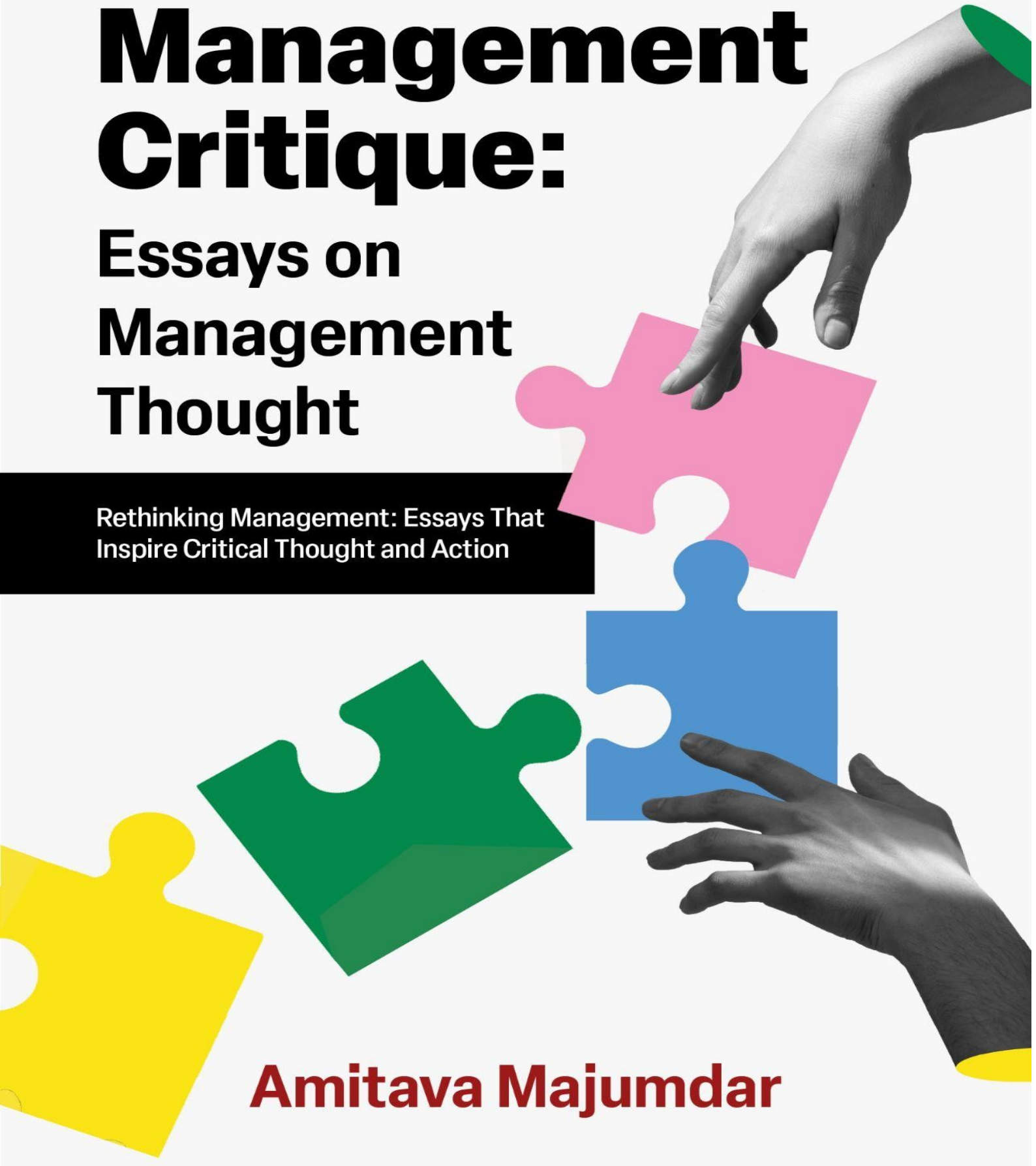
The Management Critique:

Essays on Management Thought

Rethinking Management: Essays That Inspire Critical Thought and Action



Amitava Majumdar

THE MANAGEMENT CRITIQUE

Essays on Management Thought

ACADEMIA.EDU

READER'S EDITION

Selected Essays from the Complete Collection

by

Amitava Majumdar

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The Management Critique: Essays on Management Thought
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A NOTE TO READERS

The Management Critique grew from a simple conviction: management ideas deserve to be questioned, not merely learned. Management literature gives us an extraordinary range of theories, models and frameworks. They help us understand organisations, leadership, strategy, innovation, people and performance. But Management takes place in a world that is rarely as orderly as the models used to explain it.

That gap between management theory and organisational reality is what has interested me throughout much of my professional and academic life. The essays collected in The Management Critique were written at different points in that journey. They explore subjects ranging from corporate governance, leadership and organisational culture to innovation, entrepreneurship, knowledge management, finance, risk and corporate responsibility.

I have prepared this Readers Edition for Academia.edu to make a selection of those essays more readily available to students, researchers, academics and management practitioners. Three essays have been reproduced in full:

1. *Corporate Governance in the Light of Agency and Other Theories*
2. *Innovation, Thinking Differently and Product Development at Honeycomb: The Creation of Agricultural Drones.*
3. *The Importance of Risk Resilience and Management: A Study of Islamic Banking in the UK*

Together, they represent three rather different areas of management thought: governance, innovation and financial risk. But they represent only a small part of the complete collection.

ABOUT THE AUTHOR



Amitava Majumdar is a Chartered Accountant and Management Accountant whose professional career has spanned finance, internal audit, management, information systems, entrepreneurship, consulting and organisational development.

His academic background began in Chemistry before he moved into professional accountancy and management. Over a career extending across several decades, he has worked in senior professional and managerial roles and subsequently built and managed entrepreneurial ventures of his own.

This combination of professional practice and academic inquiry has shaped his approach to management writing. Rather than treating management theories and frameworks as prescriptions to be accepted uncritically, his work examines how such ideas interact with the more complicated realities of organisations, people, markets and managerial decision-making.

His research and writing cover areas including strategic management, corporate governance, leadership, innovation, organisational learning, knowledge management, human resource management, finance, entrepreneurship and corporate responsibility. The Management Critique: Essays on Management Thought brings together 36 essays reflecting these interests. Written across different periods of his professional and academic work, the collection examines established management ideas alongside their application, limitations and implications for contemporary organisations.

Majumdar continues to write on management, business and education, with a particular interest in encouraging critical thinking rather than the uncritical application of management models.

MANAGEMENT • STRATEGY • GOVERNANCE • INNOVATION • LEADERSHIP • FINANCE

EDITORIAL NOTE

The essays reproduced in this Readers Edition were written at different stages of the authors academic and professional work and are presented as contributions to management thought and discussion.

Some essays examine organisations, markets, regulatory environments and academic literature as they existed at the time of writing. They should therefore not necessarily be interpreted as descriptions of current market conditions, corporate circumstances or regulatory positions.

The essays have been selected for this edition because of the management questions they explore and the continuing relevance of those questions to students, researchers and practitioners. The original arguments and intellectual character of the essays have been retained. Minor editorial changes may be made for spelling, punctuation, formatting and consistency where these do not alter the substance of the original work.

References accompanying each selected essay are reproduced to allow readers to identify the sources on which the original discussion was based.

Amitava Majumdar,

2026

Preface

In today's rapidly evolving global landscape, managers face a myriad of complex and dynamic challenges. Business leaders must navigate not only the structured aspects of their fields but also unexpected and multidimensional forces that demand creative and adaptable approaches. This book, The Management Critique; Essays on Management Thought, is designed to equip contemporary managers with the knowledge and insights necessary to thrive in this ever- changing environment.

The volume contains 36 essays, each touching on critical subjects such as Business Strategy, Finance and Accounting, General Management, Human Resource Management, Innovation and Change, Marketing Management, and other related topics.

The selection of essays is eclectic, with themes ranging from "The Use of the English School in the Study of International Relations" to "Capitalist and Colonialist Marketplaces" and "Water Management in South Asia." Broader societal themes, such as religion, gender, and global peace, are also explored to offer a wider context for managerial thinking. Each essay is preceded by a section titled Insight, which offers a concise overview of the essay's main ideas. I encourage you to read this introduction before diving into each essay.

Furthermore, a bibliography is provided at the end of the volume for those wishing to explore any topic in greater depth. I hope you find this book thought-provoking and come away with fresh perspectives and insights to apply in your professional journey.

Thank You,

Amitava Majumdar

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Corporate Governance in the light of Agency and Other Theories

Insight

Corporate governance has become one of the most challenging areas of modern business, requiring managers to have a deep understanding of the theories that shape its structure. Corporate governance encompasses the systems, practices, and processes by which companies are directed and controlled, aiming to balance the interests of stakeholders, including shareholders, management, customers, suppliers, financiers, and the community. A strong governance framework helps ensure accountability, transparency, and ethical conduct, crucial for long-term business success.

Managers must be familiar with various corporate governance theories to effectively contribute to their organization's governance framework. Key theories include agency theory, which highlights the relationship between owners and managers and the need for alignment of interests to avoid conflicts. Stakeholder theory emphasizes the broader responsibility of companies towards all stakeholders, not just shareholders. Stewardship theory advocates for managers as stewards of the business, acting in the best interests of the company without the need for strict oversight.

Understanding these theories enables managers to implement governance mechanisms that enhance accountability, encourage ethical behavior, and manage risks more effectively. By mastering these concepts, managers can make informed decisions that contribute to sustainable growth, ensure compliance, and improve the overall governance function within their organizations.

Introduction

The significance of corporate governance has become increasingly apparent in recent times. This heightened awareness stems not only from numerous scandals and instances of poor governance that began in the 1990s and peaked with the subprime and banking crises of 2007 and 2008 but also from a broader understanding of the need to protect stakeholders. Traditionally, theories on corporate governance have been dominated by agency theory and the principal-agent concept. These theories delve into the friction that can arise between principals, like shareholders, and their agents, such as corporate managers. While shareholders typically prioritize wealth maximization, managers often pursue a range of personal and joint objectives that may conflict with the principals' goals.

In recent years, the growing focus on corporate governance has led to the development of

various theories. Starting with the agency theory, the field has expanded to include stewardship and stakeholder theories. It has further evolved into resource dependency, transaction cost, and political theories. Additionally, newer ethics-related theories such as business ethics, virtue ethics, feminist ethics, postmodern ethics, and discourse ethics have emerged.

Modern corporations wield significant power and influence across the globe, affecting both economies and societies. The rise of globalization and a reduction in government control have diminished these organizations' accountability to national regulatory systems. As shareholder trust in these institutions wanes, corporate governance has become crucial for effective management.

Although a single, widely accepted definition of corporate governance is still elusive, it generally refers to the processes and structures that control and direct organizations. It encompasses the rules that govern the relationships between shareholders, management, and other stakeholders. While agency theory forms the foundation of corporate governance, a range of other theories now contribute to understanding and enhancing governance practices.

Agency Theory

The agency theory, rooted in economic theory, has been thoroughly developed by scholars such as Alchian and Demsetz, and Jensen and Meckling. At its core, the theory describes the relationship between principals—shareholders—and agents—company executives and managers. Shareholders, who are the owners, hire managers to run the business on their behalf. Essentially, the theory simplifies the corporate structure to just two parties: shareholders and managers.

According to agency theory, while managers are expected to act in the best interests of shareholders and maximize their wealth, they often pursue their own interests, which can sometimes conflict with the shareholders' goals. This misalignment can result in decisions that are not necessarily beneficial to shareholders. The concept of agency issues, first introduced by Adam Smith in the 1700s, has since been explored in greater detail. Managers may act opportunistically due to self-interest, which can create a significant divergence between their objectives and those of the shareholders.

Public corporations are characterized by a separation between ownership and control. Shareholders own the assets, but professional managers control and make decisions about these assets. Consequently, managers' actions impact shareholders, often without direct accountability.

There are two main types of managerial failures that prevent managers from perfectly serving shareholders' interests. The first type involves genuine, unintentional mistakes in managing responsibilities. The second type includes failures due to lack of integrity, self-serving behavior, and

deliberate actions that can adversely affect the value of organizational assets. To address these issues, shareholders use various reward and punishment mechanisms, along with monitoring processes, to align managers' actions with their interests.

Several "veils" can contribute to inefficiencies in agency relationships. Legal veils protect shareholders from corporate liabilities, shielding them from the financial fallout of poor decisions. Informational veils include the lack of access to crucial information needed for effective management, which can affect both shareholders and managers. Motivational veils shield shareholders and board members from the financial and legal consequences of their actions, and protect managers from shareholder actions if their compensation is not tied to shareholder equity.

Agency theorists recommend several governance mechanisms to mitigate these inefficiencies. These include aligning decision rights with specific knowledge, matching incentives with decision rights, and implementing effective monitoring systems for performance evaluation. Many companies try to align shareholders' and managers' interests by offering stock options to managers and tying their compensation to the company's performance, thereby aligning their rewards with the value they create for shareholders.

Alternative Corporate Governance Theories

Imperfections in principal-agent relationships often stem from the emphasis on profit maximization as the primary corporate objective. Shareholders naturally view wealth maximization as both a key reason for selecting their investments and the main goal of management. Given this focus, it's not surprising that managers might pursue personal goals related to career advancement, market value, and financial gain, which can sometimes conflict with shareholders' interests. This scenario has led to the development of various corporate governance theories to address these issues.

One such theory is Stewardship Theory, which draws from psychology and sociology. Unlike the agency theory, which assumes a fundamental conflict between principals and agents, stewardship theory promotes the idea that senior management should align their goals with those of the organization. In this model, managers are seen as stewards who are dedicated to protecting and maximizing shareholder wealth because this aligns with their own utility.

According to stewardship theory, senior executives should adopt a collective approach rather than pursuing individual goals. The theory suggests that directors and executives manage their careers to demonstrate their effectiveness as stewards of their organizations. This approach is particularly relevant in cultures like Japan, where employees often take ownership of their roles and work diligently.

The theory also proposes combining the roles of chairman and CEO to reduce agency costs and enhance the CEO's role as a steward. Some empirical research supports the idea that blending aspects of agency theory with stewardship theory can lead to improved returns. However, it's worth noting that stewardship theory mainly focuses on maximizing shareholder wealth by encouraging management to act as stewards.

Stakeholder Theory

Stakeholder theory emerged in the 1970s and was further developed by Freeman, who aimed to create a governance model that expanded corporate accountability beyond just shareholders to include a broader range of stakeholders.

Drawing from sociological and organizational disciplines, stakeholder theory is more of a tradition than a single unified theory. It blends elements of philosophy, ethics, law, economics, and organizational science. Unlike agency and stewardship theories, which focus on the relationship between shareholders and managers, stakeholder theory posits that organizational managers have responsibilities to a network of relationships, including business partners, suppliers, and employees.

Proponents of stakeholder theory argue that these various groups are just as important as shareholders and should receive management attention. They believe that businesses should not only aim to benefit shareholders but also create value for all stakeholders. Ignoring the needs of these groups is seen as both unfair and impractical.

While stakeholder theory emphasizes that ethics should not be sacrificed for economic gain or shareholder wealth maximization, its practical application can be complex. It requires identifying the relevant stakeholders, defining their rights, and finding a balance between stakeholder benefits and shareholder wealth. Challenges can arise, such as determining the hierarchy of stakeholder rights and addressing conflicts between legitimate and non-legitimate stakeholder demands. Despite these challenges, the theory maintains that all stakeholder interests have intrinsic value and should be considered fairly, rather than allowing one set of interests to dominate over others.

Resource Dependency Theory

The resource dependency theory highlights the role of the board of directors in corporate governance, focusing on how they help firms access necessary resources. According to this theory, directors play a crucial part in securing or providing the resources organizations need through their connections with the external environment. Appointing directors from independent organizations is

seen as a key strategy for gaining access to essential resources. These external directors, who bring expertise in areas such as law, finance, HR, or IT, can offer valuable information and advice that would otherwise be costly or challenging to obtain.

Directors from various categories—insiders, support specialists, business experts, and community influencers—can help provide diverse resources and align shareholder objectives with those of other stakeholders.

Ethics Theories

In addition to theories like agency, stewardship, stakeholder, and resource dependency, several ethical theories also influence corporate governance. These include business ethics, virtue ethics, feminist ethics, and postmodern ethics.

Business ethics examines activities, decisions, and circumstances in business from a moral perspective, focusing on issues of right and wrong. Given the growing influence and power of businesses, their contributions to society through jobs, products, and services are significant. However, with the complexity and challenges that come with managing business ethics, many managers lack formal education in this area. Business ethics helps shareholders and managers identify and address ethical issues while considering principles, community needs, environmental concerns, and the needs of immediate stakeholders.

Feminist ethics emphasizes the importance of healthy social relationships, empathy, care, and avoiding harm, arguing that caring for others is just as important as focusing on profits. Discourse ethics, on the other hand, deals with resolving conflicts peacefully, which is especially relevant in today's organizations where stakeholders often have differing objectives. Virtue ethics focuses on moral excellence and good character, advocating for actions based on right reasons and positive feelings. It involves both affective and intellectual aspects and aims to encourage morally positive behavior.

Postmodern ethics goes beyond traditional views of morality to consider the inner feelings and specific circumstances of situations. This approach offers a holistic perspective, suggesting that organizations driven solely by values may face long-term negative consequences. Minimizing focus on values can ultimately harm the interests of all stakeholders.

Conclusions

Examining various corporate governance theories reveals that while financial success and

enhancing corporate value are key objectives, agency and stewardship theories play crucial roles in reducing agency costs and boosting shareholder benefits. However, the rapid expansion of corporations in recent decades has brought significant implications. Corporations wield considerable influence and their actions, or their failures, can deeply impact societies.

Shareholders, board members, and managers must recognize that focusing solely on wealth maximization and shareholder benefits can lead to negative consequences for both society and the organization itself. Modern corporations need to move beyond merely serving shareholder interests and take on responsibilities towards a broader range of stakeholders. Effective corporate governance requires a holistic approach that blends different theories to address a variety of corporate responsibilities.

To achieve this, it is vital that shareholders and management engage in open, constructive dialogue. They must implement governance structures that look beyond the narrow focus of profit maximization and consider issues such as environmental impact, human resource diversity, and community benefits. As the discussion shows, relying on just one theory is not sufficient for good corporate governance. Instead, organizations should integrate a range of theories to address the diverse interests of stakeholders and move beyond rigid, one-size-fits-all approaches.

Innovation, Thinking Differently and Product Development at Honeycomb: The Creation of Agricultural Drones

Insight

Innovation is critical for business growth, yet many managers, particularly in small and medium-sized enterprises (SMEs), struggle with implementing it effectively. Honeycomb, a small company, offers a useful example of how SMEs can foster innovation to drive success. Faced with market saturation and limited resources, Honeycomb recognized the need for a breakthrough product to remain competitive. The company adopted a collaborative approach, involving all employees in the brainstorming process, encouraging open dialogue and creativity at every level. To cultivate an innovative culture, Honeycomb's management provided time and resources for experimentation, understanding that innovation often requires a trial-and-error process. They also invested in market research and actively sought customer feedback to identify unmet needs and opportunities for improvement. This focus on understanding their customers allowed them to tailor their innovative solutions to market demands, increasing their chances of success.

The result was a groundbreaking product. Honeycomb's approach highlights that fostering innovation in SMEs doesn't require massive budgets but rather a commitment to collaboration, customer insight, and a willingness to take calculated risks. Their success underscores that innovation is accessible to any business willing to cultivate an open, creative environment and invest in understanding their market.

Introduction

This report explores the innovative nature of agricultural drones developed by HoneyComb, a firm based in Oregon, USA. The company focuses on products and services designed to enhance precision agriculture and forestry. The report begins by describing this cutting-edge product and explaining its innovative aspects. It then examines the challenges HoneyComb might face in marketing and commercializing these drones and offers a range of solutions to address these challenges.

Innovation refers to the successful introduction of something new and useful, particularly in the context of achieving, maintaining, and advancing a competitive edge. Joseph Schumpeter categorized innovation into several types, including the introduction of new products or significant improvements to existing ones. Experts like Peter Drucker and Michael Porter have repeatedly emphasized the importance of innovation. Drucker highlighted that innovation should create new

dimensions of performance and should be simple and focused to effectively lead within a market. Porter underscored that innovation is crucial for organizational survival, growth, and value development.

The report will outline the agricultural drones produced by HoneyComb, detailing why they are considered innovative. It will also address the marketing and commercialization challenges the company may face and evaluate various strategies to overcome these obstacles. Choice of Product A drone, also known as an unmanned aerial vehicle, can be controlled either remotely by a pilot or autonomously through pre-programmed instructions. While drones have traditionally been used for military purposes, such as surveillance and combat, modern companies are exploring their potential for various other applications. For instance, Amazon is developing drones to deliver small packages within specific regions, and some organizations are using drones for agricultural purposes, particularly for crop monitoring.

Agricultural drones can significantly enhance crop yields by providing detailed imaging of crop health and facilitating targeted agricultural actions. HoneyComb, a company based in Oregon, has developed a line of agricultural drones with notable features:

· A composite exoskeleton made from fiber for durability

· An airframe design that ensures stable flight in challenging conditions

· Dual cameras that capture high-definition visible and near-infrared (NIR) imagery

· Hand launching capabilities that allow flexible deployment without heavy launch equipment

· Data capture abilities that can be processed into valuable information

Ryan Jansen, an industry expert, predicts that agriculture will become the largest adopter of drone technology. His company is focusing on providing agricultural solutions with autonomous fixed-wing drones, equipped with an extensive suite of cameras, sensors, analytics, and mobile controllers. Product innovation involves developing new products, redesigning existing ones, or using new materials or components in product manufacturing. It results in the introduction of new or significantly improved products or services, leading to enhanced user satisfaction, increased sales, profitability, and competitive advantage for the manufacturer.

Though drone technology itself isn't new, its application in agriculture represents a significant innovation. HoneyComb and other companies have adapted drones for crucial functions in agricultural surveillance. Drones offer a fresh technological advancement in farming, enabling farmers to monitor large areas more effectively. Traditionally, farmers relied on physical inspections, manned aerial flights, or satellites. Drones provide new data that was previously inaccessible and allow for adjustments during the growing season.

With drones, farmers can improve yields, apply fertilizers, water, and chemicals more precisely, map fields, monitor crop health, and detect diseases. The efficiency and safety of drones make them a valuable tool for farmers around the world, generating substantial demand for high quality, reliable products.

In addition to agricultural uses, drones are becoming increasingly useful in other areas like surveillance and delivery. For example, Amazon is working on drones for delivering books and small products within specific areas. HoneyComb's drones stand out as innovative due to their advanced features, practical utility for users, and commercial potential for the company. Commercial, Business and Environmental Challenges

HoneyComb has made significant strides in developing innovative agricultural drones and aims to achieve market success by meeting the needs of an expanding base of agricultural clients. However, the company is likely to encounter several challenges in both its internal and external environments as it seeks to commercialize its product and achieve success in the short and medium term. The competition in aerial surveillance is growing, with multiple organizations entering the market with similar products. Additionally, the evolving needs of farmers and other users of agricultural drones may pose further challenges.

Modern organizations often struggle with introducing and commercializing innovative products. Managing innovation, especially breakthroughs, can be difficult, even for the most forward-thinking companies. They often face challenges ranging from dealing with the ambiguous early stages of innovation to prioritizing opportunities and navigating the development pipeline. Experts agree there are no magic formulas for guaranteed success in innovation. Companies recognize that developing and introducing new products and services is crucial for their future. They need to extend existing products to enhance their lifecycle while simultaneously introducing new offerings that could either complement or compete with existing products. The challenge involves identifying promising opportunities, prioritizing them, championing fragile ideas through the innovation process, and aligning the organization for successful commercialization.

Sustained and effective innovation remains a significant challenge for many companies,

particularly in the US and UK. Research shows that firms often fail when introducing innovative products, with success rates being quite low. Studies have categorized the reasons for these failures into three main areas: cultural and organizational barriers, strategic and market-related challenges, and process-related obstacles.

Cultural issues within companies can directly impact innovation. If innovation isn't ingrained in the company culture, it can affect how individuals drive forward new ideas. The concept of "absorptive capacity" highlights the importance of culture for assimilating and using new knowledge.

Organizational structure also plays a crucial role in innovation. Hierarchical structures, top down command, and poor communication can hinder a company's ability to adapt and respond to new opportunities. Companies with rigid structures may struggle to transition to new business models and fail to balance core business effectiveness with the need for innovation.

Organizational silos, while designed for efficiency, can impede innovation by restricting knowledge and technology sharing between departments. Such structures can also stifle individual creativity and experimentation.

Strategic and marketing-related barriers can also hinder innovation. A company's focus on its current mission and customer needs might limit its ability to innovate for new markets. Leaders sometimes become so focused on satisfying existing customers that they neglect opportunities for innovation. This "milking the cow" approach can prevent the company from adapting to new market demands.

Process-related barriers are another challenge. Companies often focus on new product development but may overlook other aspects of innovation, such as service or business model innovations. The effectiveness of formalized innovation processes, like the stage-gate system, is also debated, with some questioning whether these systems truly support or hinder innovation success. Finally, understanding customer needs—both current and future—is crucial. Many innovations fail because companies do not fully grasp what their customers want or will want in the future. Available Solutions

HoneyComb's management is optimistic about the company's future prospects. CEO Ryan Jensen believes that the organization is well-positioned to dominate its niche market once the demand for agricultural drones surpasses a critical threshold. Jensen envisions a future where drone technology becomes a standard tool on farms around the world, reflecting the significant impact it has already made in agriculture.

To ensure success both now and in the future, HoneyComb must take strategic actions. First and foremost, the company should cultivate an organizational culture that fosters and drives

innovation. This involves creating an environment that not only supports but actively encourages innovative thinking. Management should paint a vivid picture of what success will look like and integrate innovation into the company's everyday operations.

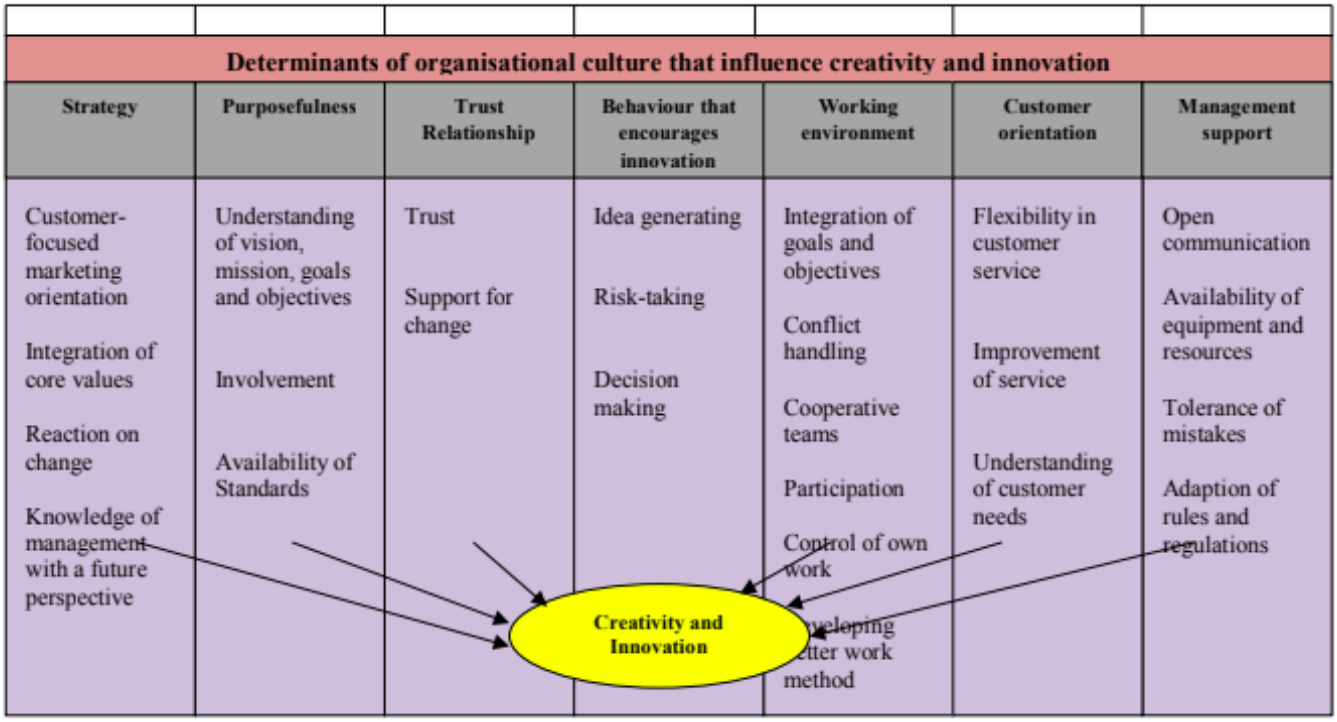
It's essential for HoneyComb to guide employees in thinking differently and linking their individual efforts to the broader goals of the organization. Encouraging diversity within the workforce is also crucial. Research shows that innovation can be stifled when everyone thinks alike and avoids conflict. Therefore, building a diverse team that brings different perspectives is key.

With a current team of about 20 employees, HoneyComb will need to scale up significantly to support future growth and expansion. Management should focus on ensuring that all employees understand the importance of innovation to the company's success and how their roles contribute to the overall effort. Providing continuous feedback, public recognition, and appropriate rewards for innovative efforts will help maintain motivation and engagement.

Martins and Martins have suggested that developing a comprehensive approach to fostering a culture of innovation is vital. Their model, based on Edgar Schein's work and open systems theory, outlines how various organizational subsystems—such as goals, management, structures, and technology—interact and influence one another. By understanding and applying these principles, HoneyComb can create an environment where innovation thrives, driving both immediate success and long-term growth.



MODEL OF THE INFLUENCE OF ORGANISATIONAL CULTURE ON CREATIVITY AND INNOVATION



(Source: Martins & Martins, 2002, p 62

For organizations to thrive, they must ensure their strategies are customer-focused, marketing-oriented, adaptable to change, and forward-looking. HoneyComb's management needs to clarify the company's purpose and understand its vision, mission, goals, and objectives. Developing clear standards in product quality is crucial for creating a sense of purpose, fostering creativity, and driving innovation. At HoneyComb, the management should focus on behaviors that encourage innovation, build a supportive work environment, and maintain high levels of customer orientation. This involves enhancing the understanding of consumer needs, improving customer service, and achieving flexibility in how services are delivered.

Looking at innovative practices from companies like Google can provide valuable insights. Google's approach to innovation includes several key practices:

- **Ideas Come from Everywhere**: Google encourages employees to submit new ideas, fostering an environment of trust and openness.
- **Share Whatever You Can**: Transparency is key at Google, where all project details are accessible to everyone, promoting a collaborative and informed workplace.
- **Hire the Best and the Brightest**: Google aims to recruit top talent to enhance idea generation, decision-making, and customer orientation.
- **License to Pursue Dreams**: Employees are given time to work on personal projects, which has led to many successful product launches.
- **Focus on Data, Not Politics**: Google emphasizes data-driven decisions over political concerns, promoting cooperation and effective conflict management.
- **Creativity Loves Restraint**: Employees work within set parameters, using creativity to navigate constraints effectively.
- **Worry About Usage and Users, Not Money**: Google focuses on creating user-friendly innovations that meet consumer needs.
- **Don't Kill Projects, Morph Them**: Rather than discarding unsuccessful projects, Google repurposes them for other uses.

Applying these principles to HoneyComb, the company can navigate its challenges in implementing and commercializing its agricultural drones. The key is to focus on understanding customer needs and creating an environment that continually nurtures innovation. HoneyComb should strive to grasp both the characteristics and capabilities of their products, as well as competitive offerings, and anticipate evolving customer needs to stay ahead.

To build a successful innovative organization, HoneyComb must be clear about its goals and standards. The company should foster open communication, provide necessary resources, tolerate mistakes, and establish rules to ensure customer satisfaction. By cultivating a culture of trust, idea generation, decision-making, and conflict management, HoneyComb can enhance its organizational capabilities and drive innovation effectively.

Conclusion

This report explores how to handle a specific innovative product to achieve market success. The focus is on an agricultural drone recently developed by HoneyComb, a tech firm based in Oregon. The study highlights that while innovation is a challenging process with a generally low success rate, adopting certain strategies can significantly boost the chances of success. For HoneyComb, it's crucial to address both internal and external factors to succeed with their innovative product. Internally, the company should create a culture that supports and drives innovation. Externally, understanding and meeting customer needs are key. By paying attention to these aspects, HoneyComb can enhance its chances of achieving sustained success with its agricultural drone.

The Importance of Risk Resilience and Management: A study of Islamic Banking in the UK

Insight

Islamic banking is inherently more risk-resilient than conventional banking due to its strict adherence to Shariah principles, which prohibit speculative activities and excessive risk-taking. Its reliance on asset-backed transactions and profit-and-loss sharing ensures greater stability, particularly during financial crises. However, this conservative approach, while reducing exposure to volatile markets, also limits the sector's potential for aggressive growth.

Islamic banks face challenges in competing with conventional counterparts that engage in more flexible and rapid expansion strategies. To address this, Islamic bankers must innovate within the bounds of Shariah, finding ways to balance risk mitigation with growth opportunities. Solutions may include developing new financial instruments, enhancing market outreach, and fostering partnerships that allow for sustainable expansion without compromising the ethical foundation of Islamic finance.

The Growth of Islamic Banking as a Viable Alternative

This research explores and evaluates the risk resilience and management strategies in Islamic banking, comparing them with conventional banking approaches. Recently, the Western conventional banking sector has been recovering from one of the most challenging periods in its history. The subprime crisis, which began in the United States in late 2007, triggered a global banking meltdown. This crisis led to massive financial losses, reaching into the hundreds of millions, and created widespread fear and uncertainty about the risk profiles, safety, and security of conventional banks.

At its core, modern international banking follows the traditional Western model. Banks accept deposits from a large pool of depositors and use that money to provide loans to individuals or businesses under agreed terms. While banks pay interest to depositors, they charge borrowers higher interest rates, also requiring collateral to secure the loan, ensuring their profitability and protecting the loaned funds. These foundational banking practices have allowed many major banks—particularly those in the US, UK, and Europe—to expand their operations, both in terms of size and geographical reach. They've built extensive branch networks, developed various financial products, and become integral to

national and global economies. Technological advancements, such as ATMs and online banking, have further enabled banks to streamline operations, reduce costs, and significantly increase profits.

Several large international banks, like HSBC, Citigroup, BNP Paribas, and Standard Chartered, have successfully expanded their operations across continents. Even smaller, regional banks have found success, establishing profitable and stable businesses. Additionally, regulatory standards set by central banks and other institutions have played a crucial role in maintaining stability and security within the banking system.

However, the global perception of the reliability of the Western banking model took a dramatic turn in 2007 when the US housing market collapse sparked the subprime mortgage crisis. As the housing bubble burst, many US banks faced massive losses, with some seeking government bailouts, while others shut down entirely. Well-known institutions like Freddie Mac, Fannie Mae, Citigroup, Morgan Stanley, and Northern Rock were among those hit hard, leading to panic and uncertainty. Media coverage in the UK, for example, showed crowds of people gathering at Northern Rock branches, demanding the return of their deposits. While government intervention saved many banks, others, such as Lehman Brothers, were left to fail, resulting in significant losses for both lenders and shareholders. This shift in public confidence highlighted the vulnerability in the conventional banking system, leading to calls for stronger risk management and more resilient financial models. This study seeks to understand how Islamic banking may provide an alternative approach, potentially offering greater stability and reduced risk.

The collapse of the US and Western European banking systems in 2008, which sent shockwaves across the globe, sparked widespread investigation into the root causes of the catastrophe. Experts found that several key factors led to the crisis. At the forefront was the unchecked greed of banks, as they pursued higher profits and bigger bonuses for executives. This was coupled with the introduction of new, untested financial products like mortgage-backed securities, credit default swaps, and securitization. Inadequate regulation, flawed external auditing, and poor-quality assessments by well-known credit rating agencies further fueled the problem. Together, these elements created systemic risks that ultimately exploded when subprime borrowers began defaulting, triggering an international financial meltdown and the economic downturn of 2007-2010. As fear of the systemic risks within conventional banking grew, so did interest in finding more stable banking models. Some financial experts have turned their attention to Islamic banking, sparking a deeper discussion about its potential benefits, stability, and risk resilience.

Islamic banking, which traces its roots back centuries, had largely been dormant since the decline of the Ottoman Empire in the 19th century. However, it saw a revival in the Middle East several decades ago and has since expanded, particularly in Muslim-majority countries like Malaysia, Pakistan, Turkey, Egypt, and the Gulf Cooperation Council (GCC) nations. Interestingly, Islamic banking is also making inroads in Europe, with the UK emerging as its most significant financial hub outside the Muslim world.

A key distinction between Islamic and conventional banking lies in their governing frameworks. Islamic banking operates under Sharia law, while conventional banking follows common law and established practices. Sharia law explicitly prohibits the charging of interest and requires banks, like all businesses, to operate within Islamic principles to grow and make profits. This prohibition on interest has led to the creation of unique banking processes and instruments. Often, Islamic banks enter into profit-sharing and management-sharing agreements with clients, fostering closer, more participative relationships. However, not all contracts require profit-sharing, offering some flexibility within the system. Many experts argue that these core principles of Islamic banking contribute to its greater resilience against risks, especially when compared to conventional banking models.

Overview of Islamic Banking

Islamic and Western banking systems differ significantly in their core principles, which have resulted in the development of distinct banking practices. While Western banking originated in 14th-century European cities like Venice and Genoa, it has evolved in response to various capitalist models. This growth has been shaped by a mix of legal, regulatory, and financial accounting systems. Over time, banking methods across different regions began to share similarities, largely due to ongoing trade and business relationships. The spread of modern banking systems was initially driven by European colonialism and later by the economic dominance of Western countries in global markets. The establishment of the Basel Accords has also contributed to more uniform banking policies and practices, particularly in critical areas of banking operations.

Islamic banking, in contrast, is deeply rooted in Islamic principles and law, as laid out in the Quran and further interpreted through the Prophet Mohammed's Sunnah. These core tenets have remained unchanged for centuries, providing a durable framework for the growth of Islamic banking and finance. The Quran serves as the foundation for Islamic law, while the Prophet's Sunnah expands on these laws through his teachings and preferences. Alongside these, Islamic jurisprudence also relies on

Ijmah, or consensus among scholars, and Quiyas, which uses analogical reasoning to address contemporary issues. The reinterpretation of Islamic law by experts, known as Ijtihad, continues to play a key role in its modern application.

The development of Islamic law, guided by these principles, has given rise to distinctive banking concepts and practices. Islamic law outlines four key business rules: the prohibition of interest (Riba), the ban on involvement in industries like alcohol, tobacco, and gambling, the forbiddance of speculative activities, and the mandatory payment of Zakat, a tax aimed at supporting the less fortunate. These guidelines make Islamic banking significantly different from conventional banking, particularly the ban on Riba. The prohibition of interest creates a fundamental divergence from Western banking, where the charging and receiving of interest are central to operations.

In Islamic banking, money is viewed as a medium of exchange rather than a commodity. This perspective stems from the Quran's intent to protect the vulnerable from being burdened by interest payments. According to Islamic teachings, it is unjust for lenders to demand a guaranteed return while borrowers face uncertain outcomes from their investments. This creates an imbalance where borrowers may become poorer, while lenders accumulate wealth.

The absence of interest in Islamic banking has led to the development of unique financial instruments and methods for meeting the financial needs of businesses. Rather than charging interest, Islamic banks often engage in partnership arrangements with their clients. These partnerships involve both parties sharing in the profits and losses. Unlike Western banks, which rely on interest payments, Islamic banks may take on some of the financial risk by participating in losses or offering concessions on the repayment of principal. The next section will further explore the differences between Islamic and conventional banking, highlighting how these systems diverge in their approaches to finance and risk management.

Risk Management and Risk Resilience in the Conventional and Islamic Banking Sectors

We have touched on the unique aspects of Islamic finance, including the prohibition on charging and receiving interest. This ban on interest can complicate dealings with entities seeking secured debt for their business needs. However, these restrictions have also driven Islamic banks to develop

alternatives, primarily through partnerships and equity participations between financiers and users of funds. Instead of relying on debt, firms using Islamic finance are encouraged to grow through equity.

This approach to finance, which emphasizes equity over debt, is seen as a more stable and less risky business model. With less reliance on debt, organizations become more resilient to economic risks and financial distress. Although lower levels of debt might reduce profitability due to the lack of tax shields on interest payments, many businesses prefer to minimize debt where possible. By avoiding heavy debt burdens, management can make confident decisions, take calculated risks, and operate without the constant pressure of answering to lenders.

Research supports the idea that lower debt levels often lead to better financial outcomes. Firms that operate with minimal debt tend to enjoy higher profitability, offering shareholders better dividends and improved stock market valuations. Islamic finance experts argue that replacing debt with equity-based funding not only enhances operational efficiency but also ensures better repayment outcomes for the providers of capital. One of the key benefits of the prohibition on interest in Islamic banking is the close relationship that develops between the bank and its clients. Since the financial health of the bank is directly tied to the success of its customers, Islamic banks thoroughly assess client applications, project details, and financial needs. This partnership model creates a deeper relationship between the bank and its clients, unlike conventional banking, where transactions often remain strictly professional and detached.

In conventional banking, the relationship between the bank and its clients tends to be more distant. Borrowers prefer to keep banks at arm's length, avoiding oversight or involvement in their operations. These relationships are defined solely by the terms of the contract, promoting a sense of autonomy for the borrower. While this creates clear, professional boundaries, it can also result in information asymmetry. Banks may not have full access to the operational details of their clients, limiting their ability to assess the borrower's true financial health. In such cases, banks often rely on annual reports to gauge the security of their loans, which might not provide the most up-to-date information.

Despite Islamic banks' avoidance of interest-based debt, they recognize the need for external financing. Islamic teachings encourage ethical business practices that benefit both the community and society, and this includes supporting businesses in their efforts to succeed and generate profits. As a result, Islamic finance offers several alternatives for businesses seeking external funding. Instruments like Mudaraba, Musharaka, Ijara, Murabaha, and Sukuk allow firms to acquire goods, machinery, and services while adhering to Islamic principles.

These financial instruments have specific features that help reduce banking risks. The assets being leased or sold must be tangible, not theoretical or notional. Sellers or lessors must have clear ownership of the items involved in the transaction. Moreover, the transaction must be genuine, with a clear intent to take delivery. Since Islamic finance prohibits the sale of debt, the risks associated with these debts must be directly assumed by the provider of funds.

By focusing on tangible assets and shared risks, Islamic finance provides a more grounded and transparent approach to financial transactions. This structure not only helps mitigate risks but also fosters closer relationships between financial institutions and their clients, offering a distinct contrast to the often more distant and transactional nature of conventional banking. The restrictions within Islamic finance offer clear advantages in reducing many of the risks that have become widespread in conventional banking. For example, the requirement that leased or sold assets must be real, tangible, and indisputable —as opposed to speculative or notional—helps eliminate certain types of derivative transactions. These derivatives often rely on third parties profiting from the losses of others, rather than bearing any risks themselves. By focusing on genuine transactions, Islamic finance inherently reduces the speculative nature of such deals.

Another key element of Islamic finance is the requirement for the seller or lessor to actually own and possess the goods being traded. This rule ensures that these parties assume a portion of the risk in order to earn a return. In contrast to conventional banking, where short sales can lead to rapid devaluation of assets during economic downturns, Islamic finance avoids such scenarios. By prohibiting short sales and tying financial support to actual asset ownership, Islamic banking fosters a more stable relationship between finance and the real economy. This not only curbs excessive credit growth but also ensures that financial growth aligns more closely with actual economic expansion.

Islamic finance further encourages cautious lending practices through the requirement that transactions involve real delivery and the prohibition on the sale of debt. This forces providers of funds to carefully evaluate credit risks and prevents them from engaging in risky, aggressive expansion. By ensuring that debt levels don't grow disproportionately compared to the real economy, this system helps channel funds into productive activities—ultimately boosting employment and increasing the production of goods and services.

Experts in Islamic finance emphasize that these safeguards help reduce systemic risks and vulnerabilities in large financial systems. By limiting the use of derivatives and speculative activities, Islamic banking connects credit growth directly to economic development. It also requires financiers to

share in the risks of borrowers, thus improving the quality of project assessments and risk evaluations. The prohibition on selling debt forces providers of capital to fully account for the risk of default, ensuring more thorough and careful financial planning.

During the financial crisis of 2008, many Islamic banks were shielded from the worst impacts due to their adherence to key principles of Islamic law. These principles included restrictions on practices such as the sale of debt (like collateralized debt obligations), short sales, excessive leveraging, and speculative asset sales (such as credit default swaps). This adherence to Islamic finance principles prevented Islamic banks from engaging in the kind of speculative financial investments that caused significant losses for conventional banks during the crisis. Moreover, many Islamic financial contracts, like Murabaha agreements, have shorter time horizons, which helps avoid the risks associated with long-term contractual obligations.

However, despite these inherent protections, some Islamic banks have strayed from strict Shariah principles in pursuit of business expansion. By doing so, they have increased their exposure to the same risks that traditional financial institutions faced during the financial crisis. This shift underscores the importance of maintaining adherence to the core principles of Islamic finance to safeguard against systemic risks in the future.

By avoiding collateralized debt obligations and securitization, Islamic banks have shielded themselves from the systemic risks that plagued conventional banks before the crisis. Empirical evidence supports this, as Islamic banks demonstrated stronger profitability in 2008 and maintained lower debt-to-equity ratios compared to their conventional counterparts.

Research Findings

While Islamic banks demonstrated better profitability than conventional banks in 2008, their profits dropped sharply in 2009, whereas conventional banks saw an increase in profitability during the same period. Several factors might explain these fluctuations: Islamic banks might have engaged in more impairment activities in 2009, faced higher operational costs, and earned less revenue compared to conventional banks.

Research has also revealed that Islamic banks had significantly lower debt-to-equity ratios, indicating greater safety during economic downturns. However, conventional banks displayed more aggressive strategies in business growth, profits, and leverage. They also achieved higher operational efficiencies, likely due to the standardization of their activities and larger scale of operations. Overall, the

financial analysis showed that Islamic banks, adhering to their religious and legal principles, adopted a more conservative business approach. While this conservative stance provided them with a degree of protection during crises, it also hindered their ability to expand rapidly, increase business, and enhance profitability. Islamic banks' highly customized approach also limited their capacity for standardization and operational efficiency.

The research highlights that Islamic banking, due to its religious principles, takes a notably conservative approach to business. This conservatism affects both borrowing practices and lending to customers, making Islamic banks in the UK more cautious compared to conventional banks. This cautious approach helped Islamic banks navigate the financial crisis of 2008 by reducing some financial and systemic risks. However, it also limited their growth opportunities, market expansion, and competitive advantage.

Such conservatism can expose Islamic banks to various market risks, potentially leading to customer migration to conventional banks and marginalization within the marketplace. The strict adherence to religious practices seems to hinder the development of new products and growth within the UK market. Managers from Islamic banks express a need for more flexibility in designing banking products and investments. This suggests that while the conservative approach of Islamic banking provides some risk resilience, it also increases market risks by restricting business growth, product development, and operational efficiencies.

Given that conventional banking now faces robust regulations, which are likely to enhance its risk management and resilience, Islamic banking appears to lag behind in several areas. This situation underscores significant market risks for Islamic banks.

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