International Journal of Recent Trends in Engineering & Research
ISSN (ONLINE) : 2455 – 1457
IMPACT FACTOR : 4.101

POLITICAL UNREST AND IMPACT OF DIFFERENT TYPES OF COSTS ON MANAGERIAL DECISIONS: A CONSPECTUS OF IN IRAQ, KENYA AND YEMEN

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Abstract : As businesses advance and cross borders, there are increased risks and challenges of social and political risks. There are dangers of political instability, corruption, change in regulatory framework, child labor practices, terrorism, public resentment towards certain organizations, environmental pollution, etc that have to be put into managerial decisions. In times of crisis and political unrest, Managers are faced with decisions that govern how a company reaches its revenue and profit targets which are in turn determined by the level of costs included in such decisions which ultimately impact the finances and sustainability of the company. The decisions so taken may include business expansion, dropping or innovation of products and new modes of communication and financial transfer/transactions, change of management tactics, cut off non-essential service or goods, labor shortage, high over-head expenses, scarcity and how to find new types of materials to replace present high-priced ones, Increase in the selling price and, priced to meet current costs.

In times of political violence, there is urgent and dire need of commodities, coupled with material and labor Shortage, manufacturers may be forced to compromise with quality. At this time customers are less critical of quality as there are limited choices and the producer has no stiff competition. Though, for some manufacturers, prudence and the zeal for patriotism may call for a fair delivery for quality especially in the interest of the country and long term goodwill.

The paper looks at businesses and their survival tactics in Iraq during the war from 2003 and the crisis in Kenya of post election violence in 2007/08 and finally looks at Yemen during the revolutionary movement that ended in 2012. These countries are also hampered by terrorism, and social threats like tribal skirmishes especially during election time. The paper posits that amidst war and turbulence businesses will service is they manage their costs prudently.

Key words: Decision Making, Political Environment, Inflation and operational costs

Objective: the paper looks at modalities of managing a business in times of political crisis or war and the challenges a manager must face to survive and prevail to achieve his goal. The scope of the paper is on businesses and their survival tactics in Iraq during the war and after look at the crisis in Kenya and post election violence in 2007/08 and finally look at Yemen during the revolutionary movement from that ended in 2012.

I. INTRODUCTION

Iraq has had a long history of political conflicts especially in the last three decades starting from the Iran–Iraq War, also known as the First Persian Gulf War, from 1980 to 1988. It was the longest conventional war in the recent past. Kenya though not much to the magnitude of Iraq has also had prolonged ethnic and tribal violence which reaches its zenith in the years of general election. In 2007/08 post election violence marred the country and more than 1300 people perished. This chocked the economy and scared potential investors and business came to their low. The case of Yemen is no stranger to the conflict as the north and south were divided until 1990 when they formally reunited and formed a single government. The southern secessionist movement was revitalized in 2008 when a popular socioeconomic protest movement initiated the prior year took on political goals including secession (CIAfactbook). There was political upheaval, a revolutionary movement, which led to the formation of a new government that took over in February 2012.

In the last decade this countries have faced numerous conflicts in political environment especially Iraq. Amidst all this political and social turbulences, there are businesses thriving including multinationals. It is very necessary to maintain ordinary commercial work to the fullest possible extent in order to maintain financial credit.

There is no doubt that there are huge challenges for the companies to operate in such circumstances. Most of the strong countries are based on strong economies whose security in turn is also strong that leads to market confidence which and economic stability. No doubt conflict are bad but at the same time there are people and businesses that profiteer from the political conflicts and violence such as weapon making organizations. Companies that sell basic necessities such as medicine, food, water and weapons thrive while others that sell luxury commodities may have to close the shop.

II. COST OF INFORMATION

system plays an important role in every organization within the rational decision-making process. An important task of management is to ensure the control of operations, processes, activity sectors, and ultimately costs. To reach the goals of an organization, the cost information system is important because it monitors the results of the others. The detailed analysis of costs, the calculation of production cost, the loss quantification, the estimating of work efficiency provides a solid basis for the financial control.

The level at which the economy is matters in times of crisis. Kenya for example depends on agriculture while Yemen and Iraq depend on oil but they import commodities such as food and live animals, machinery and equipment, chemicals etc. since basic necessities in times of war are food shelter and clothing, this basic items become so much inflated in price as they are not produced locally and there may be no storage of the same in people's houses. The inflation situation in Iraq from 2003 to 2007 was very high due to lack of basic necessities. It is also reflected in the inflation figures in the table below being the highest among the three countries as in 19.5% and 11.2% for 2010 1nd 2011 respectively during the uprising. It is on this premise for the manager to decide whether to profiteer from the crisis or make sales at normal prices. A moral question arises. The reason for the manager to sell the goods at higher prices is because he (1) has to incur extra costs in rerouting transportation to avoid vandalism and any untoward event on some routes, (2) taking extra risk in selling the goods especially in the absence of insurance cover, (3) The cost of material will also increase, (4) increase in lead time, (5) high labor costs (6) high cost of capital (7) cost of training new staff for replacement.

But on the other hand, the manager is set off by other factors such as (1) ready market for the commodities, (2) less carrying costs and storage (3) less or no advertisement.

III. ECONOMIC DIFFERENCES OF THE COUNTRIES IN QUESTION

Items	**Iraq**	**Kenya**	**Yemen**
Population (July 2012 est.)	31,129,225	43,013,341	24,771,809
Literacy: (2010 est.)	total 78.2% male: 86% female: 70.6%	total 87.4% male: 90.6% female: 84.2%	Total: 63.9% male: 81.2% female: 46.8%
GDP - composition by sector: Agriculture: (2011 est.) Industry: (2011 est.) Services: (2011 est.)	9.7% 60.5% 29.8%	24% 15% 61%	7.9% 42.3% 49.9%
Labor force - by occupation: agriculture: Industry and services: (2008 est.) (2007 est.)	21.6% 18.7% and 59.8%	75% 25%	N/A
GDP - per capita (PPP): (2011 est.), (2010 est.) and (2009 est.) respectively	$4,200 $4,000 $4,000	$1,700 $1,700 $1,700	$2,300 $2,700 $2,500
Inflation rate (consumer prices): (2011 and 2010 est.)respectively	5.6% 4%	14% 4%	19.5% 11.2%
Commercial bank prime lending rate: (31/ 12/2011 est.) and (31/12/ 2010 est.) respectively	14.13% 14.35%	15.05% 14.37%	25% 25%

Source: CIAfact book

The commercial lending prime rate for Yemen is very high and therefore the additional cost of servicing a loan is very high. Only stable and high profit businesses will be able to take loans from banks.

In Yemen majority of the people are employed in agriculture and herding; services, construction, industry, and commerce account for less than one-fourth of the labor force.

High literacy level helps the citizens to acquire information quickly and in the right understanding to make educated and rational decisions. It therefore becomes convenient for the media houses, the government and other organizations to reach literate people. There is high consumption of media services including SMS that would not have otherwise been understood by the illiterate. Mobile money transfer was possible in Kenya during the post election violence through M-pesa services. The service allows users to deposit money into an account stored on their cell phones, to send balances using SMS technology to other users or deposit hard cash in M-pesa kiosks/outlets if one has no phone but with the number of the receiver (including sellers of goods and services), and to withdraw deposits for regular money through the M-pesa kiosks/outlets scattered all over the country. Users are charged a small fee for sending and withdrawing money using the service. M-Pesa has spread quickly, and has become the most successful mobile phone based financial service in the developing world.

IV. MANAGEMENT CHALLENGES

Inflation

As political stability comes about, inflation also comes down. In Iraq, there were variations in inflation in the peak of the war for example Consumer Price Index increased from 223.59 points in February 2007 to 260.94 points in January 2008, a rise of 16.7 per cent.

Labour: it is very expensive and difficult to maintain workers at their sites or work places safely in politically sensitive or volatile areas. Kidnappings and abductions are frequent occurrences of foreign employees and visitors/tourists or customers. Terrorism has increased in this in the past few years in Yemen and Kenya. one may expect the risks to citizens of these and other unstable countries to increase.

Security and Consumer confidence: in May and march 2011, Somali terrorists abducted some tourists including a murder in a hotel on the Kenyan coast. This brought the tourism industry so low that most of the businesses had to close because of lack of tourist while operating costs were increasing day, by day. On the other hand, some businesses went on high advertisement campaigns and publicity to win back public and international confidence and good image. The Kenyan military forces also invaded Somalia and cracked down on al-Shabaab terrorist activities. In the wake of these military attacks there have been sporadic bomb attacks in the city of Nairobi and other cities. These activities have necessitated costs that were otherwise not there such as sophisticated communication and monitoring devices in shopping centres, Closed-circuit television (CCTV) cameras, reinforced security. As per Ministry of Tourism, Kenya it is on this premises that tourism has rebounded from 1,095,842 visitors in 2010 to 1,265,136 in 2011 in February 20122012.

In Iraq for example, Need for Private security due to insurgency, has led to the security industry to be prosperous. Most of the former U.S. military men run the sector 2005 at least 26 companies offered personal and institutional protection, surveillance, and other forms of security.
(http://en.wikipedia.org/wiki/Economy_of_Iraq).

Ethical concerns: in times of political or social turbulence, there are dire concerns regarding of procurement of raw material, there exacting costs and transportation and other logistical issues.It is also important to appreciate the business partners and estimate how much reputational is at risks because of transacting with them. For the long term goodwill of the organization, any temptation to make quick profits at the expense of good reputation in the future should be avoided. A business cannot be morally justified to trade with recognized terrorist groups, pirates, terrorists, slave traders, public pariah or alien enemies. A point in concern is De Beers, the South African diamond cartel, which was accused by boycotters of buying gems from countries in which civil wars were being fought, allegedly providing rebels with cash. Ultimately, to protect its reputation and market position, De Beers chose to wind down its gem-buying operations in Angola, Congo, and Sierra Leone.

It is therefore necessary that the company observes formal internal policies to ensure that human rights are not violated in its own operations, as well as a long-term policy of engagement to improve the legal and political system in the country. The basis of business should not only be profit making but service to the society (Sherlekar S.A 2008). It is the society that gives the charter to the organization to operate in its precincts. These trends suggest that MNCs must take a different approach to analyzing international business opportunities and risks. The managers must consider costs but also envision further on other factors like quality of labor, depletion and exploitation of natural resources, environmental concerns, and character of governments they deal with.

In emerging markets such as the countries in question, standards of behavior and protections are evolving to attain good citizenship and good business. The organization should not wait on official moral suasion to discharge what it is required of. Most of the legal structures are not in place and most of the corporate etiquettes have not been practiced long enough to be inculcated in the system. In the case of MNCs working in these countries, it is in their long term interest to set good and ethical precedence instead of looking at the wind fall gains in the near future and the expense of its longevity.

V. REDUCING COSTS FOR DECISION MAKING

It is good that adequate methodology for integrating cost into risk management should be considered. Developing and implementing an appropriate model for decision-making and measurement of social and political risks is critical for improving organizational performance, efficiency and effectiveness. The organization should anticipate, evaluate, prepare for, and alleviate risks. The organization should (1) endeavor to reduce cost of manufacture such as labor and over-head factors, (2) Increase the selling price, (3) reduce advertisements and other selling costs, (4) innovation of materials to replace present high-priced ones. (5) Introduce a new product line, priced to meet current costs. (6) Avoid industrial establishment in volatile areas. Instead, supply the goods to such areas at regular intervals.

The costs which should be used for decision making are often referred to as "relevant costs". CIMA defines relevant costs as 'costs appropriate to aiding the making of specific management decisions. Not all costs are considered in decisions making, only the relevant ones also called expected cost are looked after and those are the ones developed at the right time for the right decider with an appropriate and satisfactory precision for it. They are additional cost entailed by the decision. Those costs that can be influenced, or avoided, are relevant to the decision. An avoidable cost is what can be eliminated entirely or partially as a result of an alternative choice of several, during the development of decision.

In order to minimize costs and carry on with fewer workers and hold trade connections together, certain decisions must be made. The manager should avoid unnecessary costs by going through the all products the organization produces. In ties of turmoil demand changes and the manager eliminates products that are handled in small quantities, that have no broad demand, that carry frills in manufacturing or require exceptional skill and attention, that are not trade necessities in your line, that can be replaced by more staple items. It means to avoid all luxuries and concentrate on trade staples. The manufacturing process should be simplified and standardized. Portable sizes and packing are crucial for transportation.

But there are also unavoidable costs, called irrelevant or indifferent costs that do not differ from one alternative to another. They are the past costs, historical ones, on which we cannot make any future decisions. In times of war there are difficulties in comparing costs with the previous season since situations are volatile and previous estimates may not be relevant in decision making. Therefore to affect a decision a cost must be:

a) Future: Past costs are irrelevant, as we cannot affect them by current decisions and they are common to all alternatives that we may choose.

b) Incremental: Meaning, expenditure which will be incurred or avoided as a result of making a decision. Any costs which would be incurred whether or not the decision is made are not said to be incremental to the decision.

c) Cash flow: Expenses such as depreciation are not cash flows and are therefore not relevant. Similarly, the book value of existing equipment is irrelevant, but the disposal value is relevant.

f) Opportunity cost: Relevant costs may also be expressed as opportunity costs. An opportunity cost is the benefit foregone by choosing one opportunity instead of the next best alternative.

g) Committed costs: A future cash outflow that will be incurred anyway, whatever decision is taken now, e.g. contracts already entered into which cannot be altered.

Suggestions and conclusion

1. It is good for the corporate to exchange ideas and information with others be it the government or other businesses so that they make informed decision.
2. As soon as any tangible business is received, hold meetings with the respective department heads.
3. It might not be sustainable and in the long term interest of the firm to engage in unusual activities outside the business line.
4. There should be preparations before undertaking war orders. For example supplies can be made once a week in bulk to avoid unnecessary and insecure transportation.
5. Train women workers to take the places of men.
6. The corporate should also train understudies so that they may be dispatched in areas of need should there be vacancy created by way of transfers, death, incapacitation, accidents or otherwise.

Managers make decisions to achieve certain goals that have financial aspects, such as revenue and profit targets. The level of costs included in such decisions has a major impact on the finances of the company. Reliable reporting of actual costs, accurate estimation of projected costs and the appropriate integration of such costs in managerial decisions is a key component of business operations that meet their targets and further the goals of the company.

The cost information system plays an important role in every organization within the rational decision-making process. An important task of management is to ensure the control of operations, processes, activity sectors, and ultimately costs. To reach the goals of an organization, the cost information system is important because it monitors the results of the others. The detailed analysis of costs, the calculation of production cost, the loss quantification, the estimating of work efficiency provides a solid basis for the financial control.

The need for a decision arises in business because a manager is faced with a problem and alternative courses of action are available. In deciding which option to choose he will need all the information which is relevant to his decision; and he must have some criterion on the basis of which he can choose the best alternative. Some of the factors affecting the decision may not be expressed in monetary value. Hence, the manager will have to make 'qualitative' judgments, e.g. in deciding which of two personnel should be promoted to a managerial position. A 'quantitative' decision, on the other hand, is possible when the various factors, and relationships between them, are measurable.

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