payable by an employer who is:-

- a) A Company
- b) A Firm
- c) Association of Persons or Body of Individuals, excluding any fund, trust or an institution eligible for exemption under



clause (23C) of section 10 or registered under section 12AA

- d) A Local Authority or
- e) An Artificial Juridical person

The tax on fringe benefit is payable by the employer even if he is not liable to pay income tax on his total income computed in accordance with the provisions of the income tax Act other than the provisions of Chapter XII-H.

Rate of FBT

FBT shall be payable at the rate of 30% of the value of the FBs computed in the manner provided in section 115 WC. Even surcharge and education cess is payable on FBT at the applicable rates.

Reaction of the Industry

All the Organizations which shall be covered under the definition of 'Employer' as given

under section 115 W(a) shall be liable to pay FBT on or before the due dates as specified under the Act. They will be required to maintain the data, file a return of FBT in the prescribed format to the Assessing Officer on or before the due date and comply with other formalities as laid down under the Act. In the case of a company or an employer other than a company whose accounts are required to be audited the due date is the 31st of October of the Assessment year. In the case of any other employer the due date shall be 31st of July. All other provisions relating to income tax authorities, appeal, collection and recovery of taxes, penalties, prosecution etc. shall also apply to fringe benefits, unless otherwise provided under Chapter XII-H. Thus, as a result of it not only the cost component of the organization goes up but its administrative compliance also increases. The business community has started to rethink and redesign their pay packages to minimize any increase in costs and reduce the additional paper work which they will have to maintain while complying with the provisions of the Act.

The 'employer' will be liable to pay FBT on expenses incurred under the following heads:

Nature of expenditure	Taxable Base
A <u>Actual Benefits</u> Free/Concessional tickets for private journeys of employee and/or his family members Employers' contribution to an approved superannuation fund	100%
B-1 <u>Deemed Benefits</u> Entertainment, Hospitality, Conference, Sales promotion, Employees' welfare, Conveyance, tour & travel (including foreign travel), Hotel, boarding and lodging facility, Repair, running, maintenance (including fuel) and depreciation of Motor cars/Aircrafts, Telephones (excluding leased lines), Maintenance of guest houses	20%
B-2 Festival celebrations, Health club & other club facilities, Gifts & Scholarships	50%



As it can be seen that, not all expenses are truly in the form of any benefit being forwarded to the employees, the response of the industry has been mixed. They may plan to discontinue or curtail the expenses which are purely for the benefit of the employees or may even pass on the burden of FBT to the employees to a certain extent. However, expenses like sales promotion, conferences etc are incidental to the growth and expansion of the business and the organization. Thus budgeted expenditure under such heads shall not be curtailed. Similarly expenses of tour and travel etc. cannot be regarded in totality as any benefit being forwarded to the employees, as majority of tour and travel is undertaken only in connection with the business activity. The relevant expenditure heads are being replanned keeping in view the organizational structure and the employee strength. For example, an organization which has a higher number of youngsters working for it may even decide to abolish its contribution to approved superannuation fund, while not making any cuts on conveyance etc.

Ending Note

FBT has been introduced with effect from 01st April, 2005 to tax various benefits and facilities

which are being forwarded to the employees by the 'Employer'. The intension as explained in the circular issued by the CBDT is to curb the horizontal and vertical inequity which is the result of different modes of payments adopted by various employers. It is a presumptive form of taxation. As the tax is to be paid by the employer and not the employee it is a 'surrogate' tax on the employers as is been mentioned in the circular. The logic given to justify the levy of the FBT is the fact that prior to the assessment year 1998-99 certain benefits which were being forwarded to the employees were taxed following the disallowance method. The estimated inflows expected by the government are to the tune of Rs. 3000 crores. However, the analyst feel that it shall fetch somewhere between Rs.6000 to Rs.9000 crores. No doubt it is going to be a lucrative source of revenue for the government on the same lines as the Service tax, but it should also be borne in mind that anything which is enforced shall never be welcomed. As it is evident that not only the benefits come under the purview of the FBT but certain expenditures which are necessary for running the business are also being taxed. Thus, such expenses may be removed from the scope of FBT.

"Any man's life will be filled with constant and unexpected encouragement if he makes up his mind to do his level best each day."

-Booker T. Washington,
American educator (1856-1915)