PREFACE

In the curricular structure introduced by this University for students of Post-Graduate degree programme, the opportunity to pursue Post-Graduate course in Subject introduced by this University is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not believe in artificial differentiation.

Keeping this in view, study materials of the Post-Graduate level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars is indispensable for a work of this kind. We, therefore, owe an enormous debt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of proper layout of the meterials. Practically speaking, their role amounts to an involvement in invisible teaching. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that it may be rated as quality self-learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great part of these efforts is still experimental–in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these to admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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Netaji Subhas Open University
Post Graduate Degree Programme
Master of Business Administration (MBA)
Course Code : CP-201
Course : Strategic Management

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Master of Business Administration (MBA)

Course : Strategic Management
Course Code : CP-201

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Unit 1 ◻ Introduction to Business Policy and Strategic Management

The business policy as a subject of management studies evoled in the year 1911, when Harvard Business School introduced an integrative course aimed at the creation of general management capability.

Glueck I views the development policy as a fallout of planning techniques used by managers from the preparation of day to day plans. Earlier managers tried to anticipate the future through preparation of budgets, capital budgeting and management by objectives. Later on due to the inadequacy of these techniques to emphasise the role of future, long range planning was adopted. Long range planning was replaced by strategic planning and finally strategic management. Strategic management is the theoretical framework for business policy. The conceptualisations of organisational strategy in the earlier literature are varied. Chandler defines it as "determination of the basic long term goals and objectives of the enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.2"

Miles and Snow3 views it as a pattern or stream of major and minor decisions that redirect the organisation's resources toward environmental opportunity.

Ansoff considers it to be decision rules concerned with the external problems of the firm specifically with the selection of the product mix which the firm will produce and the markets to which it will sell. Porter5 considers it as the combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there.

With the emergence of futuristic organisations, which are not only responsible for making a profit or producing goods, the role of an organisation has become more wider. According to Tofflar, an organisation would "simultaneously contributing to the solution of extremely complex ecological, moral, political, racial, sexual and social problem". Thus the managers are called upon to shoulder a set of entirely new responsibilities necessitating a drastic review of the emerging concepts and techniques.

Objectives of Strategic Management Studies

The objectives have been stated by authors such as Christensen and others and Steiner and others in terms of knowledge, skills and attitude.

Objectives in Terms of Knowledge

1. Understanding the various concepts such as plans, policies, programmes, strategy etc. Many of these concepts are encountered in functional area courses also.

2. Knowledge about the external and internal environment and their effect on the functioning of an organisation.
3. Scanning of the environment helps in the determination of the mission, objectives and strategies of the organisation.
4. Crafting and implemenlation of strategy is the most important and difficult part of strategic management. The managers are able to visualise it only through the knowledge gained.
5. With a generalised· approach to problem solving and decision making; it is possible to deal with a wide variety of situations. The development of this approach is an important objective to be achieved in terms of knowledge.
6. Review of literature in the field of strategic management is also an important knowledge objective.

Objectives in Terms of Skills

1. Analysis of case studies and through the analysis of the business events knowledge will be attained. This knowledge leads .to the development of skills so as to apply what is learnt.
2. The study of the subject will develop analytical ability.
3. The study of the subject will lead to the skills of identifying factors relevant in decision making. The study of strengths and weaknesses of an organisation threats and opportunities (SWOP) in the environment and the crafting of the appropriate strategies and policies will lead to the core content of general management decision-making.
4. The skill to link theory with practice develops.

Objectives in Terms of Attitude

1. The attitude will develop a generalist. The generalist attitude enables the person to. approach arid assess a situation from all possible aspects.
2. The attitude has to be like a practitioner rather than a perfectionist. All information required may not be available always, a perfectionist may postpone or avoid decision, but a generalist could go ahead with the available information. He is able to function under conditions of partial ignorance by using his or her judgement and intuition.
3. To possess a liberal attitude. Rigidity in. regards to techniques is to be replaced by pragmatism. The generalist should be receptive to new ideas, information and suggestions.
4. Developing a creative and innovative attitude and to go beyond and think in case of problematic situations is the hallmark of a general manager.

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Unit 2 ◻ Conceptual Foundations

Strategy

An organisation's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully, and achieve organisational objectives. The management in effect is choosing among all the paths and actions that could have been choosen, the path they decide to move in a particular direction. Focus on the market and customers accordingly, allocate the resources and energies in that way, and rely on these particular approaches to doing business.

Alfred D Chandler (1962) made a comprehensive analysis of the interrelationships among the environment, strategy and organisation structure. He defined strategy as “the determination of the basic long terms goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals.”

Igor Ansoff (1965), a well known authority in the field of strategic management says: “The common thread among the organisation's activities and product-markets as above that defines the essential nature of business that the organisation was or planned to be in future.”

William F. Glueck (1972)°, another well known author in stratetic management defines strategy as : “A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.”

Glueck gives a more comprehensive and integrated view where he mentions about a plan which is unified meaning to join all parts of the enterprise together.

From the few definitions mentioned herein we note that a strategy is :

(a) A plan or course of action or a set of decision rules creating a common linkage.

(b) The common thread related to the organisation's activities which are derived from the policies, objectives and goals.

(c) Pursuing those activities which will move this organisation from the present position to a desired future state.

(d) Concerned with the resources necessary for implementing a plan or following a course of action.

Mission :

"A mission statement is an enduring statement of purpose that distinguishes one business from other similar firms. A mission statement identifies the scope of a firm's operations in product and market terms"John. A. Pearce II. Fred David observes that a mission statement reveals the long term vision of an organisation in terms of what it wants to be and whom it wants to serve. It describes an organisation's purpose, customers, products or services, markets, philosophy and basic technology.

In combination, these components of a mission statement answer a key question about an enterprise"What is our business?" A good answer to this question makes strategy formulation, strategy implementation and strategy evaluation activities much easier.

Purpose :

The senior management in an organisation determine certain purpose or several purposes which their company should be able to achieve in the long run. In the various activities performed by the managers the guiding factor is the purpose. The purpose could be anything which their organisation strive for. If the purpose is taken seriously by 'the managers, it will have good impact for achieving success for the organisation.

Objectives :

William F. Glueck says "objectives help define the organisation in its environment. Most organisations need to justify their existence, to legitimise themselves in the eyes of the Government, customers and society at large. And by stating objectives, they also attract people who identify with the objectives to work for the organisation. Thus, objectives define the enterprise."

William H. Newman and Charles E. Summer observe objectives as "those ends which the organisation seeks to achieve by its existence and operations."

An organisation may state its objective increase in market share. When objectives are stated in specific terms, they become goals to be attained.

Goals :

A goal is defined as "an intermediate result to be achieved by a certain time as part of the grand plan. A goal is a closed-ended attribute which is precise and expressed in specific terms."

Policies, Procedures and Rules

A policy channelises the organisational efforts in a predetermined direction and leads to the achievement of goals, objectives, purpose and mission of the company.

Policies are subdivided into a series of related steps or tasks expressed in a chronological order, which lays down the procedures. Rules are the prescribed course of action that explicitly state what is to be done under a given set of circumstances. A company may take a policy to offer products which have surplus stock at a discount. The procedure may explain how to decide which products have surplus stock and what percentage of discount is to be offered. A rule may specify the way in which a discount plan is going to operate.

Plans and Programmes

A programme includes goals, policies, procedures, rules and steps to be taken in putting a plan into action. Programmes are action plans supported by funds allocation. They are basically projects. A plan may be implemented through a series of programmes.

Forecasts

Forecasting implies the act of making a detailed analysis of the future to gain a foresight of background situations and latent forces. Planning is essentially based on forecasting. Although accurate forecasting is highly desirable, yet it is always subject to degree of error. Forecasts should therefore, carefully be made and still more carefully be relied upon by the managers.

Budgets

A budget is a plan statement for a given period of time in future, expressed in financial or physical units. Budgets perform the essential task of resource allocation. Budgets could be fixed or flexible. They are generally prepared for a period of one year, but are reviewed from time to time during its period.

Tactics

Strategy gives rise to tactics, and thus, tactics may be thought of as a sub¬strategy. However a tactics for one may be a strategy for another and vice versa and the term is often confused with strategy.

Types of Planning Systems :

Planning is a function of management, categorised into different types and .considered as a major set of techniques.

Operational Planning

The focus is on the day-to-day affairs of the company. Oprational planning is lower level planning and is based on subgoals derived from the organisational objectives.

In managing the day to day operations, the line managers or middle level managers follow guided.by a set of policies, procedures, rules, forecasts and budgets. For instance, a production manager confirms to the rules and follows the procedures set for different activities and achieves the target of manufacturing the number of items as planned.

Project Planning

In project planning the planning is made for a clearly identified programme e.g. launching of a product. The nature of each project is unique, therefore the planning• has to be done seperately in every case. A programme may consist of several projects. Proper allocation of resources and its utilisation within the forecasted time period is the essence of project planning.

Management by Objectives (MBO)

George S. Ordiorne has defined Management by Objectives as a process whereby the superior and subordinate managers of an organisation jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him, and use these measures as guides for operating the unit .and assessing the contribution of each of its members. Ordiorne also stressed that MBO is not merely a set of rules, a series of procedures or even set method of managing, but it is a way of thinking about management. The implementation process of MBO involves the following steps : (i) setting of objectives, (ii) revision of organisational structure, (iii) establishment of check-points and (iv) appraisal of performance.

MBO calls for regulating the entire process of managing in terms of meaningful, specific and variable objectives at different levels of management heirarchy. It stimulates meaningful action for better performance and higher accomplishment and the technique is bound to affect the entire organisational structure', culture and style.

Short Term and Long Term Planning

There is no definite planning period on the basis of which plans could be easily classified as being of a short or long duration. The planning period will mainly depend, among other factors, on the degree of uncertainty in future and on the nature of products. For a ship building company, the planning period could be 25 years or more, whereas for a fashion garment manufacturer the period may be one year. A basis on which plans can be termed as short-or long range is the commitment principle : "a period of time in the future necessary to foresee, as well as possible, the fulfilment of commitments involved in decisions made today." Generally, short term plans are for one year and long term plans are for 3-5 years period.

Corporate Planning

Corporate planning is a term used to denote a formal, comprehensive and systematic appraisal of environmental and internal factors in order to evolve strategies to achieve organisational objectives. Corporate planning is however taken to be synonymous with long range planning and strategic planning.

Strategic Planning.

Through an examination of external and internal factors for an organisation, a set of mission, purpose, objectives, policies plans and programmes for implementation evolves. This process is strategic planning. Strategic planning is considered as a part of a wider system of managing through strategy, i.e. strategic management.

Nature of Business Policy

1. How well is the present strategy working?
2. What is the strategy?
3. What are the firm's strengths, weaknesses, opportunities and threats?
4. Explain the difference between Competencies and Core Competences.
5. What are Company competencies and capabilities?
6. Define the types of Core competencies.
7. Determine the competitive values of a company resource.
8. Explain the strategic management principles identifying a company's markets opportunities.
9. What are the strategic management principle identifying external threats?
10. What is the role of SWOT analysis in crafting a better strategy?
11. Are company's prices and costs competitive'. Explain the statement.
12. Why rival companies have different costs?
13. What is strategic cost analysis?
14. What is the concept of a company value chain?
15. What is the difference between traditional cost accounting and activity based costing?
16. What are the objectives of benchmarking?
17. What determines whether a company is cost competitive?
18. How strong is the company's competitive position?
19. What strategic issues does the company need to address?

Strategic Management : An overview

1. What is Competitive Strategy'?
2. What are the objectives of competitive strategy?
3. What are the five generic competitive strategies?
4. What are the characteristics of a low cost provider?
5. When does a low. cost strategy work best?
6. Explain the pitfalls of low cost strategies.
7. What are the benefits of successful differentiation types of differentiation themes?
8. Where to find differentiation opportunies in the value chain?
9. When does a differentiation strategy work best?
10. Explain the pitfalls of differentiation strategies.
11. How does a best-cost strategy differ from a low-cost strategy?
12. What are the competitive strengths of a best-cost provider strategy?
13. What makes a Niche attractive for focusing?
14. Why are strategic alliances formed?
15. Define the potential benefits of alliances to achieve global and industry leadership.
16. Why alliances fail?
17. Define merger and acquisition strategies and its benefits.
18. Explain the pros and cons of integration vs. de-integration.
19. When does outsourcing make strategic sense?
20. What are the strategic advantages of outsourcing?

Analysis of External and Internal Environment

1. Why is the world economy globalizing?
2. What is the motivation for competing internationally?
3. Explain the differences in host government trade policies?
4. What are- the characteristics of the following :
   (a) Multi country competition.
   (b) Global competition.
   (c) Export strategies.
   (d) Licensing strategies.
   (e) Franchising strategies.

5. Explain the differences between multi country and global strategies pursuing competitive advantage by competing multinationally.
6. What are profit sanctuaries?
7. What ‘is cross-market subsidization?
8. Explain the ways of achieving global competitiveness via cooperation.
9. Explain the pitfalls of strategic alliances.
10. What are the guidelines in forming strategic alliances?
11. What are the characteristics of competing in emerging foreign markets?
12. What are the, strategies for local companies in emerging markets?

Organizational culture and objective stung

1. What are the features of an emerging industry?
2. Explain the strategy options for competing in emerging industries.
3. Explain the strategy options for competing high· velocity markets.
4. What are the keys to success in competing in high velocity markets?
5. What are the characteristics of industry maturity?
6. Define the strategy options for competing in a maturity industry.
7. What are the competitive features of fragmented industries?
8. What are the characteristics of Industry leaders?
9. Write the different types of runner-up firms.
10. What are the rules of offensive strategy?
11. What is an end game strategy?
12. Explain the types of end game options.
13. When should an end game strategy be considered?

Module-1 Model Test Paper

1.
   (a) The strategy making/strategy implementing process consists of five interrelated managerial tasks. What are they?
   (b) Thinking strategically : What are the 3 big strategic questions?
   (c) What is strategy?
   (d) What is a business model?
   (e) What is the difference between strategy and a business model?
2.
   (a) What are the characteristics of a strategic vision?
   (b) What is a mission statement?

(c) What is strategic vision?

(d) Why is strategic vision important?

(e) Give two examples each of broad and narrow mission statement.

3.

(a) What is 'competitive strategy'?

(b) What are 3 objectives of competitive strategy?

(c) Name 5 generic competitive strategies.

(d) Name 3 strategic advantages of outsourcing.

(e) Name the 3 principles of timing and competitive advantage.

4.

(a) How does internet technology impact a company's value chain efficiency?

(b) Explain briefly the 'first mover advantage myth'.

(c) What is a brick-and click strategy?

(d) What are the advantages of different internet positioning options?

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Unit 3 ◻ Strategic Intent : Vision, Mission and Purpose, Business Definition and Objectives

Mission :

One necessary step in creating a. mission is to understand the arena in which the firm competes. The obvious purpose of a mission statement is to make public what the firm stands for? What makes the firm more effective competitor? The advantage of formulation of the mission is that it also results in a clear definition of the business of a company. Mission statement and definition of business are indeed two sides of the same coin.

Business definition suggested by Derek Abell I is along three dimensions : customer group (i.e. who is being satisfied) customer functions (i.e. what need of the customer is being satisfied) and alternative technologies (i.e. how the need is being satisfied).

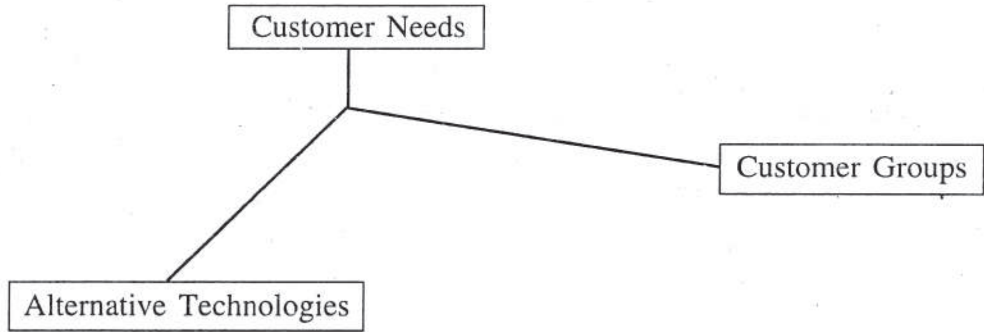

Fig. 1 Three Dimensions of a Business Definition

Such a three dimensional definition of the business would clearly delineate the boundaries and nature of the business. The formulation of the mission statement should be clear and comprehensive taking into consideration the business definition.

Drucker[2] suggested three fundamental questions that would help to clearly define/redefine the business and formulate/reformulate the mission. These questions are:

What is our business?

What will our business be?

What should our business be?

The strategist should ponder seriously on these questions and it might be revealing to him, and he may redefine his mission. What most managers do is to ask this question when the company is in bad shape, but it should really be done at the outset and more so when the company is successful.

The first step for formulation of a mission statement will be to understand the industry in which it operates. In doing so a business builds the foundation that will shape every strategic decision it makes. Industry knowledge creates the general understanding of the environment in which the business competes, the customers it serves and the industry dynamics. Some examples of industry categories would be:

HDFC Bank is in the banking or financial service business.
Indian Airlines is in the transportation business.
Oracle is in the information technology business.
Shoppers Stoppe is in the. retail/general. merchandise business.
E Mercle is in the pharmaceutical business.

Industry description provide the scope of what business the firm is in. It also clearly identifies activities in which the firm do not participate. Understanding the industry helps the firm analyse the risk and to decide whether it should diversify fr.om business cycles or focus on a limited arena.

A company's mission should reflect :

Who they are, what they do, to whom they offer product and services, and how they offer these products and services in a distinct way of being better.

An effective mission statement will also reflect an organisation's core competency and match it with the needs of the customer. It will also integrate into the organisation to such an extent that it aligns the interests of the employees with those of the organisation.

The reasons to develop a Mission Statement

King and Cleland' recommended that organisations develop a written mission statement for the following reasons :

1. To ensure unanimity of purpose within organisation.
2. To provide a basis, or standard, for allocating organisational resources.
3. To establish a general tone or organisational climate.
4. To serve as a focal point for individuals to identify with the organisation's purpose and direction, and to deter those who cannot from participating further in the organisation's activities.

5. To facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organisation.
6. To specify organisational purposes and the translation of these purposes into objectives in such a way that cost time and performance parameters can be assessed and controlled.

Mission statement must articulate an organisation's purpose. To create a mission statement a team has to be made who would be responsible for crafting the statement. The mission should state :

i) the purpose i.e. the object to be attained;
ii) intention to act : resolution, determination;
iii) reason for existing : aim, aspiration, goal, motivation, object, objective, plan, target etc;
iv) determination : devotion, drive, resolve, tenacity' etc.

In simple-terms, the mission statement will communicate the reason for existence of the firm to the stakeholders. The mission statement also serve as a beacon to the employees. If this statement is very complex, unrealistic employees may feel frustrated and will not hold the mission as their own.

Vision

"Strategic Vision is a roadmap of a company's future-providing specifies about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create" Thompson and Strickland.[4]

The mission statement generally deals with a shorter-term outlook, whereas the mission statement gives a broad long term view of the company's desired state. Being a future perspective it involves intuitive understanding of what the firm wants to in the long term. Like a mission statement, the vision statement serves as a reference point for strategic decision making, conveying benefits to the customers and to other stakeholders articulating competitive advantage and underscoring the driving principles of the organisation. When we evaluate an organisation, we look into the following three points :

i) Is the vision statement clearly describing the future state?
ii) Does the vision serve the long term interest of their primary state holders?
iii) Does the vision provide a foundation for their decision making?

The vision statement is used to prepare the company for the future. The vision of course should remain flexible enough to take advantage of any new emergency opportunities as well.

A strategic vision portrays a company's future business scope, whereas a company's mission statement describes its present business scope.

The importance of vision and mission is enormous, they instill a sense of urgency, direction and success throughout the organisation. Peter Schultz, CEO of Porsche relates the following illustration which brings out the effectiveness of vision. Three people were breaking stones at a construction site, but when each was asked about their job, the answers varied. "Breaking rocks" the first replied. "Earning a living" responded the second. "Helping to build a cathedral" said the third. Few of us can build cathedrals, but to the extent we can see the cathedral in whatever cause we are following, the job seems more worthwhile. Good strategists and a clear mission help us find those cathedrals in what otherwise could be dismal issues and empty causes.

Setting Objectives and Goals

The purpose of setting objectives is to convert the statements of vision and mission into specific target i.e. the results and outcomes the organisation wants to achieve. Setting objectives and measuring performance against them help to find the progress of the organisation. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close ended attributes which are precise and expressed in specific terms. Objective setting is required at all levels of managerial activity. Company wide objective in broken down into specific targets for each organisational unit. It creates a result-oriented climate throughout the company.

Role of Objectives

1. Objectives define the relationship between the organisation and its environment. An organisation clearly state what it has to achieve for the customers, employees and the society at large .
2. Objectives provide the direction for organisational efforts. Every activity is directed to the objective and every employee contributes to meet the goal.
3. Objectives help in coordinating the activities of the organisation towards the desired goal.
4. Objectives serve as performance standards and actuals are compared against them. They provide a benchmark for assessment.
5. Setting goals make clear to an individual what he is supposed to do. Thus it acts as a motivational factor for the individual who is on the job.

Characteristics of Objectives

1. In an organisation objectives form a hierarchy i.e. objectives are structured in a hierarchy of importance.

Fig. Hierarchy of Objectives

Below the mission is the overall objectives of the organisation, which could be termed as the corporate objective and they are formed by the Board of Directors and top level managers. In a multi-SBU organisation, the next level in the hierarchy. is the SBU objectives. These are specific objectives in the key result areas. The divisional objectives are then formed on the basis of the SBU objectives. Below the divisional objectives are the departmental objectives i.e. the objectives for different departments like Finance, Marketing etc. Again within the department each section may have its objectives, which will help in achieving departmental objectives. Then there are individual objectives in a corporate sector which help in developing the other objectives.

Thus a hierarchical organisation has hierarchy of objectives.

2. Network of Objectives : Objectives are all inter related and inter dependent. Various objectives in an organisation support one another, if they do not, then individuals will be working on cross purpose. Hence, network of objectives. The conflicting objectives and components of the network has to be looked into by managers and an amicable trade off has to be worked out.
3. Multiplicity of Objectives : No organisation acts on a single or few objectives. Objectives pursued by an organisation are multifarious. The different types of objectives arise due to different functions, (e.g. Marketing, Production) etc.,

organisational levels (e.g. higher or lower), nature (e.g. personal or organisational), ends (e.g. growth or survival). External factors e.g. customers, shareholders, govt., society etc. will also be considered when different objectives are being set. Thus there will be multiplicity of objectives. Organisations need to set adequate and appropriate objectives so that the major performance areas are covered.

Periodicity : Objectives are usually related to time. Long range medium term and short term objectives are set based on the requirement. Long range objectives extends generally over five or more years. Short term objectives are generally for one year period and medium range objectives are in between the two.

Objectives of different time periods are integrated. Thus, goal setting is a synergistic process and to remain viable, every organisation needs to set goals in all three time periods.

What Objectives are Set

Objectives have to be set in all those performance areas which are of strategic importance to the organisation. Peter Drucher has suggested eight vital areas where objectives are to be set. They are market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude and public responsibility? But these are a broad classification but in real life situations managers differ widely with regard to the objectives they choose to set. There could be economic objectives and social objectives. Some of the economic and social objectives are so intertwined that it 'is difficult to seperate them.

Economic objectives followed by many organisations are generally (i) Survival (ii) Growth (iii) Profit and Return on Investment (iv) Innovation (v) Market Share.

Social objectives are more and more taking centre stage in today's world. R. F. Baker aptly describes the situation as follows :

“Business traditionally has been responsible for quantities-for the supply of goods and jobs, for costs, prices, wages, hours of work and for standards of living. Today, however, business is being asked to take on responsibility for the quality of life in our society. The expectation is that business-an addition to its traditional accountability for economic performance and results-will concern itself with the health of the society, that it will come up with the cures for the ills that currently beset us and indeed, will find ways of anticipating and preventing future problems in these areas.[6]

Social objectives of a business may be grouped into three broad categories

i) Objectives which protect consumer interest.

ii) Objectives which protect the interests of the workers;

iii) Objectives which protect the interests of the society.

From above we find that economic and social objectives encompass promoting the interests of different categories of people like the shareholders, workers, consumers, local population and the general public. The two objectives might conflict with each other. For example, increase in profit may be at the cost of customer through increase in price of the product. Again increasing labour welfare, installing pollution control devices etc may reduce the profits. Therefore, a proper balance between the two has to be struck.

We must note that profit motive is not always against social objective. Without profit an enterprise will close down. So earning a reasonable level of profit should be the foremost objective of a company. If a company does not earn profit the enterprise cannot discharge social obligations and responsibility. Profits may be increased even without hindering the social objectives. If the productivity is increased it will automatically increase the profit. Satisfactory level of wages and labour welfare could contribute to the improvement in productivity and industrial relations.

Although several objectives may outwardly appear to be conflicting, they could be mutually supporting in several cases.

Critical Success Factors (CSFs)

Managers can initially identify the key factors which are needed to ensure organisational success. According to Ohmae' these critical success factors (CSFs) should form the basis for business strategy. CSFs focusses on the particular area and exploit the opportunities available therein to its advantage. This involves a three step process as suggested by Rockart.

i) What does it take to be successful in this business (Generate CSF)

ii) What should the organisations objectives and goals be with regard to CSFs. (Transforming CSFs into objectives)

iii) How will we know whether the organisation has been successful on this factor? (Identifying measures of performance) CSFs could be based on manager's statements, expert opinions, through brainstorming within the organisation etc. It is the result of long years of experience of managers which helps to develop CSFs. Consider an example. A service organisation mainly depends on the quality of customer service, but there are other CSFs too e.g. in a courier service firm reliability, speedy delivery and of course, price are very important critical factors.

The use of CSFs in objective setting and strategic choice are key to a successful organisation.

Social Responsibility of a Business

Earlier business entities were looked upon as an economic enterprise to provide goods and services for public consumption and a profit for the owner. But now the approach has changed. A firm, after all, is a social institution. The decision taken by corporate managers can affect the community lives and also national and international economic and social activity. A healthy organisation should visualise these impacts realistically, particularly the environmental hazards created due to unmindful exploitation of nature by the industries for making profits. However many people feel that social obligation is hampering the growth of industry. The important arguments for and against the social involvement of business are the following :

Arguments for Social Involvement in Business

i) Business has a responsibility towards the society whose resources it uses for fulfiling its objective.

ii) Business is not isolated. It is integrated to the social system, so it has to take cognisance of this fact and has to care of the varied needs of the society.

iii) If business takes interest in the upliftment of the society's cause, a harmonious relationship grows up between the two and in the long run the business is benefited.

iv) A business which has good capacity in the form of money and other assets has a special responsibility towards the society.

v) Social involvement creates a better public image.

Arguments against Social Involvement of Business

i) Government and other social organisation's job is to carry out social activities, whereas organisation should concentrate.

ii) Economic health of an organisation may be affected due to involvement in social activity. An organisation must keep its motive focussed on profit, ROI (Return on Investment) and market share.

iii) If the cost of social involvement is passed onto the customers in the form of price rise, then it could affect its competitiveness both in the international and domestic market.

iv) Social involvement of business may lead to a an increase in the dominance of business over the society. Whatever may be the argument, social objective of business has to be added for various reasons.

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Unit 4 ◘ Environmental Appraisal

The environment of a business may be defined as "the aggregate of all conditions, events and influences that surround and affect it."

The business environment consists of both internal and external environments. The internal factors are generally regarded as controllable factors, as the organisation on its own can alter or modify such factors.

The external factors, on the other hand, are by and large, beyond the control of the organisation. The term business environment generally refers to the external environment such as economic factors, socio-cultural factors, demographic factors, geo physical factors government and legal factors etc, which are generally regarded as uncontrollable factors.

Andrews defines the environment of an organisation as the pattern of all external influences that affect its life and development.[2]

The study of the firm's environment is of vital importance for more than one reason.

1. Without the information about the environment it is not possible to conduct business successfully.
2. Environment opens up fresh avenues for the expansion of new entrepreunerial operations.
3. Knowledge about the changing environment is absolutely necessary for dynamic approach of a business.
4. With the study of the environment, the business can aptly increase its image by following the pattern and also strive to make the environment hospitable to the growth of business and business dimensions.
5. By adjusting to the environmental conditions prevailing, the business might influence the environment in order to make it more congenial to business.

The business co-operates with its environment, from which• it receives the necessary "resources" and "opportunities" for its existence and growth. So there is a close relationship between a business firm and its surrounding environment. The multidimensional environment is often complex. We will discuss the main areas of. interaction with environment here.

The Micro Environment

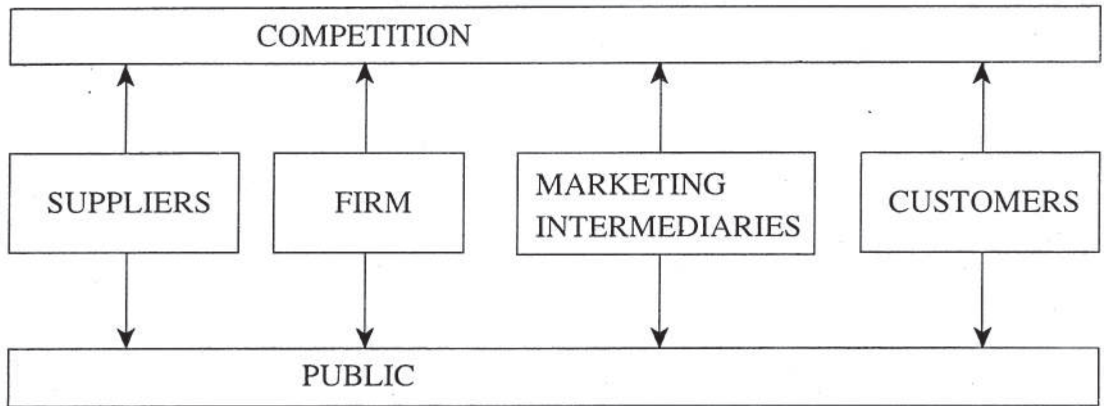

Fig. 1 Micro Environment of the firm

“The micro environment consists of the actors in the company's immediate environment", that affect the performance of the company. The micro environmental factors are more intimately linked with the firm and need not affect all the firms in a particular industry in the same way. When competing firms in an industry have the same micro elements the relative success of the firms depends ori their relative effectiveness in dealing with these elements.

1. Suppliers : These are firms or individuals who provide the company with the factors of production to carry on its economic activity.

Uncertainty regarding the supply often compels the business firms to take adequate measures so that the production of goods do not get hampered. The supply management assumes more importance in a scarcity environment.

2. Firm : The entire organisation works in cohesion towards achieving the objectives of the firm. The work of different departments are linked so as to accomplish the goals and objectives of the firm.

3. Marketing Intermediaries : These are firms that help the parent firm in advertising, production, selling and distribution of the goods and services. They include middlemen, marketing service agencies, market research firms, distribution firms and financial intermediaries like banks, insurance and other institutions.

4. Customers : The major task of a business is to create and sustain customers.

It is the customers for which the business exist, therefore it is of utmost importance to monitor the customer sensitivity for the success of the business. There could be different categories of customers like individuals and households, producers and organisations,

retailers, government agencies and international buyers. The choice of customer segments should be made by considering a number of factors including the relative profitability, stability of demand, dependability, growth prospects and the competition in the market.

5. Competitors.: Every firm faces a wide range of competitors, not only from those firms which make similar products, but also all those who compete for the discretionary income of the consumers e.g. a refigerator manufacturer may face competition from TV or air conditioner or micro oven manufacturer or even savings and investment schemes like mutual funds etc. This competition may be described as desire competition as the primary task here is to influence the basic desire of the customer. Generic Competition relates to the different alternatives which satisfy a particular category of desire of a customer e.g. TV, VCR, Stereo etc. Product form competitors i.e. product forms that can satisfy the buyers' particular desire. Brand competitors, i.e. the brands that can satisfy the same desire.

Public

“A public is any group that has an actual or potential interest or impact on an organisation's ability to achieve its interests".4 The public• can help or hurt a company to a great extent. Generally, there are various types of public by which a firm is surrounded.

i) Media publics, who carry the news, features, editorial opinion and expert comments. Specially dedicated TV channels have made this media public even more strong in making and ruining a company.

ii) Government public : This refers to the roving eye of the govt. on the corporate sector.

iii) Citizens action public : They are very effective public in generating a movement which may affect the business.

iv) Financial public : They affect the company's ability to obtain funds e.g. Banks, Financial Institutions, Investment houses etc.

v) Local public such as neighbourhood or community residents and community organisations.

vi) General public, its attitude towards the company's products and services.

vii) Internal public which includes Board of Directors, managers, blue and white coloured workers etc.

Macro Environment

(i) Economic Environment

There is a close relationship between a business firm and the economic environment around it. Economic conditions, economic policies and the economic system are important external factors that constitute the economic environment of a business. The economic systems, policies of India got a total new direction from 1991, when the economy was opened up. The globalisation has affected the country in a big way. The GDP growth has been around 6%. There has been a spurt in the business and employment mainly in the high end technological sectors. Agricultural, industrial, fiscal, tax, fuel price, trade. policies, growth and pattern of national income, per capital income, inflationary or recessionary pressures, purchasing power of customers, infrastructure development etc, all these affect the strategies of a business firm.

(ii) Political and Government Environment

Political and Government environment has a close link with the economic system and economic policy. Political-legal environment is the background of laws and regulations within which a business operates. The Government interacts with business. In different countries, however, the degree of interaction varies. Governments at three levels-local, state and centre exert different amounts of influence on the business. Any change in Government may bring about radical changes in laws governing the national and international affairs of administration of laws and changes in them. So political and Government environment goes. hand in hand. The main reasons for enacting legislations are (i) to protect firms from each other by preventing unfair competition (ii) to protect consumers from unfair business and (iii) to protect the larger interests of society against unbridled business behaviour. Certain changes in Government policies such as the industrial policy, labour policy, tariff policy, fiscal policy etc may have great impact on business. Some policy changes create opportunities as well as threats. Business managers should be able to understand the changes and fix up strategies depending on them. They should also understand the political system, as a change in a political system may mean changes in relationship between the Government and specific firms. Some firms may gain whereas others may suffer. The business should tread very carefully and strategically in its relationship with political environment.

(iii) Social and Cultural Environment

I Social and cultural environment probably has the greatest impact on business. This environment poses the most serious challenge to business.

The buying and consumption habits of the people, their language beliefs and values, customs and traditions, education, tastes and preferences, taboos and religious bias are all factors that affect a business.

Changes in lifestyle and social values throws up new opportunities and also creates threats for the existing units. More and more women are going for work rather than becoming housewives and we find increase in the packaged food, ready made home delivery business. Similarly, preference for salwer kameez, jeans, maxies and other modern dresses, than saris. Young boys and girls going to beauty parlours and discos increasingly. Major social problems particularly environmental health hazards have been noticed and a growing concern has been shown for pollution . control. Cigarette smoking in the public places has been banned, child labour and such other menace has become a concern for the society.

Consumerism is becoming increasingly important. The advocates of consumerism insist that business should prove its social responsibility by taking immediate action in many areas. Barker observes, business "traditionally has been held responsible for quantities-for the supply of goods and jobs, for costs, prices, wages, hours of work and for standards of living. Today, however, business is being asked to take responsibility for the quality of life in our society. The expectation is that business in addition to its traditional accountability for economic performance and result will concern itself with the health of the society, that it will come up with the cures for the ills that currently beset us and, indeed, will find ways of anticipating and preventing future problems in thcsc areas."

(iv) Demographic Environment

A business exists in a society and therefore the population characteristics plays a vital role in business decision making process. Factors like size, growth rate, age . composition, sex composition, family size, language, caste, religion, educational levels, economic stratification etc of the population become important for strategy formulation.

As the growth of pupulation increases, the business increases. If we consider the foreign multinational companies, they are trying to occupy space in the Indian and other Asian markets for the sheer enormity of the market due to huge population. The product selection and marketing will be very much effected by the consideration of economic strata and the educational levels of the population. Rural marketing strategies will be quite "different from that of cities. Moreover supply of skilled and unskilled labour and technocrats plays a vital role for the growth and development of a business. If the population is highly

heterogenous, then differing demand patterns calls for different strategies. Thus in making a decision the demographic characteristics have to be factored in.

(v) Natural or Ecological Environment

Business and Industry are closely linked with environment and resource utilisation. Production process and strategy for eco-friendly technologies throughout the lifecycle of the product and minimisation of waste play major role in protecting the environment and conservation of resources. Most of the industries are not fully sensitive to the damage to the environment. Business and industry have to recognise this as a priority area and a key determinant to sustainable development. Markets of the future will be able to create wealth if they respond to sustainable development. Paul Hawken in his book 'The Ecology of Commerce' published in 1993 mentions that “business has, three issues to face : what it takes, what it makes and what it wastes.” “What it takes" is the natural material and resources from earth's ecosystem. "What it makes” is the product and services derived from the resources. 'What it wastes' is not only in form of garbage or pollution but also through a damage to the ecosystem. If business disregards this damage to the ecosystem, then it would mean disregard to our life support system.

Geographical and ecological factors, climate and weather conditions affect the location of certain industries. Product mix may have to be adjusted sometimes according to geographical conditions e.g. jeeps may be in greater demand than cars in hilly terrains.

(vi) Technological Environment

Technological developments over the last 25 years and particularly in the last decade has thrown open a challenge not only to business but to the mankind at large to survive this onslaught. Every business today has to adapt to the change. Creativity and innovation are the emphasis area for the business to compete. Firms have to gear up to develop new technology or adopt to the latest available technology.

Kaontz and O'Donnel have listed the following categories of technological changes :[6]

i) Increased ability to master time and distance for movement of freight and passengers; railroads, automobiles, and trucks, aeroplanes, space vehicles.

ii) Increased ability to generate, store, transport and distribute energy : electricity, nuclear power and laser.

iii) Increased ability to design new materials and change the properties of others so

that they better serve needs : steel alloys, synthetic fibres, plastic, new drugs.

iv) Mechanisation and automation of certain mental processes : the computer.

v) Mechanisation and automation of physical processes.

vi) Extension of human ability to sense things : radar, the electron microscope, right vision instrument.

vii) Increased understanding of individual and group behaviour and how to deal with it : psychological bases of motivation, group behaviour patterns, improved management techniques.

viii) Increased understanding of diseases and their treatment : inoculation of polio, kidney transplants, antibiotic treatment of infections, etc.

Business managers need to work in close collaboration with R & D scientists to encourage more market oriented research. But at the same time they must be alert not to encourage harmful effects of technology. Technology should be guided for beneficial development of mankind.

(vii) International Environment

Domestic companies in this globalised era are also affected by the change in the international scenario as most of them has some import and/or export connection. Multinational companies are of course more vulnerable to any change, say, in the• change in the government of a country. A major international development have their spread effects on domestic business e.g. the oil price rise which hikes the transportation cost, cost of production and prices of certain products like fertilisers. In such cases also certain opportunities are there for automobile industries to produce technologically developed fuel efficient automobiles. In today's business developing export market for more. profitable earnings is a strategy most of the companies adopt. However, a company which depends on the export market heavily also face the impact for adverse developments in the foreign markets.

(viii) Appraising the Environment

The appraisal of the environment is a absolute necessity as this gives the picture. of what opportunities and threats are faced by the organisation at a given time. Without the environment scanning an organisation may find itself in difficulty to continue in business. A company who does business blindfoldedly will land up with lot of difficulties and may

even ultimately wind up. Whereas a company is alive to a given situation can form strategies suitable at that time and even an adverse situation may be converted into an opportunity. Thus an organisation has to be aware of the factors that affect environmental appraisal, identifying the environmental factors and structuring the outcomes of the appraisal.

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Unit 5 ◻ Organisational Appraisal

Any organisation which means business should always be aware of its resources. In the process it is an absolute necessity to know the strengths and weaknesses of its own organisation. This will help the organisation to reduce the lacunae and abogine more stress on its strengths to have a competitive edge. An organisation is dynamic and so the strengths and weakness of it should always be gauged for a given time. The resources, behaviour, synergy, strengths and weaknesses and distinctive competence of an organisation determine the nature of its internal environment:

Organisational Resources

Organisational resources are the physical and human resources. The resources go as an input and through a process produce the outputs i.e. the products and-services. Some of the important resources are people, money, material knowledge, systems, physical facilities etc. An organisation which has got the resources available at a reasonable cost is at a far more better position and an organisation whose cost is higher or where these resources do not exist.

Organisational Competence and Capability

An organisation develops certain strengths and weaknesses on the basis of its resources and behaviour, which combines together to lead to synergistic effects. These effects build up the organisational competencies. A distinctive competence is "any advantage a company has over its competitors because it can do something which they cannot or it can do something better than they can". Organisational capability devolves on the capacity and the potential of an organisation to utilise its strengths and overcome the weaknesses to exploit the opportunities and face the threats of the external environment. Different types of capability factors exist in the internal environment of an organisation. These are marketing, finance, operations, human resource management department, R & D department and general management.

Financial capability of an organisation relate to the availability, usage and management of funds and all related aspects which may have a bearing on the organisation's ability to implement its strategy.

Marketing capability factors are related to products or services, price, promotional, distribution channels and overall integrated and systematic functioning of the related factors.

Operations capability factors relate to production system, planning and control. The technology and its upgradation collaborations are also important aspects of operations management.

Human resource management appraisal is very important. It is important to find out how the organisation is perceived by the people as an employer and how does it compare• with other organisations in terms of corporate image, whether the organisation has unique advantages in relation to the quality of its managers, staff and workers. The effectiveness of the system of manpower planning, recruitment selection, training etc. are important factors. The Industrial relations aspects, the relationship between management and unions are of utmost importance.

Research & Development plays a vital role in competitive advantage. The factors of capability relate to proper personnel, availability of latest technologies, whether technology collaborations are of any benefit to the organisation, whether the organisation use strategic management. The mission objectives and goals are to be clearly understood. The management information system has to be reliable and dependable. Whether the organisational culture support the achievement of the objectives, how effectively strategic decisions are implemented, the level of influence the organisation have over Government and other regulatory bodies, and financial institutions. The public relations activities and. other external relationships are important factors of capabilities.

A comprehensive picture based of the various capabilities can be drawn for a company. Glueck proposes a strategic advantage profile (SAP) where the results of organisational appraisal are presented in summarised form. Others have suggested to prepare a company capability profile which can be presented in a concise form as SAP. Organisational appraisal along with external environment appraisal are used to generate strategic choice and strategic alternatives.

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Unit 6 ◻ Strategic Alternatives

The results obtained by analysing the external and internal environment of an organisation provide the inputs needed by the organisation to develop its strategic intent and mission. Strategic intent shows how resources, capabilities and core competencies will be levercaged to achieve the objectives in a competitive environment.

SWOT Analysis

It is one of the prime and primary steps in strategic management. SWOT is the acronym for strengths, weaknesses, opportunities• and threats. Strenghts are internal competencies of a firm, particularly in comparison with that of its competitors. Weaknesses are those factors which reduce the competencies of the firm. Strengths and weakneses depend on the internal environment of a firm, whereas opportunities and threats are in the external environment. So a SWOT analysis helps to set up an effective strategy. What makes an opportunity or a threat relevant is important to the firm and its likelihood of occuring . In order to carry out a SWOT, the firm should look into certain key issues :

TABLE 1

Key Issues in SWOT Analysis

Strengths	Weaknesses
A distinctive competence?	No clear strategic direction?
Adequate financial resources?	A deteriorating competitive position?
Good competetive skills?	Obsolete facilities?
Well thought of by buyers?	Subpar profitability?
An acknow ledged market leader?	Lack of managerial depth & talent?
Well-conceived functional area strategist?	Missing any key skills or competences?
Access to economies of scale?	Poor track record in implementing strategy?
Insulated (at least somewhat) from strong competitive pressure?	Plagued with internal operating problems?

Strengths	Weaknesses
Proprietory technology?	Vulnerable to competitive pressures?
Cost advantages?	Falling behind in R & D?
Competitive advantages?	Too narrow a product line?
Product innovation abilities?	Weak market image?
Proven management?	Competitive disadvantages?
Other?	Below average marketing skills?
	Unable to finance needed changes in strategy?

External Analysis

Opportunities	Threats
Enter new markets or segments?	Likely entry of new competitors?
Add to product line?	Rising sales of substitute products?
Diversity into related products?	Slower market growth?
Add complementary products?	Adverse Government policies?
Vertical integration?	Growing competitive policies?
Ability to move to better strategic group?	Vulnerability to recession and business cycles?
Complacency among rival firms?	Growing bargaining power of customers or suppliers?
Faster market growth?	Changing buyer needs and tastes?
Other?	Adverse demographic changes? Other?

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Unit 7 ◘ Dimensions of Grand Strategy

Grand strategy is the general plan of major action by which a firm intends to achieve its long term goals. It provides basic direction for the strategic actions of a firm. For any strategist, it is absolute necessity that he has clear perception of the major strategies to be used, their nature, contribution to organisational goals. So to begin with, a strategist should know the type of strategies which may be profitably used. Grand strategies, which is also referred as generic strategies, fall into four general categories : growth/expansion, stability, retrenchment and combination.

Growth Strategy

If the, answer to the question 'should the company increase the level of activities in the current business and/or enter new business? is affirmative, a growth/expansion strategy is the strategy to be called for. The growth strategy is pursued when the business goes for adding new products/services or enter new markets or warits to substantially increase the cement business.

The reasons for growth (including expansion of business) are

i) Natural urge : A healthy firm normally has a natural urge for growth. Opportunities provide great stimulus for a company to make best use of the opportunities and expand in this dynamic world.

ii) Survival : Somctimcs growth is requircd for survival. A firm has to grow at least to reach the break even level. Again if a firm does not grow when competitors are growing, it will undermine its competitiveness.

iii) Market Share : A company may grow to increase its market share. Growth is necessary even to maintain the market share in a growing market.

iv) Leadership : Objective of growth for several companies is to be the market leader.

v) Competition : Growth in many cases is a competitive strategy. When a competitor enters the company' market, the company may enter the competitor's markets as a counter competitive strategy. Again many companies have a tendency to grow the same way as the competitors grow.

vi) Diversification Risk : A company may diversify to minimise the business risks.

vii) Resources : Full utilisation of the existing resources or potentials of the company is an objective of growth in many cases.

viii) Opportunities : Exploitation of the business opportunities, particularly after economic liberalisation is the motivation for growth.

ix) Motivation : Employees of an organisation will be devoid of any challenges, opportunities and growth if the firm is static and there is no growth. Efficient people will leave the firm.

x) Profits : One of the prime objectives of growth is to increase profits.

xi) Miscellaneous : There could be special objectives like production of essential goods, export, social objectives like generating jobs for those displaced due to modernisation etc. There could be even personal reason for example, head of a family group business in India decided to diversify so, that there was enough business for all the family members.

Stability Strategy

The stable growth strategy is desirable for a firm which has a smooth sailing and where environment is not excessively hostile.

This type of strategy is followed by a firm when :

i) There is no deviation from the existing strategy i.e. no drastic change is expected in the goods and objectives of the firm.

ii) It continues to serve customers in similar products or services .

iii) The environment is relatively stable and not much change is expected.

Organisations follow a stability strategy for a variety of reasons :

a) If the company is doing resonably well, managers may not like to take risk associated with aggressive growth.

b) An organisation that has stretched its resources during accelerated growth may like to have stability before embarking on further growth. Stability allows a firm to take breath and reexamine what has been done already and proceed cautiously.

c) If the growth prospects are low, a firm may hold on its current market share. To maintain that the firm has to have marginal improvement in performance in line with changing market.

d) Where there is a constraint in internal resources, a stability strategy is preferred.

e) If the firm's strategic advantage lies in the current business and market, to exploit the competitive advantage fully, it will pursue stability strategy.

Retrenchment Strategy

Retrenchment Strategy is a corporate level, defensive strategy and involves in pruning or curtailment of the operations of the business so as to achieve a higher level of efficiency. The following situations warrant the deployment of such strategy.

i) The current level of performance is far below its past achievements.

ii) The management wants to wipe out the previous deficit.

iii) It discontinues support to some products and services, which are not doing well.The company serves the customers. with its existing, time tested products/services.

Managers choose retrenchment when they think that the firm is neither competitive enough to succeed through counter attack nor have the potential to be a fast follower. Retrenchment however, does not mean the end of the firm. Many well established companies have faced such situations but withered them by successfully addressing their weaknesses.

Combination Strategy

This type of strategy involves the blending of different types of strategies for the firm or its sub-units either simultaneously or sequentially. Normally, deployment of this strategy based on the premises that a company should have different strategies for different environmental situations. Where a combination strategy is followed, the management uses different strategies for different sub-units or for different phases of time. The possible combinations may be as follows.

i) Stable growth' in some sub-units while retrenchment in others.

ii) Stable growth in some sub-units while growth in others.

iii) Retrenchment in some sub-units and growth in others.

Large, diversified organisations generally use this type of strategy.

Dimensions of Grand Strategies

The four grand strategies are the 'pure strategies' and it is possible to have a large variety of 'mixed strategies'. Glueck has proposed four dimensions of the grand strategies. Consideration of these dimensions and. grand strategies opens up many strategic alternatives.

The four dimensions along which the grand strategies could be defined is considered and enumerated as follows :

i) Internal/External dimension

a) Internal dimension operates when the organisation unaware of any other entity adopts a strategy independently.

b) External dimension operates when an organisation adopts a strategy in association with other entities.

ii) Related/Unrelated Dimension

a) When an organisation adopts a strategy that is related to its existing business definition, the related dimension operates.

b) When an organisation adopts a strategy that is not related to its existing business definition either in terms of customer groups, customer functions or alternative technologies, the unrelated dimension operates.

iii) Horizontal/Vertical Dimension

a) Horizontal dimension operates when an organisation adopts a strategy which results in consolidation of the business horizontally. For example, serving additional customer groups and satisfying customer function in such a way that they complement the existing business.

b) Vertical dimension operates when an organisation adopts a strategy which results in expansion or contraction of the existing business definition in terms of utilisation of alternative technologies.

iv) Active/Passive Dimension

a) When an organisation adopts offensive strategy in anticipation of environmental threats and opportunities, the active dimension operates.

b) When an organisation adopts defensive strategy in anticipation of environmental threats and opportunities, the passive dimension operates.

When the four grand strategies are elaborated in terms of four dimensions, taken together with three dimensions of business definition, it is theoretically possible to have (4 x4 x3) 96 possibilities. Of course, not all possibilities are feasible or practically possible. We would consider the major types of strategic alternatives for our studies.

Diversification and Integration Strategies

A diversification strategy is one by which the firm attains a growth level with the addition of new products/services internally to the existing product/service line. If the new lines added uses the existing facilities or it amounts to forward or backward integration, it is regarded as related diversification (e.g. the diversification of SAMSUNG). Some companies expand the business in to unrelated industries (e.g. ITC Ltd., which is in the business of cigarettes, oil, hotels etc.)

Expanding the markets to new geographical areas is also regarded as diversification.

Factors Influencing Diversification

The important reasons, for companies diversifying their business are the following :

i) When the management feels that its product/service line is in the declining stage.

ii) Even when current business has scope for further growth, there may be opportunity for new lines and faster growth in the new market, higher profit margins, less competition etc.

iii) When an industry experiences excessive competition, eventhough the company is doing, well, diversification acts as a cushion against any calamity.

iv) The benefits arising out of synergy can also be had by diversification.

v) A company may diversify for incremental growth.

vi) Diversification may be a competitive strategy to gain edge over competitors before they enter the market. Sometimes it may be to follow the competitor in business expansion.

vii) A company through diversification may enhance its market position, image etc.

viii) Diversification may act as an inspiration for competent people to' look for growth and be encourage to remain with the firm.

Risks of Diversification

i) The new business of the firm may.fail and may result in huge losses, which may adversely affect the old business.

ii) Diversification sometimes results in the neglect of the old business.

iii) Diversification may invite retaliatory moves by competitors, which may affect the old business also.

Diversification is of two types :

i) Synergistic diversification

ii) Conglomerate diversification

In the synergestic diversification, new products/services are sold in new markets, when the resources required for producing or marketing the new line are highly compatible with the existing resources. The synergy result from the similar production, R & D, sales force skill or particular management skill. Conglomerate diversification is quite unrelated diversification i.e. the new business will have no relationship to the company's current

technology, products or markets e.g. WIPRO which is in the business of computers, edible oils, soaps, BPO etc.

While conglomerate diversification provides enormous scope for business expansion and growth but inexperienced fields may sometimes create their own problems.

Ansoff has developed a mechanism for analysing diversification decision. This is given below :

Fig 7.1 : Ansoff's Diversification Matrix

	New Products	
New Missions	Related Technology	Unrelated Technology
Firm its own customer	Vertical Integration	
Same type of product	Horizontal Integration	
Similar type of product	Marketing and technology concentric diversification	Marketing related concentric diversification
New type of product	Technology related concentric diversification	Marketing related concentric diversification

Ansoff's diversification matrix helps the strategist to consider the various possible strategies which may be profitably exploited in a given marketing environment.

Mergers, Acquisition and Take Overs

Today mergers, acquisitions and other types of strategic alliances are on the agenda of most industrial groups. The term merger, amalgation, take over and acquisition are often used interchangeably to refer to a situation where two or more firms come together and combine into one to avail the benefits of such combination.

"The decision to invest in a new asset would mean internal expansion for the firm. The new asset would generate returns raising the value of the corporation. Merger offers an additional means of expansion which is. external i.e. the productive operation is not within the corporation itself. For firms with limited investment opportunities, mergers can provide new areas for expansion. In addition to this benefit, the combination of two or more firms can offer several other advantages to each of the corporations such as operating economies, risk reduction and tax advantage."[2]

Mergers :

The term merger include consolidation, amalgamation and absorption. It refers to a

situation when two or more existing firms combine together and form a new entity. Sometimes new company is incorporated, otherwise one existing company survives and another existing company, which is smaller, is merged into it. However if an existing company is merged into another existing company, it is known as absorption. The merger of Tata Oil Mills Ltd and Brooke Bond Lipton (India) Ltd into Hindustan Lever Ltd were cases of absorption. The term merger is used to denote the fusion of two or more companies to achieve expansion and diversification. Thus merger is an arrangement for bringing the assets and liabilities of two firms under control of one which may or may not be one of the two original firms.

Acquisition :

It includes take overs also. Acquisition refers to the acquiring of ownership right in the property and assets. Acquisition results when one company purchases the controlling interest in the share capital of another existing company. The term take over is used to denote the acquisition, which is hostile in nature and. the company which is being taken over may put resistence and oppose the take over bid.

Different types of merger and acquisitjons can be classified on the basis of functional relationship between two companies and the economic impact on their operations.

1. Horizontal Merger: It is a merger between two or more companies that compete in the same industry. It is a merger with direct competitor and hence expands the firm's operations in the same industry. It results in economies of scale and reduce competitor.
2. Vertical Merger : It is a merger between two or more companies which are operating in the same industry but at different stages of production or distribution system. If a company takes over its supplier/producers of raw material, then it may result in backward integration of its activities. If on the other hand, a company take over the retailer or customer company is result in forward integration. This merger results in many operating and financial economies. Vertical merger provides total integration of supply chain for the new company.
3. Conglomerate Merger : The merger is between two or more companies operating in different and unrelated industries. It is an expansion of a company into areas unrelated to existing lines of business and results in portfolio of lines of business. There is an increase in total economic activities of the company.

Reasons for Merger :

For a merger to take place, two firms have to act. One is the buyer and another is the seller. Glueck' has identified the reasons why they merge.

Why the buyer wishes to merge?

1. To increase the value of the organisation's stock.
2. To increase the growth rate and make a good investment.
3. To improve stability of earnings and sales.
4. To balance, complete, or diversify product line.
5. To reduce competition.
6. To acquire a needed resource quickly.
7. To avail tax concessions and benefits.
8. To take advantages of synergy.

Why the seller wishes to merge?

1. To increase the value of the owner's stock and investment.
2. To increase the growth rate.
3. To acquire resources to stabilise operations.
4. To benefit from tax legislation.
5. To deal with top management succession problem.

Important issues in merger

Strategic issues consider the common strategic interests between the buyer and the seller firms. Strategic advantages and distinctive competencies of the merging firms have to be found out and also the positive synergistic effects of the merger has to be assessed.

A merger should be able to generate strength that will help the post merger organisation to achieve its objectives in a more comprehensive manner.

Financial issues relate to the valuation of the sellers' firm and the sources of financing for mergers to take place. Valuation of the firm requires to be done by eminent financial experts. The total purchase price or the price per share of the target firm may be calculated by taking into consideration many factors. The following are some of the factors :

i) Tangible and Intangible Assets of the target firm.

ii) Market/Realisable value of the assets.

iii) Earnings of the firm.

For realistic valuation of the firm, the whole situation is to be considered in. its totality.

3. Managerial issues crop up as the merger takes place. The perception of the changes in the management alongwith the direction of management after merger also matters and affects the process of merger itself. Normally, with mergers there are changes in the top management and staff. If the merger is threatening, the existing group of managers will create opposition and make the process of merger difficult. If the status quo is maintained, then the merger could be smooth.
4. Legal issues play a vital role in mergers and acquisitions. The regulatory framework

was initially contained in MRTP Act 1969. Presently; the merger and acquisitions of corporate entities are regulated by provisions contained in.

(i) Companies Act, 1956 (ii) Security Contracts (Regulations) Act 1956 (iii) Income Tax Act 1961 (iv) Sick Industries Companies (Special Provisions)• Act 1985 (v) Securities and Exchange Board of India, 1992 and (vi) Listing. Agreement of the stock exchanges.

Take overs seem to become an oft repeated phenomenon in today's world. But there are two opposing views to it. One argument is that take overs are necessary and desirable because they offer easy growth, avoid gestation period, offer a chance to sick units to survive etc. The other view is that professionalism gets replaced by money power and are detrimental to national economy as it does not create any real assets for society. The minority shareholders are affected and the ripples created in the companies exposed to threat of take over or taken over companies affect them for quiet some time.

Take overs could be friendly where the motivation for take over is first ascertained and the financial arrangements are made when negotiations are made. In many cases merchant bankers play an important role. A final arrangement is made by fixing the price to be paid for share transfer.

Hostile takeovers follow a different route. Here shares are picked up from the open market and with the help of other majority shareholders a bid is made to enter the company's board and to garner majority support and acquire control. However, existing management try tooth and nail to oppose this and often the move forestalled through court cases. This does not argue well for the company's day to day business. The Caparo group of U.K. made a hostile take over bid in 1988 to take over DCM Ltd and Escorts Ltd, by purchasing shares from the market. This is popularly known as 'raid'. SEBI, however, have framed Take over Code 2002 in view of such activities. The first Take over Code was introduced in 1997 in India by SEBI.

Joint Venture Strategies

Consolidation takes place when two or more companies combine to form a new company. Joint ventures are a special case of consolidation where two or more companies form a temporary partnership (also called a 'consortium') for a specified purpose.°' Joint ventures are an excellent way to share costs, spread risks and combine expertise in case of new projects involving huge outlays. It also helps in venture partners sharing new technology, expands their scale of operations even globally and exploit new markets.

Joint ventures can be within national boundaries or: across national boundaries. **Conditions for joint ventures :** Joint ventures may be useful mainly under four conditions:

1. When an activity is uneconomical for an organisation to do alone.

2. When the risk of business has to be shared and, therefore, is reduced for the participating firms.
3. When the distinctive competence of two or more organisations can be brought together.
4. When setting up an organisation requires surmounting hurdles such as import quotas, tariffs, nationalistic political interests, and cultural road blocks.

The above conditions really bring out the effectiveness of the joint venture strategy.

Turnaround, Divestment and Liquidation Strategies

A turnaround is designed to reverse a negative trend and bring the organisation back to normal health and profitability. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Then steps are taken to rectify the lacunae. It usually involves trimming the workforce, getting rid of unprofitable products, and such other useful ways of making the organisation more
efficient.

Conditions for Turnaround Strategies

Organisations often lose their grip over markets due to certain internal or external factors. There are certain conditions or indicators which point out that a turnaround is needed if the organisation has to survive.

These negative inputs are

(i) Continuous cash flow problems (ii) Declining or negative profits (iii) Declining market share (iv) Over manning, low employee moral and high employee turnover (v) Under utilisation of capacity (vi) Rising input prices (vii) Raw material supply problems (viii) Uncompetitive products or services (ix) Increased Competition (x) Recession (xi) Strikes and lockouts (xii) Mismanagement etc.

Action Plans for Turnaround

For turnaround strategies to be successful action plans have to be charted out so as to yield immediate results focussing attention on certain key areas. Such short term action plans usually tackle the following issues.

- Change the leader or take help of external experts
- Focus attention on specific customer and products
- Try and reduce prices of the products
- Improve product quality
- Replace existing products with new one
- Rationalise the product line
- Liquidate unutilised assets for generating cash
- Better internal co-ordination and co-operation at all levels
- Emphasis on marketing e.g. selling, advertising etc.

Liquidation Strategy

A liquidation strategy involves the winding up of business by selling it off or closing down its operations. It is the least popular strategy and is adopted in exceptionally rare circumstances such as when an .organisation is unable to pay its creditors, and there is no way out for recovery. In case of liquidation bankruptcy, the liquidating firm agrees to distribute all assets to creditors. Thus various instrumentals will be better off with the liquidated results than by continuing the firm at a loss.

Divestment Strategy

A divestment strategy calls for sale or liquidation of those parts or units of a business that no longer contribute to or fit the firm's distinctive competence.

The divestment generally takes place for the foJJowing reasons

- A unfavourable market environment
- Declining market share and negative sales growth e Unprofitable mergers
- Technological changes which require the firm to invest more resources than it has capacity to invest.

The divestment can be brought about in the following ways : (a) Outright sale to another company the nonviable units. (b) Leveraged Buy-out is when company's shareholders are bought out by the management and other investors using borrowed funds. (c) Spin-off, in this case the parent company creates a new company, then distributes shares to shareholders of the parent company.

Getting rid of unviable units may help a firm focus on its core business more closely and regain the lost ground quickly. The company can sell those assets whose value have declined due to neglect or ignorance, or sell of assets which are unutilised. Companies• can use the cash generated in emerging technologies and revitalise the organisation. It is always better to get out quickly from unviable projects.

The disinvestment decision is very crucial; it should be taken after giving due considerations to the complex issues involved in it.

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Unit 8 ◻ Strategic Analysis and Choice

Business Definition : As discussed earlier business determines the scope of activities that can be undertaken by the firm. The purpose of business is to provide goods and services to the people so as to satisfy their needs. It tries to answer three basic questions : (i) who is being satisfied (ii) what is being satisfied and (iii) how is the need being satisfied. The three dimensions along which a business is defined help chalk the strategies in a well directed systematic manner.

GAP Analysis : The difference between what was intended and what has been achieved will be of immense importance to the management for formulating the next strategy. The study of the gap between desired level and achieved level compels managers to measure their performance and to audit their gap closing capabilities.

The concepts of GAP Analysis and Business Definition would help a strategist to frame out the different alternatives which are workable. The selection factor can be broadly divided into the objective and subjective factors. Objective factors are based on facts or data and analytical tools that facilitate a strategic choice. Subjective factors are based on behavioural issues i.e. personal judgement, consensus and non• numerical data, affecting strategic choice.

Evaluation :

The attempt here is to find out how each alternative fits with the firm's resources, environment and stakeholders' objectives and values.

One or more strategies have to be chosen for implementation. Adequate care has to be taken to see that the firm does not commit its resources on a strategy without considering environmental uncertainties, competitive reactions and risk factors in a broad way. Choosing a wrong strategy could. prove to be disastrous. Hal ten and Halten has pointed out :

"Management may miss opportunity by conservatibly sticking with an old strategy too long. The opposite type of error is adopting a new strategy which a more thorough analysis could have proven unfeasible. Whether we are too conservative or too casual in our evaluation the sources of error lie in our own capabilities and in the uncertain future environment."[1] The different analytical techniques are used for considering these objective factors. Decision makers pick up a suitable strategy, keeping the organisational capabilities in mind. For the optimal choice in this regard, the following issues need to be resolved successfully as stated by K. Andrews.

i) Is the strategy chosen clearly identifiable? Is it adequately clear to those who implement it?

ii) Does the strategy fully exploit the environmental opportunities?

iii) Is it consistent with the resources of the firm and its competitive advantage and core competence?

iv) Does it balance acceptable minimum risk with maximum returns consistent with organisation capabilities and prospects?

v) What about the pay back period?

vi) Has it been thoroughly evaluated against the appropriate criteria such as past, present, and future economic, social, political and technological trends?

vii) Is it in turie with the values and aspirations of the firm?

Portfolio Analysis

Portfolio analysis of a company considers a company as a portfolio or collection of different business with a view to identifying the status and potentials of the various business with regard to resource use and resource generation. Analytical tools have come to play a major role since the mid 1960's to prevent unconscious misallocation of capital. The objective is to help the company to formulate appropriate portfolio. strategy: Portfolio strategy pertains to the mix of business units and product lines that fit together in a systematic manner to provide synergy. Diversified companies like to have a balanced mix of business divisions called Strategic Business Units (SBUs). Thus, portfolio analysis of business is an important tool in formulating the corporate strategy which is concerned with generation allocation of resources.

Several models have been developed for evaluating the business portfolio. These include Boston Consulting Group (BCG) Matrix, GE Multifactor Portfolio Matrix, Shell's Directional Policy Matrix and Hofer's Product/Market Evaluation Matrix.

BCG Portfolio Matrix

The BCG Matrix compares various business in an organisation's portfolio on basis of relative market share and market growth rate. The market growth rate is an indicator of the attractiveness of the industry and the relative market share is an indicator of the strength of the firm in that industry in relation to its competitors.

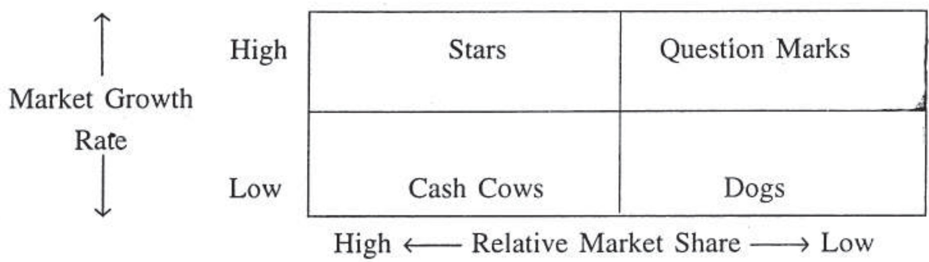

Fig 8.1 BCO Matrix

Stars : Products in the first cell of the BCG Matrix are called stars. They are promising products because they have a relatively high market share and the market is growing fast. They have additional growth potential. They require large amounts of cash for supporting the significant and rapid growth. This may necessitate reinvestment of internal accurals. In a business like information technology sector or entertainment sector the market growth is very rapid. The. appropriate strategy for stars in such markets is to maintain and increase the market share through large amounts of investments.

Cash Cows:

As the market grows it matures and the growth rate becomes slow. Cash cows have a high share in such a slowly growing market. In such a market the stars become the cash cows. Being in the slow growth market cash cows do not require significant reinvestment. Cash cows generate lot of cash which may be redeployed in other business of the company like stars and question marks. The strategy often used in respect of cash cows, which do not have long term prospects is to harvest i.e. to increase the short term cash flow without considering the long term effects. In long term prospects some reinvestment may be required for harvesting for a long term period.

Question marks :

Products in this cell are in fast growing markets but their relative market shares are low. The question mark business is risky as there is already a leader in that business. It may call for heavy investment and other capabilities in order to keep pace with the fast growing market. It is aptly termed as question mark, because at every step the organisation confronts the critical question of whether to keep investing funds in the business to build up market share or get out.

Dogs

Business with low market share in low growth industries are described as dogs. Dogs may produce low profit or loss. Usually dogs are harvested, divested or liquidated, if turnaround is not possible. Dogs may be held for defensive reasons-to keep competitors out, sometimes for reasons of goodwill and sentimental factors.

The main shortcoming of BCG Matrix is that it does not consider the case of those business which have average market share in markets of average growth. In some cases, business with low market share may not necessarily be question mark. There are companies who intentionally may go for very rich markets, e.g. cars like Mitsubishi Lancer will increase production after careful scrutiny, as it would like to maintain the exclusivity of its product. Again cash cow organisations may require substantial investments to retain the market e.g. Hindustan Lever Ltd. The matrix do not give any guideline as to which question mark to support or divest and which dog to salvage. Again data to position the products in the appropriate cells are not available always. Finally, the strength of companies and the attractiveness of market does not depend on growth and market share only.

GE Multifactor Portfolio Matrix

A 3 × 3 business portfolio matrix was developed by General Electric Company in the 1970s with the help of Mckinsey & Co (also called Mckinsey Screen or Business Attractiveness Screen or GE B,usiness Screen). The industry attractiveness and business strength scores can be used to portray the strategic position of each business in a company having various business. The vertical axis (Fig. 2) indicates long term industry attractiveness and the horizontal axis shows the competitive strength. High attractiveness is associated with scores of 6.7 or greater on a 1 to 10 rating scale. 3.3 to 6.7 scores are for medium attractiveness and so on. Similarly, for competitive strength, scores 6.7 and above, 3.3 to 6.7 and lower that 3.3 is associated with strong, average and so on respectively.

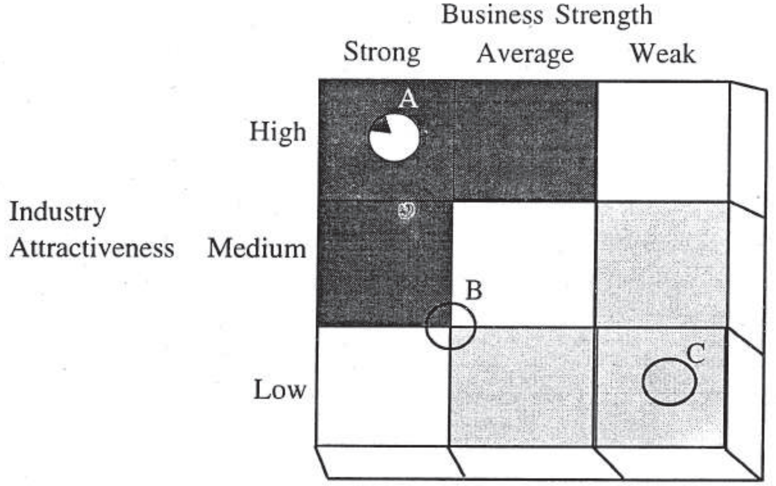

Fig 8.2 GE Multifactor Portfolio Matrix

The attractiveness strength matrix helps in assigning investment priorities to each of the company's business units. The darkly shaded cells at the upper left include the strong SBUs which the company should invest and grow. Next in priority comes the SBUs positioned in the three cells along the diagonal (in the diagram the white cells).

The three cells below the diagonal represent SBUs that are low in overall attractiveness. The appropriate strategy for them would be harvesting or divesting. In exceptional cases where good turnaround potential exists it may be overhauled and repositoned using some type of turnaround approach.

The circles in the figure indicate three SBUs of a company. The areas of the circles are proportional to the relative size of the industries in which these SBUs compete. The pie slices within the circles represent each SBUs market share. Circle A shows a SBU with 75% market share having a strong business strength and operating in a highly attractive industry. The prescription for business A is "grow and build." Circle B represents an SBU that has 50% market share but the industry is not very attractive. SBUs in industries where the company has a small market share and not much business strength is represented by Circle C. Thus the prescription for B will be to maintain B and about C some hard decisions like divesting may have to be taken.

The GE Multifactor matrix has the following advantages over BCG Matrix : (i) It includes more information about business. (ii) Multiple factors are taken into account in determining where a business fits on the two dimensions. (iii) The three categories of industry attractiveness and business strength gives more distinctions, expecially the average category.

Hofer's Product-market Evolution Matrix

Hofer and Schendel has based its matrix on the• basis of the different stages of the product or market development and the competitive position of different business in a company's corporate portfolio. It helps, to resolve the problem of identifying companies, particularly new business, that are about to accelerate their growth. The product-market evolution matrix also called life-cycle portfolio matrix in which business is plotted according to firm's business strength or competitive position and the industry's stage in the product life cycle. It is similar to GE Screen, excepting here second dimension uses the product-market evolution stage instead of the industry attractiveness.

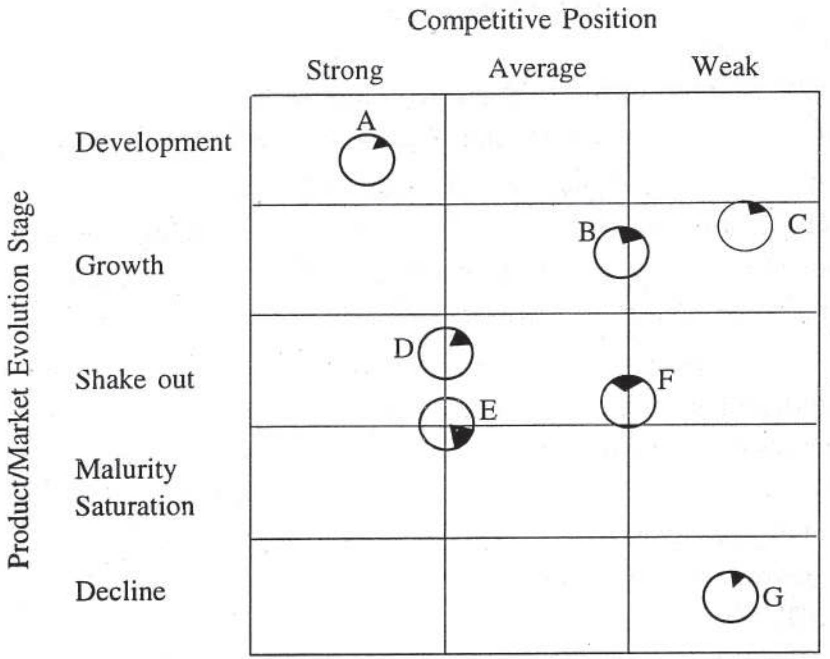

Fig 8.3 Product-market Evolution Matrix

Fig. 3 shows that business A enjoys good prospects of growth and should be developed. Business G is a case for divestment. Business E is a well established one, but moving towards maturity. Business F is slowly losing competitive position but is moving towards becoming a cash cow. Business D is a case for development. Though C is in the growth stage the company has to be cautious about investing more. Business B is also in growth area and is fit for further investment and development.

Shell Directional Policy Matrix (DPM)

DPM was developed by Shell Chemicals, U. K. I uses two dimensions¬"business sector prospects" and "company's competitive abilities". Business sector prospects are rated as unattractive, average or attractive taking into consideration several factors such as market supply, market quality, market growth. A company's competitive capabilities are divided into three degrees as strong, average and weak. The 3 x 3 matrix when plotted forms the basis for recommending different strategies.

Company's Competitive Capabilities	Business Sector Prospects: Unattractive	Average	Attractive
Weak	1 Divestment	2 Phased Withdrawal	3 Double or Quit
Average	4 Phased Withdrawal	5 Custodial	6 Try Harder
Strong	7 Cash Generation	8 Growth	9 Market Leadership

Fig 8.4 Directional Policy Matrix

In the figure 8.4 each quadrant shows the type of strategy that may be adopted.

1. Disinvest : Both business prospects and capabilities are weak here. If there is no future prospect, these business should be disinvested and the resources so released can be put to better prospects.

2 & 4. Phased withdrawal : When an organisation is in the weak to average prospects in a low growth not very attractive business with not much growth expected in future, the organisation should phase out the business gradually, and release the cash generated for better prospective business.

3. Double or Quit : In this situation the business prospects arc attractivc but the company's capabilities are weak. Here the company may invest more and exploit the market prospects, but if that is not possible it would be. better for company to quit the business.

4. Custodial : In this case both business prospects and capabilities are average. Here the company can bear with the situation with a little bit investment or otherwise quit the scene and focus on more attractive business.

5. Try Harder : SBUs here have average business capabilities and attractive prospects: So there is a scope for doing better is-more resources are added to strengthen the capabilities. This would enthuse them to try harder to exploit the existing business prospects.

6. Cash Generation : More SBUs with strong capabilities may continue, atleast for generating good cash flows and profit. But further investments are not advisable given that the business prospects are unattractive.

8. Growth : Additional infusion of funds will be required for the SBUs with strong capabiities although the business prospects are average. The SBUs will be able to gain more market share through additional capacity, R & D, innovations etc

9. Market Leadership : In this situation business prospects are attractive and SBUs have strong capabilities, the resource allocations has to be very good. Top priority has to be given to hold the market leadership through product innovations, R & D and additional capacity.

Strategic Position and Action Evaluation (SPAE)

This model developed by Rowe et al is based on a company's strategic position in comparison to the strategic position of the industry. The company's strategic position is determined on the basis of financial strength (ROI, leverage, liquidity etc.) and competitive advantage (market share, product quality etc). The industry's strategic position is based on industry strength (growth and profit potential, etc) and environmental stability (technological changes, competitive pressures, etc). Scores are awarded for each factor and then diagrammed. Four strategic postures-aggressive, defensive, conservative, and competitive are recommended based on the simple rating system for the four dimensions.

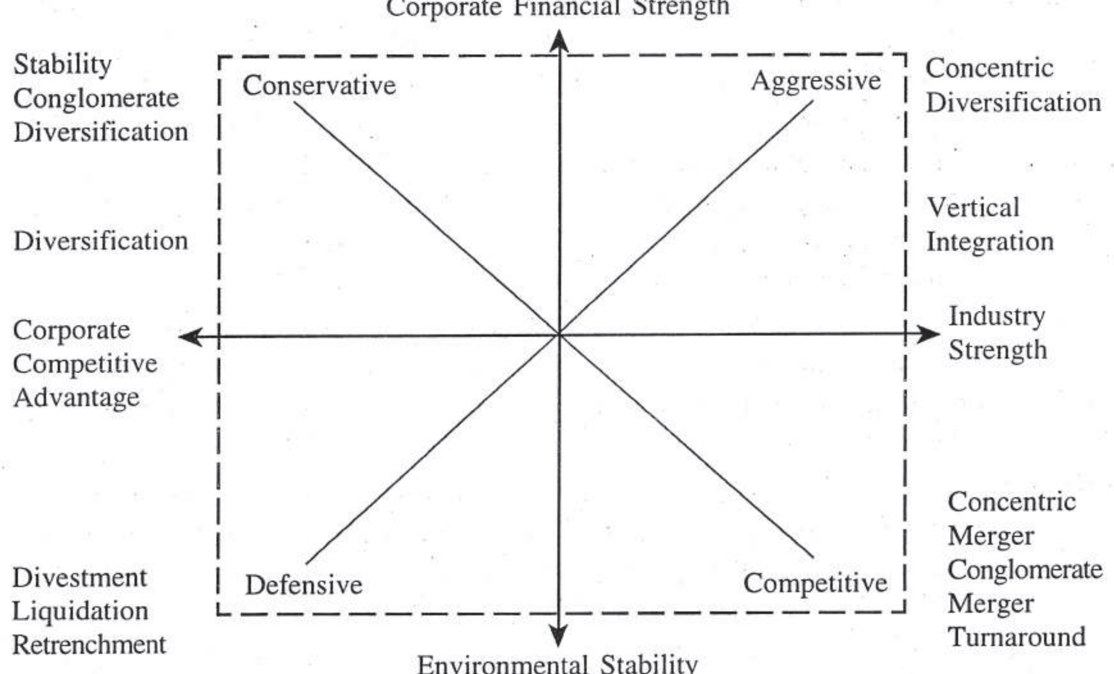

Fig 8.5 : Spae Diagram and Recommended Strategies

[Source : Adapted from A. J. Rowe, R. 0. Mason and K Dickel : Strategic Management and Business Policy-Methological Approach (Reading Mass : Addison Wesley, 1982 pg 164]

Assessment of Portfolio Analysis

Portfolio analysis helps a multi product, multi business firm to commit its scarce resources to best advantage. It helps to better understanding of business leading to better strategic decisions and availability of an interesting vocabulary and graphic representations for communication.

However, there are drawbacks of portfolio analysis. Measuring of parameters, like the actual growth rate of business pose problems. There are also organisational and motivational problems arising due to the adoption of recommendations emerging out of portfolio analysis. Portfolio models can be difficult, time consuming and costly to implement.

Business Level Strategic Analysis

Business organisations are part of an industry, and almost all organisations face competition in their field of operation. Thus strategic choice at the business unit level has to be made

taking the industry environment and the competitors into account. The organisation also has to carry out-a SWOT analysis to find out its own standing, on relative terms, in the industry.

Industry Analysis

This is required to determine the attractiveness of the industry and to understand the structure and dynamics of the industry with a view to finding out the major strategic alternatives that exists before the firm. Michael E. Porter has proposed that business-level strategies are the result of five competitive forces in the company's environment such as potential new entrants, bargaining power of buyers, bargaining power of suppliers, threat of substitute products and rivalry among competitors.

Fig 8.6 : Porter's five forces model of competition

Using the five forces model of industry competition, a firm can analyse its critical strengths and weaknesses, its position within the industry, the areas where strategic changes may yield the maximum profits, and the significant opportunities and threats. [3]

In the context of strategic choice, the purpose of industry analysis is to determine an industry's attractiveness. An attractive industry is that where there is high potential for earning profits exist. Unattractive industry has few opportunities to earn profit. The interrelationship among the five forces give each industry its own particular competitive environment.

Strategic Group Analysis

Business that engage in direct and intense competition amongst one another are considered to be strategic group. Many firms believe that they can win by performing the same activities more effectively than their competitors, but competitors quickly copy them

and diminish their advantage. A firm can claim that it has a strategy when it performs different activities from rivals or perform similar activities in a different way and they in the long run cannot be copied by the rivals easily. Strategic group analysis thus helps a firm to develop competitive strategies within the context of the industry in which it operates.

Competitor Analysis

Competitor analysis is necessary for formulating right strategies and determining• the right positioning for the firm in the industry. According to Porter, the purpose of conducting competitor analysis are the following :

- Determine each competitors's probable reaction to the industry and environmental changes;
- Anticipate the response of each competitor to the likely strategic moves by the other firm; and
- Develop a profile of the nature and-success of the possible strategic changes each competitor might undertake.

  A competitor response profile can be built on the basis of competitor analysis. While analysing competitors a firm seeks to understand :

- What drives the competitor, as shown by its future objectives
- What the competitor is doing and can do, as is revealed by its current strategy
- What the competitor believes about itself, as shown by its assumptions
- What the competitor's capabilities are, as shown by its compabilities

Competitor analysis is an important analytical tool employed by firms, specially in oligopolistic industries where there are few powerful competitors and each firm wants to know more about the strategic moves of other firms before exercising a strategic choice.

SWOT Analysis

Swot Analysis considers a firm's strengths, weaknesses, opportunities and threats. Using SWOT Analysis a firm chooses strategies that support its mission and (i) exploit its opportunities and strengths (ii) avoid its weaknesses and (iii) neutralises its threats.

Subjective Factors in Strategic Choice

Strategic decision making is a complex affair. No one set of factors can be sufficient

for exercising a strategic choice. Subjective factors are essentially intuitive and descriptive in nature. But it plays an important role alongside quantitative decision making tools for strategic choice.

i) Commitment of Past Strategies

Organisations while making strategic choice tend to start from where the organisation is, and what they had adopted to reach where it is. It is rare, excepting some special cases that this firm breaks away from its past strategies and follow an absolutely new course. In this way, the strategic choice is more likely to be for those alternatives which arise out of past strategies. Moreover, a firm is committed in terms of resources and personnel as per past strategies. Only under threat from the environment or under some pressing needs a firm moves away from existing position.

ii) Attitudes Towards Risk

Attitudes towards risk has a significant bearing on strategic choice. A risk averse firm may stick to the past trends and strategies. Where attitudes favour risk the range of strategic choice expands. In volalile industries the managers absorb greater amount of risk than stable industries. The following table provides the strategists' responses based on their risk aversion and tolerance (Taylor and Dunnette).

Risk A verse Managers	**Risk Prone Managers**
● Prefer to go by past strategies	● Resort to novel, innovative, experimental ways of doing things
● Fairly conservative, safe strategies assunng reasonable, highly probable returns	● Highly aggressive, proactive and lean towards opportunistic strategies with higher pay off
● Limited strategic choices before them	● Wide strategic choices before them
● Generally not able to cope with complex issues as they never go beyond a well defined criteria	● Able to cope with complex problems, take rapid, impulsive decisions

Fig 8.7 : Risk Aversion and Tolerance : Research Findings

Degree of Firm's External Dependence

A firm which is highly dependent on one or more environmental elements, then it has

devise its strategic alternatives and choices considering and accommodating that dependence. For example, firms dependent- on large Government contracts are more inclined to take decisions depending upon what the guidelines are from the• Government. Again if we consider the case of Banks, the opening of a branch at a particular area will depend upon Government sanction. Thus, the nature of a firm's decision making process will be dependent on certain external factors.

Internal Political Consideration

Strategic choice on many occasions is influenced by internal politics of a firm. Dominant groups in a firm may exert lot of pressure when a particular choice affects their functioning. Recently, State Bank of India employees under the union have gone on strike as many of their employees were transferred. This bank has virtually stopped functioning.

Again, a strong CEO can always cleanse the system as Hindustan Lever did in the case of CMC at an amazing speed.

So internal politics has a significant role in strategic choice.

Time Constraint

The timing of a decision is very important. Prompt decisions in the case of emerging opportunities will fetch better results, as you enter the arena before the competitors can set their thoughts on it. When decisions get delayed the field remains wide open. Again time horizon of the decision needs to be looked into. Generally, people in the organisation support short time horizon. The time frame of the decision i.e. short term or long term is very important. Short run strategic choice may be seen as' an intermediate arrangement before the organisation moves on to a more permanent, long run strategy.

Competitive Reactions

Competitor's actions (and reactions) are also to be considered in strategic choice. A particular strategy, it is expected, would elicit an immediate reaction from the competitors. A massive advertising campaign is likely to be retaliated with equal force. A price reduction is likely to trigger a discount war. A firm may go for an aggressive strategic choice, but it must take into consideration that the competitor will retaliate and invade the field with all its might. So the firm should weight this along with the timing of the action before embarking on such a strategy.

Corporate Culture

An organisational philosophy establishes the values, beliefs and guidelines for the

manner in which the organisation is going to conduct its business. The corporate culture is outcome of this philosophy and this is held by the members of the organisation which makes it unique from other organisations. It is very difficult to change the corporate culture. If a company is used to slow growth and a conservative management style it cannot be turned into an aggressive player off hand. Members feel very uncomfortable and reluctant to shift gears suddenly and follow new style. When circumstances demand a change in management style and corporate culture, . everything has to be planned in a systematic way. The cultural dimension needs to be taken into account while formulating and implementing the strategy.

The subjective and objective factors discussed above, both have a collective impact on strategic choice. The purpose of strategic choice is to consider all possible strategic alternatives, narrowing the choice down to a few feasible alternatives, and then to choose an optimal strategy. But the environmental factors may change and the strategic choice may become irrelevant. It is necessary, therefore, to frame contingency strategies.

Contingency Strategies

If the conditions and assumptions on the basis of which the strategic choices are made change drastically, the chosen strategies may have to be discarded. But changes do not occur in a systematic manner. They surface suddenly putting all the plans in jeopardy. To take care of such eventualities strategists keep contingency strategies ready.

The contingencies could come in the form of labour strike, change in Govt. policy, abnormal monsoon, fall in Central Govt. etc. Once such scenaries are identified, alternative strategies for the firm are framed. Firms using this kind of strategy identify trigger points to give alarm to the management that a contingency strategy should be pressed into service. Contingency strategies have received a fair amount of attention from policy researchers as they are of immense value to strategists who have to deal with transient phenomenon like business environment.

Questions

Objectives of Business Policy Knowledge Skills Attitude.

1. Why is Strategic Management a process?
2. Who performs the tasks of strategy?
3. What are the benefits of 'Thinking and Managing Strategically'?
4. Explain the three big strategic questions :

(a) Where are we now?

(b) Where do we want to go?

(c) How do we get there?

5. What is Strategy?
6. What is the strategy in management's 'game plan'?
7. What is a Business Model?
8. What is the difference between a Strategy and Business Model?
9. Why are strategies needed?
10. What are the five tasks of strategic management?
11. What is the difference between Missions and Strategic Visions?
12. Why is a Strategic Vision important?
13. What are the types of objectives required in Strategic Vision?
14. What is 'Crafting a Strategy'?
15. 'A Company's strategy is partly planned and partly reactive'. Explain the statement.
16. Explain the how's that define a firm's strategy :

    (a) How to grow the business?

    (b) How to please customers?

    (c) How to outcompete rivals?

    (d) How to respond to changing market conditions?

    (e) How to manage each functional piece of the business and develop needed organizational capabilities?

    (f) How to achieve strategic and financial objectives?
17. What are the core elements of McDonald's strategy?
18. 'Crafting strategy is an exercise in entrepreneurship'. Explain the statement.
19. Why do strategies evolve?

Importance of Business Policy

1. What is a strategic plan?

2. What does strategy implementation and execution include?
3. Why is monitoring, evaluating and taking corrective. actions necessary?
4. What are the characteristics of the strategic. management process?
5. Who performs the five strategic management tasks?
6. What are the benefits of 'Strategic Thinking' and a 'Strategic Approach' to managing?
7. What are the three strategy making tasks?
8. What are the three elements of a strategic vision?
9. What are the characteristics of a mission statement?
10. What is the difference between Board and Narrow scope?
11. What are the characteristics of strategic vision?
12. What are the entrepreneurial challenges in forming a strategic vision?
13. What are the managerial values of a well-conceived strategic vision and mission?
14. What is the purpose of objective setting?
15. What are the strategic management principles?
16. What are the strategic or financial objectives?

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Unit 9 ◻ Strategy Implementation

Development of a dynamic and efficient strategy is not enough in itself for organisation to attain its mission. To keep the strategy operative and useful, the strategist should see to it that it is properly implemented inside and outside the organisation. Successful implementation of strategy requires an effective organisation. Strategy implementation involves the communication of strategic objectives to various units, departments and sections. People working in the organisation shoull be aware about how their actions interrelate with the actions of others to achieve the firm's objective.

A sound organisation structure, the services of talented- and capable leaders are required to translate the vision into reality. Strategy is dependent on many variables and there are countless interelated change factors that could upset the calculations any time. Complexities inherent in organisational change and strategy implementation often makes all the efforts fail. To find a solution to this issue The. Mckinsey Company, a well known management consultancy firm in USA was asked to find a solution to this problem in 1970. Peters and Waterman, the researchers of the. company found after examining some of the best run companies of USA, that strategy and structure were not the only dimensions of the problem. A strategy implementation depends on the 7-s framework when it fits into or supports the strategy. The 7-s are detailed below.

- Strategy : A set of decisions and actions aimed at gaining a sustainable competitive advantage.
- Structure : The organisation chart and associated information that shows who reports to whom. and how tasks are both divided and integrated.
- Systems : The flow of activities involved in the daily operation of a business, including its core processes and its support systems.
- Style : How managers collectively spend their time and attention and how they use symbolic behaviour. How management acts is more important than what management says.
- Staff : How companies develop employees and shape basic values.
- Shared values : Commonly held beliefs, mindset and assumptions that shape how an organisation behaves-its corporate culture.
- Skills : An organisation's dominant capabilities and competencies.

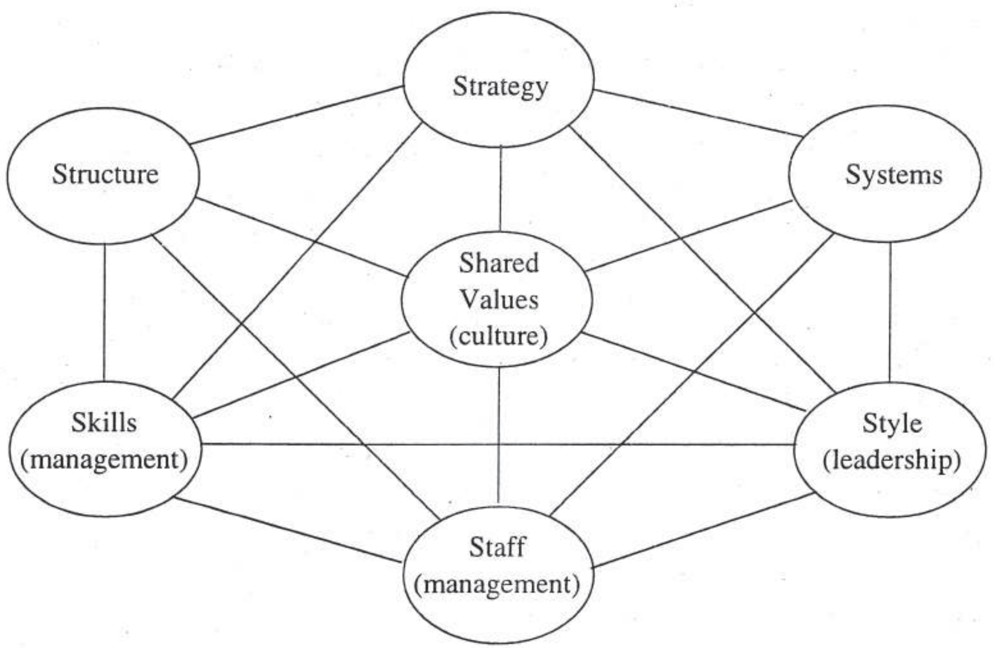

Fig 9.1 : Mckinsey's 7-s Framework

The 7s framework highlight the interrelationship of factors and their importance for successful implementation of strategy. The principle job of a strategist is then to have a good fit among the seven S's by making necessary adjustments from time to time.

Activating Strategy

A well designed strategy requires the skill of the leader to make it approved and communicated. The strategic leader must defend the strategy from every angle and secure wholehearted support for the strategy. To be on track he may list out priorities, programme implementation process, budgets etc, so that he does not miss out. The regulatory mechanism that govern business activities has to be considered before giving a concrete shape to the strategy. Then the action plans could be formulated. There are functional level strategies undertaken at the departmental level and usually deals with operational aspects. In the light of these, the top management, the sub unit and department head should be employed to reinforce the stategic choice. Once the action plans are ready, the strategist tnust focus on the allocation of resources over the entire organisation.

Resource Allocation

No strategy can be effectively implemented unless there is an adequate resource

allocation among the different units/departments of an undertaking. It requires a careful study at all levels. The allocation can follow a top-down or a bottom-up approach. In the former case the Board of Directors, Managing Director and other members of the top management decides the requirements of each sub unit and allocate resources accordingly. The bottom-up approach involves the people from the operational level, who give their requirements and allocations required and resources are distributed accordingly. A mix of the two methods may also be followed.

Strategists need to prioritise everything and decide budgetory allocations in the initial stages. Each department will fight for taking a maximum share of the scarce resources. Again there could be external factors such as Governmental regulations, shareholders' preference for higher returns, credit restrictions of banks and financial institutions. So the budgetory allocations have to be done on close co-operation and participation at the departmental levels. But if a strategist defines a strategy and does not allocate resources (financial, physical, human, technological), the strategy will not be successful which will cause frustration among functional executives.

Strategy-Structure Relationship

A suitable organisation structure is essential for implementing strategies and achieve desired goals. Structure may be defined as the design of an organisation by which the organisation is administered. The design includes lines of authority and communication between the different administrative offices and officers and secondly, the information and data that flow through these lines of communication and authority. Such lines and date are essential to ensure effective co-ordination, appraisal and planning, which are necessary in implementing the basic goals and policies and in knitting together the total resources of the enterprise To be effective, the basic structure is governed by a set of rules and regulations, reward-punishment systems, information network, control procedures etc. Structure is a means to an end and not an end in itself. It is there to facilitate smooth translation of organisational plans, strategies and policies into concrete action. Chandler has placed emphasis on the organisational structure and its inter-relationship with strategy. Strategy precedes the structure, therefore structure should be in conformity with strategic objectives. While evaluating whether an organisation is properly structured the following points need careful analysis.

1. Is the structure compatible with the corporate profile and the corporate strategy.
2. At the corporate level, is the structure compatible with the outputs of the firm's business units.

3. Are there too few or too many hierarchical levels at either the corporate or business unit level of analysis.
4. Does the structure promote co-ordination among its parts.
5. Does the structure allow for appropriate centralisation or decentralisation of authority.
6. Does the structure permit the appropriate grouping of activities.

It goes without saying that a strategy would rarely succeed without an adequate organisational design. Chandler' noted that when a firm adopted a strategy of diversification, it had to change its design. Allen3 observes that a variety of organisational problems stem from the management's inability and unwillingness to adopt a proper organisational design after strategic changes have been introduced. As different strategies call for different structures, it is necessary to deal with different types of available structure.

The Functional Structure

In functional structure, activities are grouped together by common function. Similar and related occupational specialities are grouped together like, Finance, Marketing, Production etc. Departmentalisation by function can be used in all types of organisations, only the functions change to reflect the organisation's objectives and activities, for example, a hotel might have departments like front office, house keeping food and beverages etc.

Functional departmentalisation may be carried out at lower levels also, as long as there exists a sound base for further differentiation. Activities in the marketing department may be further classified into three groups, namely, advertising, market research, sales etc. Advantages

1. Clarity : Everybody understand his-own task and knows where he belongs in the organisation. Functional structures bring order and clarity to organisational activities,
2. Economies of scale : It seeks to achieve economies of scale by placing people with common skills and orientations into common units.
3. Specialisation It helps in obtaining efficiencies by putting specialists together.
4. Co-ordination : Co-ordination within functions is smooth. Centralised decision-making ensures unity of performance.
5. In-depth skill development : Employees are exposed to a range of activities within their department which allow them to develop functional skills in every activity of

the department.

6. Delegation : It facilitates delegation of authority and thus reduces the burden of the CEO.

Disadvantages

1. Effort focus : Too much emphasis on specialisation narrows the outlook of the people. It may also lead to narrow, dull, boring jobs in the organisation• with routine technology.
2. Sub unit conflicts : At times it may create conflicts among the departments and if a job fails there may be blame game between the different departments.
3. Poor decision making : No one except the man at the top sees the entire picture of business. Consequently, decisions are easily misunderstood and not properly executed.
4. Managerial vaccum : Working in the same functional area makes a man unfit for top management where broad perspective on the firm's activities is required.

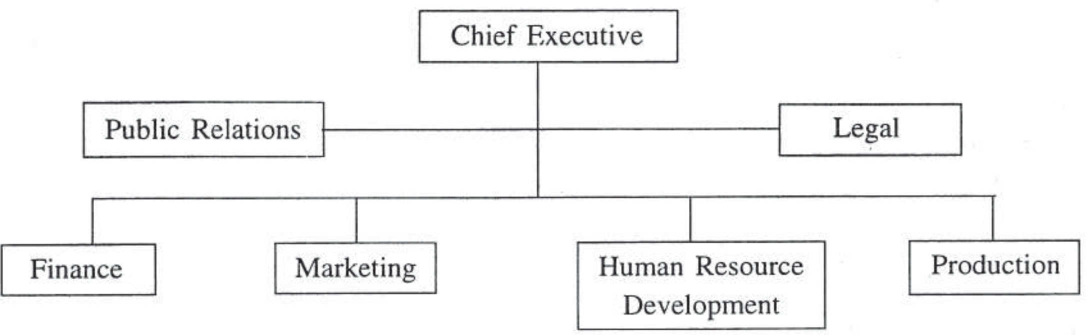

Fig 9.2 : Functional Structure Product Departmentalisation

Product or commodity departmentation is made on the basis of the products produced by the organisation. Product departmentalisation is more useful when product expansion and diversification and the engineering, manufacturing and marketing characteristics of products are of primary concern. For example, in a petroleum product company, the three major products are fuels, lubricants and waxes and chemicals all are placed under the authority of a vice president who is a specialist, and responsible for everything having to do with the product line.

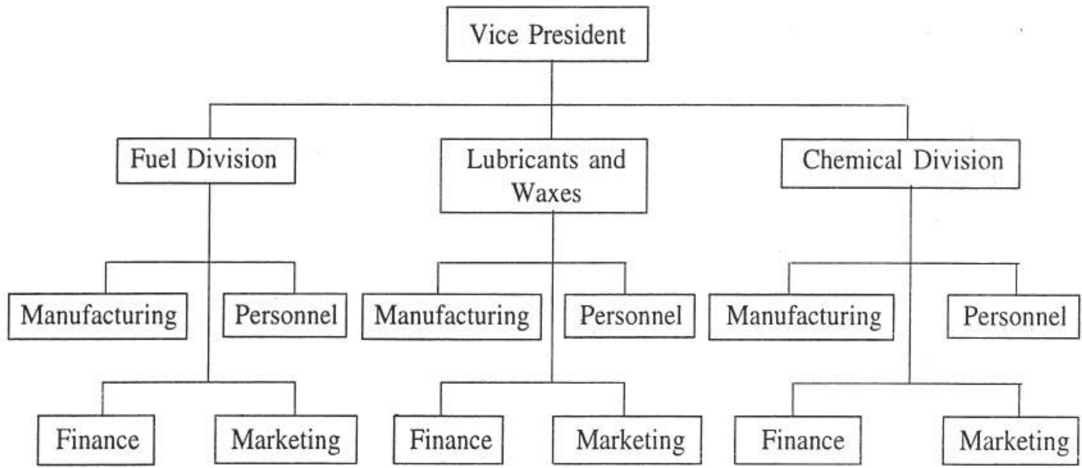

Fig 9.3 : Product Division Organisation

Advantages

1. It takes due care of each product line.
2. I fixes increased accountability for product performance.
3. Procedures and Systems can be standardised, leading to better integration across different specialities.
4. It makes evaluation and comparison of performance of different product divisions easier. Unprofitable lines are not allowed to be carried on the back of the profitable ones.
5. Unprofitable lines can be discarded, being autonomous units, it will have minimal effect on the entire organisation.
6. Divisional form serves as an excellent opportunity for the managers for the training for general management job.

Disadvantages

1. Divisionalisation creates seperate facilities and functional personnel leading to duplication of effort.
2. In case of insufficient demand for product, plant will remain unutilised.
3. Co-operation among division is difficult.

4. Co-ordination by headquarters of different divisions is difficult.

Process Departmentalisation

This type of divisionalisation suits manufacturing firms. Various manufacturing processes are taken as basis for dividing the activities into departments. An example of the textile company is given 'in the figure below.

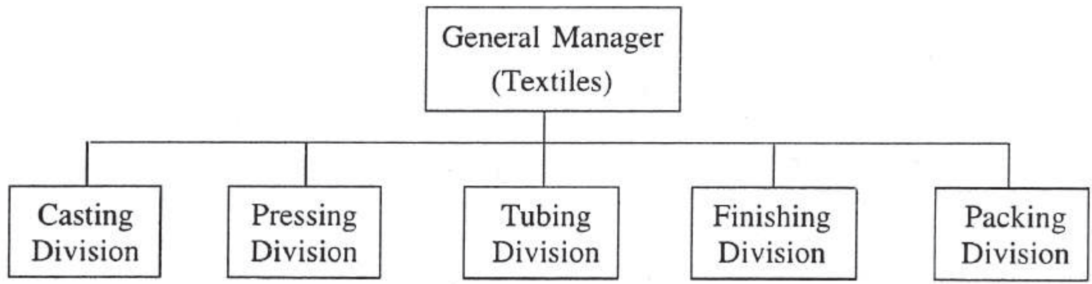

Fig 9.4 : Process Division Organisation

Advantages

1. It offers a basis for homogenous categorising of activities.
2. It is very helpful for equipments to be used requiring special operating skill.
3. The benefits of specialisation helps the organisation.

Disadvantages

1. Co-ordination of various functions and products becomes difficult.
2. At times, it creates conflicts between different managers cutting across their levels.

Geographical Divisionalisation

Geography or territory is used as yet another basis to departmentalise activities in organisations. As organisations grow, they divide their activities among branches, regional offices or other facilities from their central place of operation.

Strategic Business Units (SBUs)

The structure of the SBUs is an extension of the divisional structure. They operate as seperate autonomous units. In extreme case the Central Office do not even interfere excepting the period reports are sent to headquarters. Each unit has its own strategies based on its capabilities.

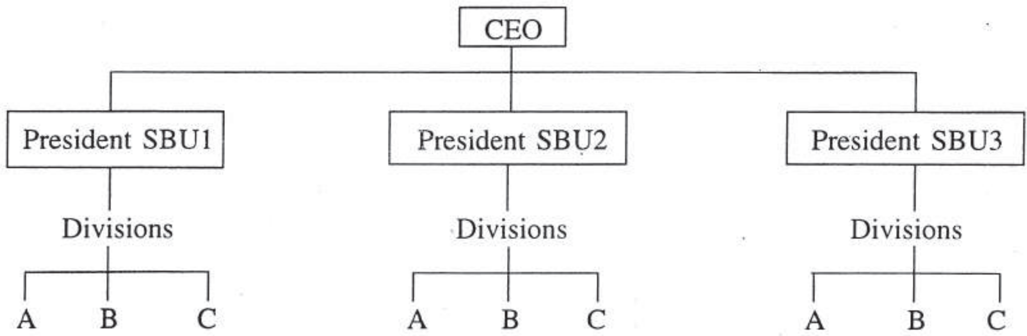

Fig 9.5 : Strategic Business Unit Structure

Advantages

1. It helps in achieving the benefits of local operations and promotes expansion of business in different locations.
2. Improves co-ordination between divisions with similar strategic concerns and product market environments.
3. Facilitates in depth business planning at the corporate and business levels.
4. Distinct business units become accountable regarding profits and other aspects.
5. Helps control large, diverse business organisations.

Disadvantages

1. Places another layer of management between the divisions and the corporate management.
2. Integrating various regional and local operations becomes difficult.
3. Getting the right type of personnel to heed the divisions is difficult.

Project Organisation

Project structures usually have a limited life and it is similar to product organisations, although the lates is for long life. In a project structure the best available talents are pooled together to achieve a complex and specific task. The organisation can continue with regular activities without interruption, while put its concentrated efforts to a new project. A project manager becomes responsible for a project. The project manager is a unifying agent and a focal point for the project activities. The project involves team members from different functional areas or from outside. Membership is temporary, as they move away from the

project to another one as soon as the project underway is completed. The project organisation has no fixed boundaries. It is a structure that facilitates co-ordination and integration of different activities of the project.

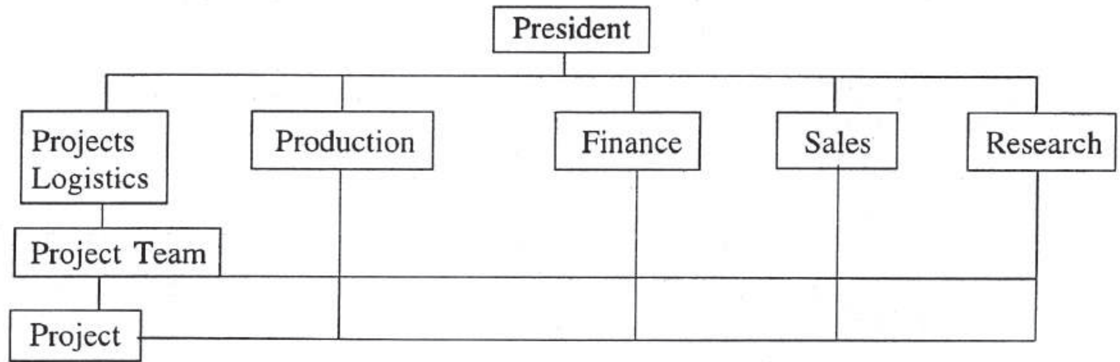

Fig 9.6 : Project Form of Organisation 67

Advantages

1. Project management utilises maximum amount of available specialised knowledge. Knowledge and experience can be transferred from one project to another.
2. Organisational flexibility is promoted through project structure. Specialisation required to complete a task is brought together• as long as necessary.
3. Project people has functional base where they can return after completion of the project.

Disadvantages

1. Unity of command is absent. The relationship between functional managers leads to ambiguity and conflict.
2. The project structure creates insecurity and fear of unemployment as the project nears completion.
3. Most projects are not self-sufficient. They require support from various quarters. Functional co-operation may be difficult to obtain. Top management also may look into the project with earnestness, but their lack of awareness can easily jeopardise the project's success.

Matrix Organisation Structure

The matrix organisation structure was proposed by Dairs and Lawrence for Aero Space Programme of the United States. In this structure attempts were made to combine advantages of both functional and product departmentalisation to achieve the organisational goals. In other words, this dual structure simultaneously organises part of organisation along product lines and part along functional lines to gain advantage of both. In this type of a structure each department reports simultaneously to both functional and product manager. Both the managers have equal authority

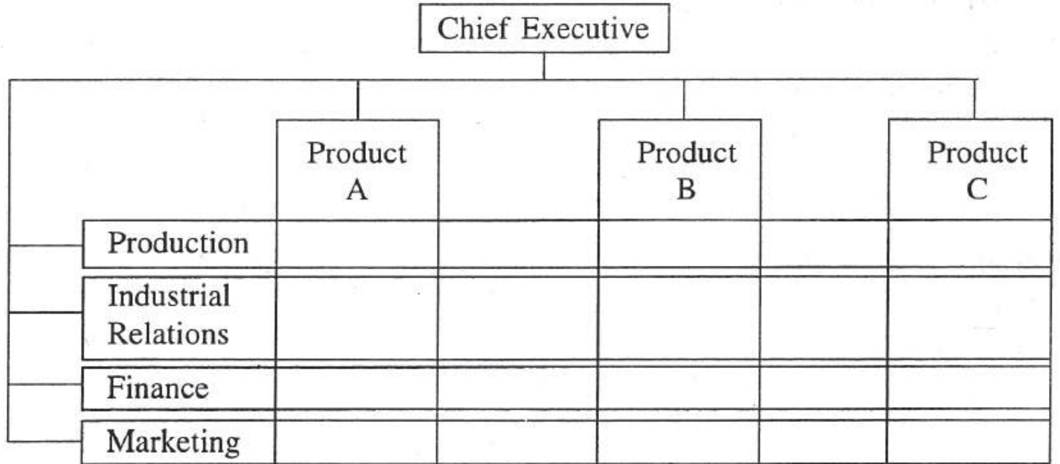

Fig 9.7 : Matrix Organisation Structure 68

Advantages

Efficiency : An efficient utilisation of resources, specially manpower can be done. Resources can be freely allocated across different products.

Flexibility : The direct and constant touch between the specialists can make for better communication and flexibility. Information permeates at the levels where decisions are taken thus ensuring quick decision making process.

Technical excellence : Constant touch with specialists and upgradation of knowledge facilitate high quality and innovative solutions to technical problems.

Motivation and development : This structure helps employees to 'develop and therefore there is motivation for the employees to work for achieving the corporate goal.

Disadvantages

Accountability : Dual accountability creates confusion amongst the individual team members.

Co-ordination : High level of vertical and horizontal co-ordination is required.

Communication : Communication problems may arise due to shared authority. Different types of organisation structure brings out a question. Why are various organisations structured differently? What are the factors that determine the structure? There are three strategy dimensions-innovation, cost minimisation, imitation.

Innovation strategy : The strategy which introduce new ideas, products and services. Cost minimisation strategy. This strategy emphasise on control of costs and thereby reduction of price and avoidance of unnecessary marketing or innovation expenses.

Imitation strategy : This strategy seeks to tread into proven territory to move into new products or markets.

The variation of structural options in relation to strategic dimensions has been discussed by Robins5. He has matched the two as follows :

Strategy	Structural Options
Innovation	Organic : A loose structure, low levels of specialisation, formalisation and decentralisation.
Cost minimisation	Mechanistic : Tight control, extensive work specialisation, high levels of formalisation and centralisation .
Imitation	Mechanistic and Organic : Mix of loose with tight properties, tight controls over current activities and looser controls for new undertakings.

Fig 9.8 : The Strategy-Structure Matches

Strategies become useless if it is not implemented. Strategic implementation includes the various management activities that are necessary to put the strategy in motion, institute strategic controls that monitor progress and finally achieve organisational goals.

Surely, no single structure is appropriate for implementing all strategies. Each firm has to choose a suitable structure. The choice has to be made very carefully as switching from one structure to other is a costly and time consuming exercise.

Implementing and Executing Strategy

1. Link Budgets to Strategy.
2. How Policies and Procedures aid Strategy Implementation?

3. Discuss about creating Strategy-Supportive Policies and Procedures.
4. Explain how to institute Best Practices and Continuous Improvement.
5. Explain characteristics of Benchmarking.
6. What is Total Quality Management?
7. Enumerate Goals of Quality Improvement Programs.
8. What are the Components of Popular TQM Approaches?
9. How to implement a Philosophy of Continuous Improvement.
10. Enumerate characteristics of TQM/Continuous Improvement Programs.
11. State TQM vs. Process Reengineering.
12. How to use Best Practice Programs as an Implementation Tool?
13. Explain Installing Support Systems.
14. What areas should Information Systems address?
15. How to exercise Adequate Control over Empowered Employees?
16. Discuss Gaining Commitment as Components of an Effective Reward System.
    (a) Monetary Incentives
    (b) Non-Mnetary Incentives
17. State Approaches which motivate people to execute the Strategy well.
18. State Balancing Positive vs. Negative Rewards.
19. Link the Reward System to Performance Outcomes.
20. Discuss Key Considerations in designing Reward Systems.
21. Explain Guidelines for designing an Effective Compensation System.

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Unit 10 ◘ Introduction and Marketing Strategy

Functional plans and policies

Once the corporate level and business unit strategies are developed, the functional area strategies have to be framed. Direction has to be provided to the functional managers regarding the plans to be adopted by them. Such strategies provide more specifies, about how key functional areas such as marketing, finance, operations, personnel etc, are to be managed in the short term. It should be noted by all concerned that all these functions are interrelated.

Purpose of Functional Strategies

W. F. Glueck suggested five reasons why functional plans and policies are needed.

- The strategic decisions are smoothly implemented by all departments of an organisation.
- The various parts are uniformly regulated and bound by a set of policies.
- The functional heads decide things quickly, using their discretion within the framework laid down by functional plans and policies.
- The work at various levels is co-ordinated smoothly without any friction.

Mechanism of Policy Making

Business policy states about what is to be achieved and how it is to be achieved, i.e. it gives a direction for the actions to achieve the goals of the organisation.

The process of development of functional plans and policies may be formal or informal. When policies are written, it is compiled into a Policy Manual for all the employees to refer to it for proper implementation of the same. A policy manual becomes readily available for interpretation and guidance and it reduces misinterpretation, misunderstanding and conflict. However not all organisations, particularly smaller organisations with simpler business may operate with a few policies most of which could be informal and understood rather than formally written down.

In an organisation plans and policies for the functional areas are needed. Specificity in functional strategies helps strategy implementation in several ways. It specifies what each department should do and helps the top management to gel them together for accomplishing the grand strategy.

Marketing Plans and Policies

Marketing planning involves the process of deciding on marketing strategies that will help the organisations attain the overall strategic objective. A marketing strategy is tpe.marketing logic whereby the organisation Hopes to achieve its marketing objectives. Marketing offers goods and servies. It main objective is to create a customer. The plans and policies 'are formulated and implemented on the basis of p'& of the marketing mix i.e. product, pricing, place and promotion.

Product Policies

A product policy tends Jo achieve one or more objectives, of which product management policies is very important. The product policies are largely designed to facilitate the desired growth considering the environmental aspects for a growth strategy in the marketing functional area. Ansoff[2] has presented a 2 × 2 matrix which is given below.

	(1) Present	(2) New
(A) Present	Penetrate current market for high rate of usage.	Develop approved or new products to serve present market.
(B) New	Develop market and usage for present product.	Diversify into new products to service new markets.

Fig 10.1 Ansoff s Product Market Extension Grid

The Ansoff matrix presents quite conservative product policy Al to radical policy B2.

The market penetration strategy tries to achieve growth through existing products in existing market. Market development strategy plans to develop new markets with the existing products. Product development strategy would achieve growth through new but related products in the existing market. Thus Ansoff model plans for intensified marketing with existing products.

Pricing

Price is the monetory value that the customer is willing to exchange for the goods and services offered by the firm. It is important to the seller as it represents the returns of his efforts. Several factors such as discount, credit terms, mode of payment etc. affect pricing plans and policies. Market segmentation plays an important role in pricing decisions.

Place

The goods and services are to be delivered to the market from where the customers

would be able to purchase for satisfying their needs and desires. So distribution plans and policies address themselves to issues such as the channels to be used. Market-oriented strategies specially in a competitive environment will to a great extent depend on the effectiveness and efficiency of the distribution system.

Promotion

According to Philip Kotler[3]–A company's total marketing communications mix-also called its promotional mix-consists of the specific blend of advertising, sales promotion, public relations, personal selling and direct-marketing tools that the company uses to pursue its advertising and marketing objectives.

Promotional plans and policies have to consider the basic question of what promotional mix to adopt so that promotional activities can be used to implement strategies.

The following chart in a nutshell presents the various steps that are involved in the marketing planning process.

1. Environmental Scanning

- Spotting the business opportunities and threats through analysis of the environment.
- Finding out the business opportunities for the existing units.
- Analysing the acceptability of the product.
- Customer sensing.
- Analysing the market and the competition. 2. Internal Scanning
- Analysing the capabilities of the firm to market the product and also analysing the limitations.
- Analysing the core competencies of the firm.

3. Setting the Marketing Objectives of the Business

- Deciding on which business opportunities should be pursued depending upon the capabilities and limitations of the firm.
- Assessing the current performance in the key areas.
- Setting measurable and explicit goals in the key areas like sales volume, profits, market share, service, marketing innovations etc.
- Setting clear cut, measurable and explicit goals for each product/market.

4. Developing the Marketing Strategy

- Studying the customer, his characteristics, his profile, his buying behaviour and buying motives.
- Segmentation of the market considering certain characteristics of the buyers.
- Evaluating the different segments and selecting the appropriate segments as the target market.
- Deciding on the marketing mix of four P's.
- Deciding on the product mix.
- Providing for impact of the uncontrollable variables. e Deciding on the branding of the product.
- Deciding on the packaging of the product.

5. Formulating the Detailed Marketing Plans and Programmes involves the following:

- Sales Forecast and Sales Budget.
- Physical distribution i.e. channel plan.
- Sales force plan.
- Sales organisation plan.
- Advertising and sales promotion plan.

Building Resource Capabilities and Organizing the Work Effort :

1. Discuss how to implement and execute Strategy.
2. Why implementing and executing Strategy is a Tough Management Job?
3. Explain implementing a Newly Chosen Strategy requires Adept Leadership.
4. Discuss the characteristics of the Strategy Implementation Process.
5. What are the Goals of the Strategy Implementing-Executing Process?
6. Who are the Strategy Implementers?
7. Narrate the ways to lead the Implementation and Execution Process.
8. Narrate the factors shaping how Managers lead the Implementation Process.
9. Discuss the following which involves in building a capable organization:

   (a) Management Team

(b) Selecting the Management Team : Key Considerations

(c) Recruiting and Retaining Talented Employees : Implementation Issues

(d) Key Human Resource Practices to attract and retain Talented Employees

(e) Key Organization-Building Objectives

(f) Power of Unique Competencies and Capabilities strategically-relevant Core or Distinctive Competencies.

10. Discuss the following Strategic Management Principle :

(a) Key Traits to building Core Competencies

(b) Developing Competitively Valuable Competencies

(c) Building Competencies : Keys to Success

(d) The Most Valuabe Organizational Capabilities

(e) Process of building Organizational Capabilities

(f) Undating Competencies and Capabilities as Conditions Change

(g) Strategic role of Employee Training

(h) Matching Organization Structure to Strategy

11. Identify Strategy-Critical Activities.

12. Explain Potential Advantages of Outsourcing Non-Critical Activities.

13. What do you understand by Appeal of Outsourcing?

14. What do you understand by Potential Advantages of Partering?

15. Make Strategy-Critical Activities the Main Building Blocks.

16. Narrate Guard against Functional Designs that fragment activities.

(a) Fragmented Strategy-Critical Activities. in a Functional Structure.

17. Determine how much Authority to delegate to whom.

18. What are the advantages of Decentralized Decision-Making and Empowerment?

19. Explain the Principles underlying the Global Trend towards Decentralization and Empowerment.

20. Narrate Reporting Relationships and Cross-Unit Coordination.

21. Narrate Options to supplement the Basic Organization Structure.
22. Assign Responsibility for Collaboration with Outsiders.
23. What are the Roles of Relationship Managers with Strategic 'Partners?
24. Explain Perspectives on Organizing.
25. Describe Organizational Structures of the Future : Overall Themes.
26. Describe Organizational Structures of the Future : Requirements for Success.
27. Describe Characteristics of Organizations of the Future.

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Unit 11 ◻ Operational Strategy

Operational Strategy

A systematic direction, evaluation and control of the entire range of processes that transforms inputs into finished goods or services is the objective of operations strategies. The concept of 'Operations' instead of 'Production' includes both manufacturing as well as service organisations.

In order to carry out operations strategy successfully, it is necessary to design and implement well conceived operating systems. The primary operating systems that are used in operations management are discussed below.

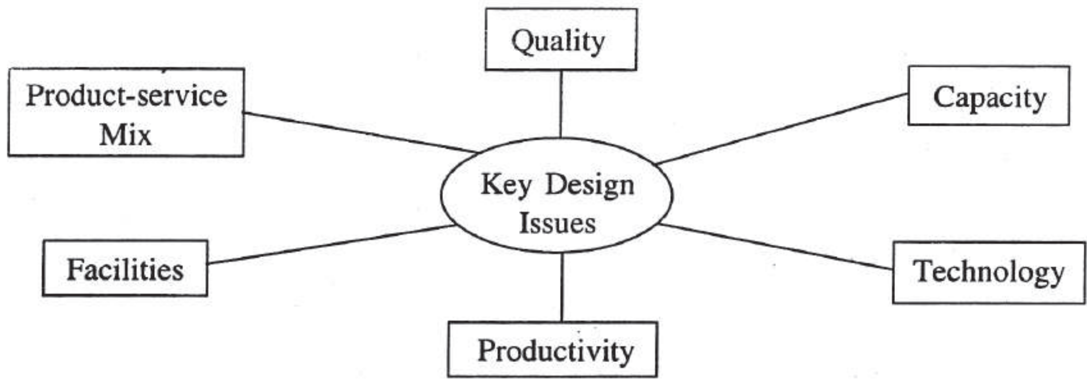

Fig 10.2 : Designing Operating Systems

Product-Service Mix

The firm has to first decide what they should produce and what quantity they should produce. The following points have to be taken cognisance before deciding.

- **Productivity**

Effectiveness of production management may be viewed as the efficiency with which inputs are converted into outputs. This conversion efficiency with which inputs are converted into outputs is measured by a ratio which is known as productivity.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}} = \frac{\text{Goods and services}}{\text{Capital, manpower, land, building, machine, and materials}}$$

Management of production system is essentially concerned with management of productivity. Higher productivity signifies more efficient production.

- **Cost efficiency**

Cost efficiency gives the competitive advantage of a product. The input costs are to be optimal considering the quality and price of material. The product and service designs have to be made so that they are simple and costs of the parts are within reasonable limits i.e. value engineering will play an important role in the strategy implementation.

- **Quality**

Quality is a major consideration for a company. It effects productivity, competition and cost. Less defectives means less sales return and less reworking of the product, which saves cost and increases productivity. Quality products keep a company ahead in competition. The strategy of quality consciousness helps employees to act responsibly. A company is able to produce more units with less 'resources. Total Quality Management (TQM) is 'a popular approach to managing quality. TQM is built around four main ideas.

i) Do it right the first time : Here inspection of the product is made during the process and any defect is reworked or if there is machine defect it is rectified. Every person in the process who touches the products in the different stages spots the defect if any, and rectifies it. Here the stress is on continuous improvement of personnel, processes and product.

ii) Customer centric : Both internal and external customers have to be satisfied. TQM emphasise that the employees dealing with customers should be customer friendly i.e.

- Customer needs should be anticipated
- Listen to customers
- Respond appropriately
- Learn how to keep customer satisfied

iii) Continuous improvement becomes a way of life : Here TQM stresses on achieving better quality, speed and flexibility at lower cost and wastage. The Japanese name Kaizen stands for continuous improvement. Kaizen stimulates continuous improvements in the organisation. It provides scientific approach to improve productivity by eliminating waste arising from inconsistency, inadequacy defects, waiting, unnecessary transportation, defects etc.

iv) Teamwork : TQM is employee-driven. It empowers the employees through training, by providing information and best possible tools. They are also encouraged to be

involved in key decisions and finally reward- for good results are given. Team spirit is inculcated by drawing talents from different departments. Teamwork enhances co-operation and effective and efficient work.

- **Reliability**

Only quality will not be the factor which a customer will look into a product. They would also be interested to the fact that the product should work as designed for a reasonable length of time.

- **Flexibility**

The company has to respond appropriately to the changes in the product design or product mix as dictated by the market. Even the facilities should be able to adjust in case of change in volume.

Capacity

- **Build capacity on future demand**

The customer demand, its acceptance of the product and competitor's reaction are to be estimated for building up capacity.

- **Estimates lead to actual capacity building :** The management has to consider the estimates and based on that translate it into actual capacity, keeping input limitations such as plant, equipment, finance, human resource etc. in mind.

- **Create alternate capacity plan :** There could be wide gap between what the market can absorb and what the company can produce. In such cases the company should prepare alternate plans. Most leading companies try to meet demands during peak period in any of these manners :

i) By increasing the capacity of the plants.

ii) By producing more during black time and build up stocks such that peak period demand can be met.

iii) By giving overtime work.

iv) By sub contracting some work.

- **Evaluate the various alternatives :** By producing more volume or variety of products, the costs tend to go up. Such additional costs should be carefully evaluated against the expected pay off and the associated opportunities and threats.

- **Vertical and Backward Integration :** For growth of a company, it may go for

vertical integration either backward or forward. Vertical Integration is an ingenious device on the part of the manufacturer to reduce the cost. The make or• buy decisions always bother the managers. In most of the cases buying seems to be a better alternative, but company's tend to go for vertical integration in industries having the following characteristics :

i) Where the quality of the product is important.

ii) Where the finished product of one industry can be consumed by another as raw material

iii) Where one process is complementary to another

iv) Where balanced production is significant.

Integration policies, if properly designed and implemented, can yield high profitability.

Technology and Facilities

- **Choice of Technology :** The existing technology for the production of the product, if available has to be weighed against the alternative technologies that may be there. If the technology for the production of the product is not available, then whether the technology can be developed through R & D has to be probed into whether foreign technology can be imported through collaborations or joint ventures could be considered etc.

- **Process Planning :** Process planning indicates operations to be performed and their sequence. It specifies the machine tools for each specified operation and the manufacturing data like speeds and feeds. It indicates estimated set up and processing times and sometimes the specifications of skill for each operation. This data called process sheet helps in the following activities.

i) Scheduling : It is the process of fitting a job onto the machine or group of machines according to their available time, which are required for manufacturer of the item and within the total time which is not greater than the promised delivery period. With the data given from process sheet load and schedule charts can be drawn up.

ii) Materials movement : The shop floor manager can know where the jobs are required to be sent for next operation.

iii) Cost reduction and cost control : Since the process sheet gives prior information tooling and other materials can be arranged ahead of the operation. This reduces set up time and reduces labour cost and overheads.

iv) Costing : The prior information will help costing dept. to determine pre and post production cost and do variance analysis.

v) Requirement of machines and manpower : Set up and processing time for any operation is given in the process chart from where total machine hours and manhours can be determined which enables management to engage the required machine and manpower as per requirement.

vi) Method of Working: Without going to the shopfloor method study engineer can know as to how presently the part is being manufactured and the operationwise time date also helps to know whether the shop performance is as per expected performance.

- **Facilities Location Planning**

Plant location is important both for manufacturing and service category. It is a strategic decision and has long term implications. Every firm may have its own criteria for choosing a site. However, the following points are considered.

i) Deciding on the overall area of the country (i.e. which region), proximity to markets, proximity to sources of raw materials, availability of utilities, transport facilities, climate conditions, industrial and taxation laws.

ii) Within the region, availability of labour, industrial and labour attitude, social structure, service facilities etc are considered.

iii) Site factors such as availability of land, suitability of land, cost of the land etc are considered.

- **Facility Layout Planning**

Plant layout is the plan of or implementation of plan. It is an optimum arrangement of facilities, operating equipment, personnel, storage space, materials handling equipment, and all other supporting services along with the design of the best structure to contain these facilities. These are done to permit the processing of a product in the most effective manner through the shortest possible distance and through the shortest possible time.

Layouts are basically of three types

i) Process or functional layout

ii) Product or like layout

iii) Project or fixed position layout.

It process layout the plant is divided into process units i.e. departments and within these process units all similar facilities are grouped together. For example, all the drilling machines are kept together again, all the milling machines are kept together and so forth.

Process layout is suitable when (a) products are non standard or (b) there is wide variations in the processing times of individual operations.

Product layout is also known as 'layout by sequence'. The facilities are laid out. in such a manner that the product moves sequentially in unidirection for the different operations that are to be done to it. Product layout is suitable when (a) the products are standard and large quantities are to be produced (b) products here reasonably stable demand (c) processing time of individual operations is more or less same (d) uninterrupted supply of raw material and other supplies can be maintained. There could be mixed layout of process and product layouts. Project or fixed position layouts are made specifically for a particular project. Here the product by virtue of its bulk and weight remains at one location. The equipments required are moved to the product. For example, in the case of ship building.

- Purchase and Inventory Control

Purchase is the function of buying materials and resources needed to create products and services. Purchase has to see that there is adequate material of right quality for production and at the right price. Inventory control looks into the proper management of the inventory comprising of raw materials, work in process, finished goods and goods in transit. The inventory control is very important as it tries to optimise the investment on stock and stock carrying cost. Funds get locked up if huge stock piles up and that pushes up cost and the product looses competitiveness due to pricing. There are various methods of inventory control of which

(i) Economic ordering quantity (EOQ) is the commonly used method. Here the ordering cost and inventory carrying cost (holding cost) are minimised and a base stock is maintained such that there is no stock out. Orders are placed when the stock level reaches the reordering level calculated on scientific basis.

(ii) Just-in-time (JIT) is an inventory system primarily designed to have zero inventory. The concept is to deliver the raw materials directly to the production facility 'just in time' to be used. This system works relatively better for standardised products having consistent demand. The philosophy of JIT technique is that products should be manufactured only when customers need them and in quantities as the customers need, so that there is minimum stock buildup.

Quality

Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. The details of quality and TQM have been discussed already under quality in the section Product-Service mix.

Productivity

As already defined productivity is the efficient transformation of input to output. The efficiency may be achieved by the following techniques :

- Technological productivity : Technological upgradation through more efficient machines, more computer aided machines, computers and even with robots, the outputs may be increased significantly.
- Worker productivity : Here workers produce more output in the same time. Better workplace ambience, rewards for more productivity etc would motivate workers to increase productivity.
- Managerial Productivity : This means managers run the business more efficiently through better planning, encouraging team sprit, ensure quality production through techniques like statistical quality control, quality circles, motivate employees etc.

Identifying Strategic Alternatives Strategy Alternatives :

1. Define 'Diversification and Corporate Strategy'.
2. Explain four main tasks in Crafting Corporate Strategy.
3. What do you understand by the term 'Competitive Strengths of a Single Business Strategy'?
4. What are the risks of a Single Business Strategy?
5. When does Diversification Start to makes sense? When to diversify?
6. Why diversify?
7. Explain Strategic Management Principle.
8. Differentiate between Related/Unrelated Diversification.
9. Narrate Strategy Alternatives for a Company looking to diversify. (a) What is Related Diversification?
10. What do you understand by the Concept : Strategic Fit?
11. Define Value Chains for Related Businesses Strategic Appeal of Related Diversification.
12. Discuss Types of Strategic Fits.
13. Discuss R & D and Technology Fits.

14. Discuss Supply Chain Fits.
15. What is meant by Manufacturing Fits?
16. What is meant by Distribution Fits?
17. What is meant by Sales and Marketing Fits? Discuss types of Potential Benefits.
18. Enumerate Managerial and Administrative Support Fits.
19. What do you understand by the topic Concept : Economies of Scope.
20. What are Related Diversification and Competitive Advantage?
21. Discuss Capturing Benefits of Strategic Fit.
22. What is Unrelated Diversification?
23. Discuss Basic Premise of Unrelated Diversification.
24. Narrate Value Chains for Unrelated Businesses Acquisition Criteria for Unrelated Diversification Strategies.
25. What do you mean by Attractive Acquisition Targets?
26. Define Appeal of Unrelated Diversification.
27. Define Drawbacks of Unrelated Diversification.
28. How broadly should a Company diversify?
29. How many Unrelated Businesses can a Company diversify into?
30. Discuss the term 'Diversification and Shareholder Value'.
    (a) Related Diversification
    (b) Unrelated Diversification
31. Combine Related-Unrelated Diversification Strategies.
32. Discuss Strategies for entering New Businesses Acquisition of an Existing Company.
33. Whcn is Intcrnal Startup more attractive?
34. Explain Joint Ventures and Strategic Partnerships.
35. What are the drawbacks of Joint Ventures?
36. Explain Straegy Options for a Company already diversified strategies to broaden

a Diversified Company's Business Base.

37. Enumerate Divestitute Strategies aimed at Retrenching to a Narrower Diversification Base.
38. Define Retrenchment Strategies along with the following :

    (a) Objective

    (b) Strategic Options involve divesting businesses
39. What are the conditions that make Retrenchment attractive?
40. Explain the Options for accomplishing Divestiture.
41. What do you understand by Corporate Restructuring and Turnaround Strategies?

    (a) Discuss the Objectives of Corporate Restructuring Strategy.

    (b) Discuss the Objectives of Corporate Turnaround Strategy.
42. Narrate the Conditions that make• Portfolio Restructuring attractive.
43. Define Turnaround Strategies : The Options.
44. Comment on Trend in Diversification.
45. Explain Multinational Diversification Strategies along with its distinguishing characteristics.
46. What do you mean by Appeal of Multinational Diversification Strategies.
47. Discuss Opportunities to build Competitive Advantage via Multinational Diversification.
48. What are the Competitive Strengths of a DMNC in Global Markets?
49. What are the Competitive Powers of a DMNC in Global Markets?

Strategy Evaluation and Selection :

1. What do you understand by Building Shareholder Value : Questions to ask about a Diversified Company.
2. How to evaluate. a Diversified Company's Strategy?
3. Identify a Diversified Company's Strategy.

    (a) Identify present Corporate Strategy.

    (b) Evaluatc Industry Attractiveness Factors.

4. What are the Procedures for rating the Relative Attractiveness of each industry?

   (a) How appealing is the who group of industries in which the Company is invested?

5. Evaluate each Business Unit's Competitive Strength.
6. Narrate Factors to use in evaluating Competitive Strength.
7. What are the Procedures for rating the Competitive Strength of each business.
8. Enumerate Industry Attractiveness-Competitive Strength Matrix Strategy Implications of Attractiveness/Strength Matrix.
9. Discuss Strategic Fit Analysis.
10. Evaluate Portfolio for Competitively Valuable Cross-Business Strategic Fits.
11. Identify Cross-Business Strategic Fits.

    (a) Assess Resource Fit.

    (b) Check for Financial Resource Fit.

    (c) Explain Characteristics of Cash Hogs.

    (d) Explain Characteristics of Cash Cows.

    (e) Explain Good vs. Poor Financial Fit.

    (f) Check for Competitive and Maagerial Resource Fits .

12. Rank Business Units based on Financial Performance.
13. Decide Resource Allocation Priorities and Strategic Direction.
14. Discuss the following Options for General Strategic Direction.

    (a) Invest and Grow

    (b) Fortify and Defend

    (c) Overhaul and Reposition

    (d) Harvest or Divest

15. Discuss the following Options for allocating Financial Resources.

    (a) Strategic Purposes

    (b) Financial Purposes

16. Narrate Crafting a Corporate Strategy-Key Issues.
17. What are the Options for addressing a Performance Shortfall?
18. Identify Additional Diversification Opportunities.
    (a) Discuss Related Diversification .
    (b) Discuss Unrelated Diversification
19. How do Corporate Strategies form?,
20. How do you manage th Proccss of Crafting Corporate Strategy?

Implementing Strategy

1. What makes up a Company's Culture?
2. Discuss the features of the Corporate culture at Wal-Mart.
3. Discuss the features of the Corporate Culture at General Electric.
4. Discuss the features of the Corporate Culture at Nordstrom's.
5. Where does Corporate Culture come from?
6. How is a Company's Culture perpetuated?
7. Explain Forces and Factors causing Culture to evolve.
8. Narrate Cuture and Strategy Execution : Ally or Obstacle.
9. Why Culture matters? Discuss benefits of a good culture-Strategy Fit.
10. Explain types of Corporate Cultures Characteristics of Strong Culture Companies.
11. How does a Culture come to be strong?
12. Narrate Characteristics of Weak Culture Companies.
13. Narrate Characteristics of Unhealthy or Low Performance Cultures.
14. Discuss Hallmarks of Adoptive Cultures.
15. Create a Strong Fit between Strategy and Culture Types of Culture-Changing Actions.
16. Discuss Symbolic Culture-Changing Actions.
17. Discuss Culture-Changing Actions.
18. Establish Ethical Standards and Values.

19. Enumerate Topics covered in Value Statements and Codes of Ethics.
20. Enumerate Instilling Values and Ethics in the Culture.
21. Discuss about building a Spirit of High Performance into the Culture.
22. Discuss Approaches to building a Spirit of High Performance.
23. Explain Pepple Management Practices that promote a Spirit of High Performance.
24. Explain the following numerous Roles of Strategic Leaders/Leadership Roles of the Strategy Implementer.
    (a) Stay on Top of What's happening
    (b) Foster a Strategy-Supportive Culture
    (c) Leader's Role in Matching Culture and Strategy
    (d) Keep Internal Organization Responsive
    (e) Leader's Role in Empowering Champions
    (f) Leader's Role in developing New Capabilities
    (g) Exercising Ethics Leadership
    (h) Manager's Role in Exercising Ethics Leadership
    (i) Key Approaches to Enforcing Ethical Behavior
    (j) Actions Demonstrating Corporate Citizenship and Social Responsibility
    (k) Lead the Process of Making Corrective Adjustments

Unit 12 ◻ Financial Strategy

Financial management is that managerial activity which is concerned with the planning and controlling of financial resources. Financial strategies and policies of a firm are concerned with fund raising and fund allocation.

Fund Raising

Finance, it is said, is the life blood of a business, without which all the operations of a business will come to a grinding halt. Thus maintaining an adequate cash flow for the running and also growth of a business is very important. Finance strategies should ensure adequate and regular supply of capital. Capital can be raised from different sources. So the capital structure of the company has to be decided. Strategies should be worked out as to what will be the equity share component and debt component. The basic objective is to maximise the shareholders' wealth. At the same time it has to be seen that there is no over capitalisation or under capitalisation. Over capitalisation is indicated when the earnings of the company is not. large enough to yield a fair return on the stocks and Bonds or when the amount of securities outstanding exceeds the current value of the assets. A company may be undercapitalised when the rate of profit the company is making is exceptionally high in relation to the return enjoyed by similar companies in the same industry or when it has very little capital with which to run the company.

There are various alternatives for raising funds e.g. shares, debenture, bond, term loans, fixed deposits and bank finance for working capital.

Another important issue is the return to the investor, the important decision for dividends. A steady dividend policy is advisable as it gives an impression of the company as a steady organisation. However, the finance manager has to trade off between dividend payment and ploughing back the profits for company's use. Generally, a growth oriented company tries to plough back the own generation funds for the future growth.

Utilisation of Funds

The basic function is to decide about expenditure decisions and to determine the demand for capital for those expenditures. Thus finance manager is concerned with the efficient allocation of funds. Financial manager must find a rationale regarding the following three questions :

i) How large should an enterprise be, and how fast should it grow?

ii) In what form should it hold assets?

iii) How funds required would be raised?

The finance managers have to make decisions in the most rational way. The main areas for application of funds are

(i) Fixed Assets and

(ii) Working Capital.

Fixed assets involve long term investment of funds. Once these assets (like land, building, machinery, furniture, vehicle etc) are purchased, they are to stay for a long time; this expenditure is also known as sunk costs. The expenditure in these assets has to be minimised with respect to business requirement. Any investment costs the company either in the form of interest for borrowed funds or returns (dividends) to the• shareholders or even on own generation fund, there is opportunity cost. Thus while making fixed asset decisions the finance works out the return in terms of present day value that the assets will generate in future. There are various methods like (i) Pay back period (ii) Net present value (NPV) (iii) Internal rate of return (IRR) which are applied to find the rates of return: Instead of putting own funds a company may go for hire purchase or leasing whereby the fonds of the financial companies involved in leasing and hire purchase can be utilised at a cost. These methods are also useful in case of investments in technological assets which due to rapid technological advancement may become obsolete within a span of few years, as in hire purchase the ownership of the assets get transferred only after completion of the period for which it has been taken and leasing is also for a short period of time. Thus utilisation of funds for fixed assets is a very decisive factor for a company.

Working capital is the capital which runs the day to day business of the company. Gross working capital is defined as the total of current assets, while net working capital is defined as the current assets less the current liabilities. The management of working capital means management of the 'current assets, mainly the management of money position (i.e. cash and bank) which is the most liquid asset. Liquidity has two dimensions (i) the time necessary to convert the asset into money and (ii) the degree of certainty associated with the conversion ratio or price, realised for the asset. Although most assets have a degree of liquidity, cash and marketable securities have the highest degree of liquidity.

Inventory consumes a significant portion of firm's assets and require substantial investment. To keep these investments from becoming unnecessarily large, inventories must be managed efficiently.

Accounts receivables are the open end credit that the firm extends to the customers. A huge build up of accounts receivable would mean money locked up without any return. A careful analysis has to be made regarding the credit policy involving a trade off between the profits on sales that bring in receivables on one hand and the carrying cost of these receivables and bad debt losses. Collection process also has an effect on these factors. Thus procedures are essential to policies in this case.

To finance working capital which is short term in nature, companies take recourse to many sources e.g. bank finance, public deposits, trade credit, bill discounting etc. Banks provide working capital finance on the basis of estimated working capital requirement with security as the current assets to be financed. The. company has to provide for the margin money for the loan. Public deposits are raised from the-market; they are for short term period and can be insecured and secured by assets of the company. Trade credits are the credits extended by the suppliers of goods and services. The suppliers usually extend credit based on the creditworthiness and relation with the company. Banks while giving short term loans for working capital gives a cash credit limit for the company. It also provides for a bill discounting limits. Here the bills raised on the buyers of the company can be discounted through the bank and money realised immediately at a cost. However, if the bills bounce in future, then the bank will realise the money from the company and reverse the accounting entry. Companies may raise short term fund through commercial papers (CP), which are short term promissory notes with fixed maturity period. However, the companies which are only creditworthy can do so.

Financial Ratio Analysis

The most useful way of analysing a firm from a financial stand point is the financial ratio analysis. The Du Point company developed a simple system of ratio analysis for analysing the financial statements. The focus of this system lies on the ultimate corporate objective i.e. Return on Investment (ROI).

We will discuss some of the important financial ratios.

Macro Level		
Focus	Ratios	Reference group
Overall Performance	ROI ratios	Top management, financial institutes, banks, investors in equity shares, debentures, FD schemes etc.
Equity returns	Equity ratios	
Capital structure	Leverage ratios	
Safety aspects	Coverage ratios	
Working capital management	Activity	Operations management, bankers, creditors, suppliers.
Cash flows	Liquidity	
Overall profits	Profitabilit	Senior management, lenders and investors

Fig 12.1 : The Du Point framework for Ratio Analysis

The objective of a company should be to maximise its ROI for which capital should be productively employed and. sales should be profitable.

The return on investment is computed as follows

1. ROI = [(Profit before tax + Interest) + Total Capital Employed] × 100

   = [(PBT + Interest) + (Shareholders' Net worth + Borrowings)] × 100

   = Productivity of capital × Profitability of sales

   = [(Sales) (Capital Employed) × (Profit) + (Sales)] × 100

PBT stands for Profit before tax. Shareholders' networth is the Capital + Retained earnings + Reserves and Surplus.

2. Profitability of sales = [(PBT + Interest) + Sales] x 100
3. Productivity of Capital Employed = [Sales + Capital Employed]

Activity Ratios

1. Inventory Turnover Ratio = Cost of goods sold+ Inventory

The numerator of this ratio is the total cost of the goods upto the point of sales. The ratio reveals the effectiveness of a company's inventory management. Higher the sales turnover with lesser inventory will be the desired situation.

2. Average collection period (Debtors Turnover ratio) = Debtors + Average Daily Sales = Debtors + Annual Sales/365. This ratio indicates the number of days of credit period being- given to customers. Lower the ratio it is better.

3. Capital employed turnover

   = Sales + Capital employed

The ratio indicates the productivity of the capital in terms of sales. Higher the ratio it is better.

4. Fixed Asset Turnover Ratio

   = Sales + Net Fixed Assets

   The ratio indicates how good the fixed assets are utilised. Higher the ratio means the fixed assets are used more.

Liquidity Ratios

These refers to the working capital situation.

1. Current Ratio

   = Current Assets + Current Liabilities

   This ratio indicates the extent to which current liabilities are covered by current assets. An ideal ratio is 2: 1, however this will vary from industry to industry..

2. Quick Ratio or Acid Test Ratio

   = Quick Assets : Current Liabilities

   Quick assets mean current assets less inventories, some debts which are liable to become bad etc. i.e. this gives the assets which are easily marketable i.e. quickly converted into cash. The ideal ratio is 1 : 1.

Profitability Ratios

1. Gross Profit Margin

   (Sales - Cost of goods sold) + (Sales)

   The ratio indicates the gross margin available on sales. The higher the better.

2. Net Profit Margin

   (Net profit after tax) + Sales

This ratio would also be better if its higher.

3. Operating Expenses Ratio

   All operating expenses + Sales

   The lower the ratio would be better.

Leverage Ratios

The leverage relates to the borrowings of a company

1. Debt - Equity Ratio

   = (Long Term Debt) + (Shareholder.s' net worth)

   This ratio highlights the capital structure of a company in a nutshell. A debt equity ratio of 2: 1 is a permitable ratio for banks and financial institutions for giving loans.

Coverage Ratios

The coverage ratios are the ratios which measure debt servicing capabilities of a company and indicate the cushions available in respect of these payments. Higher the cover, the better is the level of safety.

1. Interest Coverage

   = (Net profit before interest and tax) + Interest charges Higher the cover the better for the company's lenders.

2. Dividend cover

   = (Net profit after tax less preference dividend) + Equity dividend

   This ratio indicates the number of times equity dividend is covered by the company's net profit after tax. The higher the cover it is better for the equity shareholders.

3. Debt-service coverage ratio

   = (Net profit + Depreciation + Interest) + (Loan instalments + interest)

   The ratio indicates how the company is placed in relation to return of loans.

Equity Investor's Ratios

1. Earnings per share (EPS)

   = (Net profit after tax - pref dividend) + (No of equity shares)

   EPS is a indicator of company's performance. If the EPS is good, the company can

pay dividends, plough back the profits. For these reasons it is very important for an investor.

2. Price/Earning Ratio (PIE ratio)

 = (Market value per share) (Earnings per share)

 The PIE ratio indicates the relationship between EPS and the current market price of the shares. For a company doing very well the PIE ratio may be 15-20 times .

An analysis of financial ratios helps a strategist in the following ways : (i) If an analysis of the ratios are made over the years it gives a definite trend and helps in comparing the progress. (ii) Inter firm comparison of key financial ratios alerts one as to what is happening in a company vis-a-vis its competitors. (iii) It can spot areas where improvements can take place. (iv) It can also alert against possible dangers.

Financial Strategy and Competitive Advantage

Financial strategy provides the firm with the appropriate financial structure and explores various investment alternatives and strategic alternatives like mergers, acquisition etc.

Companies obtain competitive advantage in financial function through low cost sourcing of funds, cost effective operations, proper working capital management. To quote J. Thompson2 "Finance can be a source of great strength in building distinctive. competitive advantages to a company. Companies that manage their stocks debtors and creditors will improve their cash flow and reduce both operating and borrowing expenses. They can borrow at competitive rates and reduce interest payments to a significant extent. Large finances help them to move ahead of competitors with . confidence. Resources can be leveraged to increase the returns to the shareholders. They can increase their scale of operations and derive significant tax concessions through mergers and acquisitions. Thus companies that manage their funds well can build distinct competitive advantage over a period of time."

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Unit 13 ◻ Human Resource Strategy

Human resource is the organisation's people. Highly developed technology, cost reduction etc all are strategies, but nothing could be achieved, if. an organisation lacks the people with requisite skill to perform the job. Thus Human Resource is the most important resource for an organisation. To get the best output from the people they have to be handled in proper way. Managing these people will need leadership qualities.

The role of Human Resource management is to procure, train and develop• and maintain competent workforce to achieve the goals of an organisation in an effective and efficient manner.

Models of Human Behaviour

Organisational behaviour that organisations develop differ in the quality. The difference arises due to the different models being followed by the different organisations. Four models of organisational behaviour have been followed by the organisations over the years. These are autocratic, custodial, supportive and collegial.

- Autocratic model depends on the power of the boss. In this model it is taken for granted that the management knows what is best and the employees will have to follow their instructions. It considers that the employees have to be directed and pushed to perform and the management's function is to do that precisely. Management does all the thinking and employee's job is to follow the managements orders. In this theory which was propounded by Douglas Mcgregor as theory X also assumed that human beings by nature dislike work and therefore they have to be coerced, controlled and directed and threatened with punishment to get them put forth adequate effort.

At the opposite extreme stands Mcgregor's Theory Y, which assumes that it is natural for human beings to make physical effort and mental effort as play or rest:

Average human beings learn under proper conditions, not only to accept but also to seek responsbility, capacity to exercise high degree of imagination, ingenuity and. creativity in the solution of organisational problems. External control and threat of punishment are not the only means to put people to work. People will be committed to service of objectives mostly ; rewards are associated with their achievement. This theory gives rise to the following models.

- Custodial model aims at reducing the insecurity and frustration of workers which might be felt by them from autocratic model. Custodial model depends upon money as the best way to motivate employees. Workers are satisfied and happy but not strongly

motivated. The workers. extend passive co-operation which results in not a full-fledged effort from the workers. The workers have not only physical and security needs ; they also have psychological needs which is not looked into in this model.

- Supportive model depends on leadership instead of authority or economic rewards. Here managements support the employee's job performance rather than simply look after . the economic benefits. as in custodial model. The leader assumes that the workers will take responsibility, contribute and improve themselves if given a chance. Thus a climate is provided to help the employees to grow and accomplish in the interest of the organisation. In this way supportive model takes care of certain psychological needs of the workers.
- Collegial model considers team concept. The collegial model depends on the management's creating a feeling of partnership with the workers. The workers feel an obligation to uphold quality standards for the better image of their company. "In this kind of environment, employees normally feel some degree of fulfillment, worthwhile contribution and self-actualisation, even though the amount may be modest in some situations. Self-actualisation will lead to moderate enthusiasm in performance."[2]

The four models evolved over time to meet the requirements at different times.

However, there is no best model and the search for newer models will be made to suit the future.

Personnel Policies

Personnel or labour or industrial relations i.e. Human Resource Management (HRM) policy provides guidelines for a wide variety of employee relationship in an organisation.

A company's personnel policy have two types of objectives. One which signifies the philosophy of the top management toward human resources and reflect its great concern as to the importance of people in the organisation. The other objectives should refer to the specific activities of the HRM dept.

Need for Personnel Policy.

Personnel policies are to be framed because of the following reasons[3] :

(i) The basic needs and requirements of both an organisation and its employees require deep thought. The management is required to examine its basic convictions as well as give full consideration to practices in other organisations.

(ii) Established policies ensure consistent treatment of all personnel throughout an

organisation. Favouritism and discrimination are thereby minimised.

(iii) Certainty of action is assured even though the top management personnel may change. The tenure of office of any manager is finite and limited; but the organisation continues, and along with it continue the policies; and this continuity of policies promotes stability in the organisation.

(iv) Because they specify routes towards selected goals, policies serve as standards or measuring yards for evaluating performance. The actual results can be compared with the policies to determine how well the members of an organisation have lived up to their professed intention.

(v) Sound policies help to build employee enthusiasm and loyalty. This is specifically true when they reflect established principles of fair play and justice, and when they help people to grow within an organisation.

(vi) They set patterns of behaviour and permit participants of plan with a greater degree of confidence.

Principles of Personnel Policies

(i) Have the right man at the right place.

(ii) Train the employees for the jobs to be done.

(iii) Espirit-de-corp should exist among all departments and divisions.

(iv) Right co-ordination among departments and divisions, so there is less of conflict.

(v) Provide workplace conducive to work. Also better facilities and tools are to be provided. Create a sense of belonging to the workers.

(vi) Ample scope should be provided for creativity. Opportunities should exist for the worker for advancement. Reward and recognition for good job done and reasonable security should be there.

Personnel policies should be sound and have a broad coverage of all the functions. The American Society for Training and Development (ASTD) has developed the HRM model which integrates the following areas or sub systems of HRM.

(i) Training and Development

(ii) Organisation Development

(iii Organisation/Job Design

(iv) Human Resource Planning

(v) Selection and Staffing

(vi) Personnel research and information system

(vii) Compensation/benefits

(viii) Employee assistance (ix) Union/labour relations

These nine subsystems have been referred as the spokes of the wheel, as shown here.

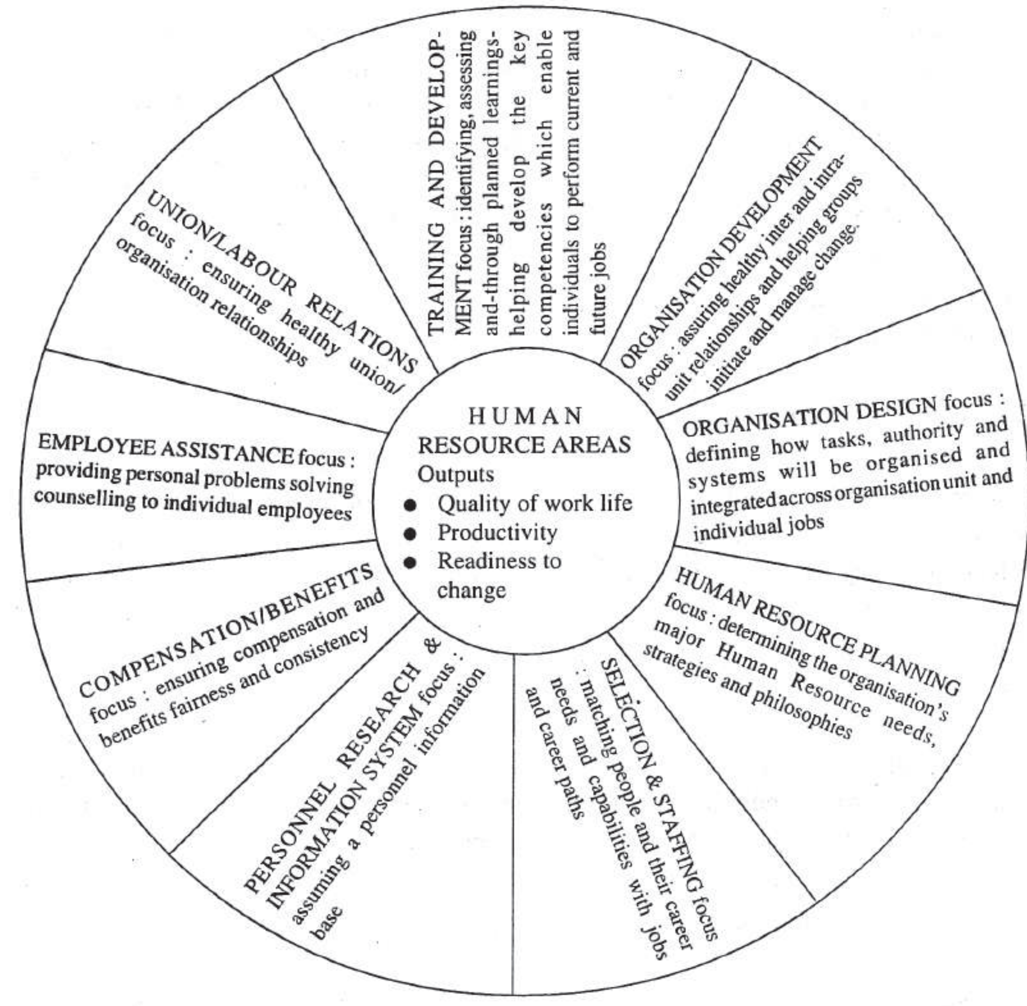

Fig 13.1- Human Resource Wheel

[Source : American Society for Training & Development, Models for Excellence • (ASTD, 1983) _ p.23]

Human Resource Planning

(a) Objectives of human resource planning is essentially the process of finding and getting the right number of qualified people into the right job at the right. time. "In effect it is the purpose of matching or fitting employee abilities to enterprise requirements, with an emphasis on future instead of present arrangement."

(b) Manpower planning process estimates the future organisational structure at a given point of time and on that basis estimate the number and type of employees needed are determined. Forecasting provides the premises on which manpower planning is based. The manpower plan is flexible and is tuned to the requirement of an organisation from time to time. The manpower plan can. be for short term, say, for 1-2 years and long term, say, for 3 to 5 years time frame.

This is a very important aspect as a shortfall in right quality manpower will affect the performance, again a over burdened company with more than required personnel will affect the bottom time and in many cases may lead to steady process of closure.

Selection, Recruitment and Staffing

Selection embraces all policies by which the company makes a choice of employees. While formulating a selection policy due consideration should be given to organisational requirement as well as cost factor, extent of formality, certain selection policy issues such as promotion from within, attitudes of enterprise in recruiting handicaps, women employees, part time employees etc have to be taken. The purpose of selection is to pick up the most suitable candidate who would meet the requirements of job and suit the organisation best. So the HRM manager may look into the Internal sources or External sources to fill that vacancy.

Recruitment is the process of choosing a person. Apart from the curriculam, vitie, interviews are held to find out the talent within him and on that basis, if found suitable, by the board of interviews he may be selected.

Staffing is after selection, placement of the individual for the right position for which the person has been considered.

Compensation

This is the determination of adequate and equitable remuneration of the employees in the organisation. Certain factors have to be considered in fixing remuneration like the basic needs, legal provisions regarding minimum wages capacity of the organisation¬to pay, the remuneration given by competitors for similar jobs. Compensation could. be

both in terms of monetary as well as non-monetary rewards.

Employee Welfare and Assistance

If the morale of the employee is high the output will be definitely better, so organisations take welfare measures which relate to the physical and social. well¬being of the employees. The organisation takes measures for health, safety and various other areas like education for employee's children, recreational facilities, cafeteria etc.

Counselling is also done for providing solutions to personal problems of the employees.

Industrial Relations

This function is very important for the smooth running and growth of an organisation. The Personnel Manager is mainly entrusted to settle the disputes. that arises with the workers. The labour laws and other industry related laws are one of the areas where he has to be' conversant with. Collective bargaining and joint consultations are methods of finding solutions to the disputes. Various committes are made to take care of the labour welfare, redressal of grievances etc. There are strategic decisions made for having a peaceful and conducive atmosphere for business.

Training & Development

Training is imparted for increasing knowledge and skills of an employee for doing a specific job. Training enables a trainee to do the job rriore efficiently and improve himself for future higher level jobs. Thus training is a planned programme designed to improve an employee's knowledge, skill, attitude and approach to work. It also acts as a motivating factor.

Development is more oriented towards individual than training. Here knowledge and skill is imparted to employees mainly to managers so as to enable them to more effectively do problem solving, and decision making.

Personnel Research & Information System

Personnel department prepares a data base regarding all the employees of the organisation. It keeps full records of his training, transfer, achievements, promotions etc alongwith absenteeism, indiscipline if any, labour turnover and the personnel programmes and policies of the organisation. This- helps in strategy formulation.

Organisational Design and Development.

The HRM managers will knit the organisation as a single unit so that the jobs are carried out smoothly. The thrust will be to define how tasks, authority and systems get

together and integreted across organisational units and individual jobs.

HR Strategy .in Dynamic World

The external and internal environment influence the HR function of any company. External factors like technology, political aspects, local and government issues, unions, etc influence a HR strategy e.g. change in technology will have an effect on HR manager as he will have to get suitable persons who are knowledgeable about the new technology. Again, he may have to bend to pressure from political sources to consider candidates with the right political connections. Internal environment also affect the HR manager. The different functional areas, specific cultural issues peculiar to a unit all have an effect on the HR function. The HR manager will have to decide on the courses of action for the survival and growth. The HR strategies should be such that' the firm has the competitive edge over other organisations.

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Unit 14 ◻ Behavioural Strategy

A successful strategy formulation does not necessarily means successful strategy implementation. Strategy implementation requires the active- support of all managers and employees. The most important would be the organisational structure to put the strategy into effect and the behaviour of the strategists in implementing the chosen strategies. So we deal with the major issues of leadership, corporate culture, corporate politics and use of power, personal values and business ethics.

Leadership Implementation

Leadership plays a vital role in the success or failure of an enterprise. Leadership is the achievement of some goal through others. To this end a leader establish direction for the organisation by developing and communicating a vision, and motivating and inspiring organisation members to move in the direction. The success of a leader can often be linked to his ability to exercise the right kind of influence at the right time.

Leadership has been studied and researched over the years. Various theories and models have been propounded. No theory has been accepted universally, but on the content and process of leadership lot can be understood.

Types of Leadership Styles

The techniques of leadership and its styles may be classified as below :

i) Authoritarian and autocratic leadership

ii) Consultative, participative, democratic leadership

iii) Laissez-faire, free rein leadership

iv) Bureaucratic or rules-centered leadership v) Expert leadership

vi) Manipulative leadership.

i) Autocratic leader thinks he is the only competent and capable person and assumes full responsibility for taking decisions. Subordinates are given very little freedom and they are expected to obey and adhere to his decisions. Autocratic communication is essentially one-way, which results in lack of feedback and which may lead to mistakes and misunderstanding. Autocratic style may be effective in emergency situations or at times when there is no time for consultation. However, employees mostly oppose this sort of leadership as they feel insecured, ill informed and afraid of the leader's authority. The employees do not get a

chance to develop themselves and the motivation level is at the lower end.

ii) Here the leader takes decision after consulting with the subordinates. He involves his group in the decision making process. The subordinates are encouraged to participate with open mind for deciding on subjects in which they will be themselves involved. This increases the commitment of the subordinates and motivation for doing the task in which they themselves have taken the decision. To fulfill their own commitment in the decision making forces them to achieve the goal. The leader develops team spirit and encourages his subordinates to function as a social unit and utilises the talents and abilities of the group.

iii) Laissez faire or free rein is group centric leadership. In this type of• leadership, the leader delegates the decision making process almost totally to the subordinates. Except for stating some minimum number of ground rules, the leader provides very little guidance and support to the subordinates. The role of a leader in this case is mostly liasoning between outsiders and the 'group and providing necessary resources to the group. No control or appraisal of performance is made in the hope that the subordinate will enforce themselves if required.

This style of functioning is effective when the employees are well trained and highly knowledgeable concerning the jobs and are ready to shoulder the responsibility. This gives great personal satisfaction and independence to the subordinates. Moreover, this is desirable when the corporate goals and the employees' goals are highly compatible and the leader can repose great degree of confidence in his subordinates.

But there are many drawbacks also. The groups may be too large to work together and have cohesion among the members. There could be some members who may not co-operate, thus ariving at a decision could be very difficult and ultimately may land up into chaos.

iv) Bureaucratic or rules centred leadership behaviour is characterised by a high degree of adherance and dependence on rules and regulations. The leadership then reduces to following of some routine actions. The rules dictate the administration and the workers are aware of the minimum level of acceptable performance to remain safe. Thus workers indulge in activity without any attachment or commitment. There could be resentment and apathy towards rules and often that may be accompanied by a conscious intention to break them. Adherence to rules only stagnates the process to a great extent.

v) Expert leadership or also known as situational leadership takes into consideration the knowledge and skill of the. leader. The subordinates follow a leader because the skill and knowledge of the person, regardless of his age, sex or other attributes is the need at that particular situation. In these circumstances, a person is looked upm as the leader by the group as he is considered as an expert. He must demonstrate his expertise continuously in order to be regarded as a leader. If the situation changes, another person may become the leader, who again with- his skill and knowledge will be respected as the leader by the group.

vi) Manipulative leadership style is based on manupulation by the leader of the employees to achieve the goals of the leader. In this type of leadership, the leader is aware of the aspirations of the employees and uses these as a carrot •before the employees, but ultimately do not reward them: The workers understand that they are being manipulated and therefore become resentful and demotivated. But this style is effective only for a short period or in specific cases like projects of short duration to motivate the employees with" illusive rewards, and get the job done efficiently.

Development of Strategists

Leadership implementation also relates to the development of strategists. The companies should groom potential strategists. To choose a future strategist and his career development plan is the job of the top management. Generally, talented individuals are spotted earlier and through development process may be made into a strategist. Thus the CEO of a company, as the leader and strategist, of the company may be guided by the following steps : Choosing the future strategist, career planning and development of the person and then the succession planning.

The central theme of this discussion is to note that it is imperative to prepare potential executives to take up strategic responsibility.

Corporate Culture

"Every company has its own unique culture. The character of a company's culture or work climate is a product of the core values and business principles that executives espouse, the standards of what is ethically acceptable and what is .not, the behaviours that define 'how we do things around here,' the stories that get told over and over to illustrate and reinforce values and traditions, the company's approach to people management and its internal policies. The meshing together of stated beliefs, business principles, style of operating, ingrained behaviour and attitudes, and work climate define a company's corporate culture."[1]

Thus corporate culture is the set of important assumptions that the members of an organisation share. It is the set of beliefs, values and behaviour that helps its members to understand the organisation and its philosophy.

For the success of an organisation, its culture must be appropriate to and supportive of the organisation. Corporate cultures vary widely for instance, the culture of a corporate body may be to pursue customer satisfaction at low costs.

Again for another corporate body could be team work and service-oriented approach. Culture influences the work of the managers. Managers' behaviour and their relationship with environment is affected by the culture of the organisation. The values, beliefs and practices that underlines the acts of an organisation generally come from influential executives or exemplary actions of some employees or group. The founder or some other strong leaders lay down a set of business principles which goes down the hierarchy in the company.

A company's culture could be the strength of a company, it could also be a weakness. Culture can facilitate co-operation, communication and decision making, but it may also be a interference for the smooth implementation of strategy by creating hindrance to change. It is important to understand the relationship between corporate culture and strategy.

The strategists can have four approaches.

i) To overlook corporate culture.

ii) To adjust and adapt strategy implementation to confirm to corporate culture.

iii) To change the strategy to suit the corporate culture.

iv) To change the corporate culture to suit strategic requirements.

In the first case the strategist ignores the corporate culture when he finds that it is almost impossible to change or to adjust to the corporate culture. This could be• the best way out in such cases.

In the second case the strategist adjusts his strategies so as to fall in line with the corporate culture. Changing the culture, which is embedded with everything in a company, is a difficult proposition. But the implementation part may be flexible. The alternatives like structure, systems and processes of strategic implementation could be manipulated to subserve the interest of corporate culture.

The strategy to change in the light of corporate culture is important. It is also economical

to consider cultural dimensions at the initial strategy formulation. Changing corporate culture being a more difficult proposition is always admissable to draw up the strategy in line with the corporate culture.

Again, in some cases it will be imperative to change the corporate culture although it is extremely difficult. But in some cases specially when there is a change in ownership by acquisition or sale of a company, the transition in culture takes place although slowly and mostly through assertive leadership.

It should be noted that when strategy becomes an ally of culture it promotes better execution. When there is a conflict it sends mixed signals to the employees, forcing an undesirable choice.

Values, Business Ethics and Strategy

"A value is a view of life and judgement of what is desirable that is very much a part of a person's personality and a group's morale".[2]

Business Ethics "is concerned primarily with the relationship of business goals arid techniques to specifically human ends"[12]. Thus values are personal in nature e.g. paying employees in handsomely to maintain a family decently. Whereas ethic is a generalised value system e.g. adapting fair business.

Philanthropy may not be the essence of business, thus it is optional. A strategist may not consider this value and still remain within the limits of business ethics. Therefore it is values with which the strategists have to consider as the varying element, before framing a strategy.

Strategists have to reconcile divergent values and- have to change at times.

"A corporate culture grounded in socially approved values and ethical business principles is a vital ingredient in a company's long term strategic success. Unless a company's executive genuinely care about how the company's business affairs are conducted, the company's regulation and ultimately its performance are put at. risk."[13] To be effective the values and business ethics should have to become a way of life. The top achelon of the management should become role models for value based decision making, ethical behaviour and to remember its duty towards the society. It is the duty of the leader to pledge his followers to this direction and take corrective actions in case of some wrongdoings. The leader should always lead from front and push forward the subordinates towards the desired goal keeping within the framework of values and corporate culture.

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Unit 15 ◻ Introduction and Evaluation Criteria

Introduction

The purpose of strategic evaluation and control is to evaluate the effectiveness of a given strategy in achieving the organisational objectives and taking corrective actions wherever required. The traditional approach of control is not sufficient in this case as strategy takes long periods for implementation and results. The uncertain future environment makes continuous evaluation of the planning premise and strategy implementation necessary.

Strategy evaluation includes three basic activities :

(i) Examining the underlying bases of a firm's strategy, (ii) Comparing expected results with actual results. (iii) Taking corrective actions to ensure that performance conforms. to plans. Strategic evaluation operates at two levels : strategic and operational. At the strategic level the consistency of strategy and environment is examined and at the operational' level to find out the strategy is being pursued.

Importance

Strategic control is "concerned with tracking the strategy as it is being implemented, detecting problems or changes in underlying premises and making necessary adjustment. In contrast to post-action control, strategic control is concerned with controlling and guiding_ efforts on behalf of the strategy as action is taking place and while the end result is still several years into the future." [1]

Thus Strategic Evaluation and Control (SEC) helps an organisation in several ways.

- The information flow in the form of feedback gives a clear idea how the organisation is faring in the light of the strategic close made. It also helps in close monitoring.
- The feedback offers the decision makers to make up their minds in regard to formulation of new or improved strategic plans, if required.
- SEC helps in identifying responsibilities for rewarding behaviour and also for failures in regard to the formulated strategies .

Barriers : There are three types of major barriers in evaluation

l. The limits of control : It is always a difficult task for a strategist to decide the limits of control. Too much control may throttle creativity and initiative and create unnecessary roadblocks to efficient performance. On the other hand, very little control may be used by employees to go of the work, or waste resources without

the fear of being hauled up.

2. Difficulties in measurement. It is difficult to find reliable and valid measurement techniques. Distorted measurement technique may not evaluate uniformly or measure variables which are not intended to evaluate.

3. Attitudinal problem : The control process involves the behaviour of individuals controlled, which is likely to be resisted by the managers.

Evaluation Criteria

The critical factors that could help evaluate a strategy may be broadly classified into quantitative and qualitative factors.

Qualitative factors :

There are many criterias. One of the popular criterias was given by Rumelt[2] as follows:

i) Consistency : The strategy should not have mutually inconsistent objectives and strategies.

ii) Consonance : A strategy must represent an adaptive response to the external environment and to the critical changes occuring within it.

iii) Feasibility : Can the strategy be attempted within the physical, human and financial resources of the organisation? The strategy should neither overtax available resources nor create unsolvable problems.

iv) Advantage : The strategy must provide for the creation and/or maintenance of a competitive advantage in the selected areas of activity.

Seymour Tiles[3] has given a list of criteria to evaluate a strategy soon after the implementation is over.

i) Internal consistency : Does the policy implementation of the strategy fit into the integrated pattern of the organisation?

ii) Consistency with the Environment : Are policies in conformity with the present environmental status?

iii) Appropriateness of given Enterprise resources : Does the implementation of the strategy facilitate the most economical use of scarce resources?

iv) Acceptability of Degree of Risk : In the given attitude of the management towards risk, to what extent is strategy capable of eliminating risk or making it possible for the management to bear it?

v) Appropriateness of Time Horizon : Does. the strategic implementation give due cognisance to the time horizon?

vi) Workability : Does it achieve the enterprise goal?

Quantitative factors

Quantitative criteria commonly employed to evaluate strategies are financial ratios, which strategists use to make comparisons. Hofer after reviewing the shortcomings of the many criteria, has given a different evaluation yardstick. He has proposed three measures for strategic evaluation.

Performance Characteristics	Some Traditional Measures	Proposed New Measure
Growth	Dollar Sales, Unit Sales, Dollar Assets	Value added+
Efficiency	Gross margin, Net Profits	ROVA*
Asset Utilisation	Net Profits/Dollar Sales ROl, Return on Equity Earning per share	ROVA/ROI

Fig. 1 : Hofer' s Measure of Organisation's Performance

+Value Added-dollar sales-cost of raw materials and purchased parts

+ROVA-Return or Value Added= Net Profit Before Tax x 100/Value

In attempting to evaluate the effectiveness of the corporate strategy, a comparison has to be done with its competitors with respect to such factors as :

- Net profit
- Return on Equity
- Return on Investment
- Cost of Production and efficiency
- Market share
- Growth in sales
- Adaptiveness

- Employee satisfaction
- Productivity

This is a short list but definitely not an exhaustive list of criteria for the evaluation of strategy. Management across the globe have tried to come to a universally acceptable criteria, and in the process have framed different criteria. We have only considered few of them.

Unit 16 ◘ Strategic Control

Strategic control provides the feedback as to whether all steps are appropriate or not and are functioning properly. There are four types of strategic control as Pearce and Robinson pointed out

i) Premise control

ii) Implementation control

iii) Strategic surveillance

iv) Strategic alert control.

Premise Control

Strategies are based on premises i.e. assumptions or predicted conditions. So a strategy may be valid as long as the planning premises remain valid. Premise control is designed to check systematically and continuously whether the premises on which the strategy is based are still valid. The external environment may change significantly at times. Changes in the vital premises may necessitate changes in strategy. Hamel and Prahalad points out that in case of industry leaders, "the foundations of past success were shaken and fractured when, in all too many cases, the industrial terrain changed shape faster than top management could refashion its basic beliefs and assumptions about which markets to serve, which technologies to master, which customers to serve and how to get the best out of the employees."

An early detection of the changed premises is necessary to adapt the strategy to the new environment. Implementation Control Strategy implementation consumes lot of time. Resources are allocated, manpower is deployed, special efforts are made from time to time in order to implement the strategy. Implementation Control is aimed at assessing whether the plans, programmes and policies actually taking the organisation towards the predetermined objectives or not.

Strategic Surveillance

"Strategic surveillance is designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy"6. Certain events may occur which could defeat the strategy of the organisation. It is therefore important for the firm to exercise surveillance for timely detection of such developments and corrective action.

Special Alert Control

Sudden and unexpected developments like takeover/merger, alliance between competitors, a major move by the competitor etc can have a very serious impact on the company's strategy. A "special alert control is the need to thoroughly and often suddenly, reconsider the firm's basic strategy based on a sudden, unexpected event The firm has to respond immediately on such occasion. Contingency plans and crisis management team should be kept for such eventualities.

Operational Control

Here the control is aimed at allocation and use of organisational resources. Evaluation techniques for operational control are based on internal analysis rather than external environment monitoring as is the case in strategic control. The operational control system involves the following steps :

i) Establishing criteria and standard

ii) Measuring and comparing performance

iii) Performance gap analysis

iv) Taking corrective measures.

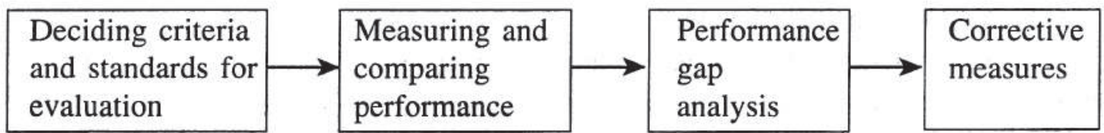

Fig. 2 : Strategy evaluation and control process

Some of the important techniques of operational control are discussed now.

- Value Chain Analysis : . Firms employ value chain analysis to identify and evaluate this competitive potential of resources and capabilities. This sort of analysis brings out the firm's strengths and understanding the activities through which they can create value.
- Quantitative Performance Measurement: The reports such as market share growth, sales growth, profit growth etc are reviewed regularly and are generally compared with the standards set up in the first step of control process.
- Bench marking : Here the standards are made on the basis of the competitor's outputs. In this process the firm gets to know how other firms produce high quality goods

and services. This helps the firms to stay abreaset of its competitor's improvements and changes.

- Balanced Score Card : Instead of depending on financial tools for-performance measure, a more comprehensive system of measurement for this totality of business is considered. There are four key performance measures. (i) Customer perspective (ii) Internal business perspective (iii) Innovation and learning perspective and (iv) Financial perspective.

- Key Factor Rating : In this technique the focus is on the key factors i.e. critical factors that contribute to success such as financial, marketing, operations and human resource capabilities and assessing overall capability.

- Network Aalysis : Network techniques like PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method) are also used for effective control of the operational schedules and resource allocation. Scheduling helps optimal utilisation of facilities. It also helps operation with minimum inventory and to adhere to delivery schedules.

- Budgeting : Budgets are plans expressed in quantitative terms 1Pithei.- in financial or physical terms or both. Budgets set standards against which performance can be compared. Budgets themselves do not control. It is the budgetory control system which does the control by comparing the actual achievements with the budgeted performance.

Essential Features of an Effective Evaluation and Control System.

The evaluation system to be effective there have some essential requirements.

- Controls should be tailored to plans and positions. Every plan and phase of operation has uniqueness. What managers need to know is information that will tell them how the plans for which they are responsible are progressing. Similarly, controls should be tailored to positions. What will be required by Vice-President in charge of production will not be required by the shop floor manager.

- Control should be objective as clarity about the purpose of evaluation is very much essential.

- Control must be worth their cost. It must at the same time be ensured that the concern about the cost does not affect the objective and adequacy of the evaluation system. Economy is relative, since the benefits vary with the importance of the activity, the size of the operation, the expense that may incur in the absence of

control and the contribution which the control system can make.

- Controls should be flexible such that. in the face of changed plans, unforseen circumstances or failures, it can remain workable. As Goetz has remarked, "A complex program of managerial plans may fail in some particulars. The control system should report such failures, and should contain sufficient elements of flexibility to maintain managerial control of operations despite such failures".
- Controls should throw up exceptions at critical points. More managers will concentrate their control efforts on exceptions, the more efficient their control will be. But it is not enough merely to look at exceptions. Some deviations from standard may be very small and will have little meaning. Larger exceptions will have great deal of effect. Thus the manager should focus on exceptions at critical points.
- A strategy evaluation system must be pervasive so that its need is appreciated throughout the organisation in general and the functional areas and the people who are associated. with it in particular.
- Simplicity of the system has to be there as far as practicable. Complex strategy evaluation system often confuse people and therefore the objective is lost.
- Communication at all levels have to be there, as otherwise there will not be active participation of people and the whole purpose will be defeated. Hence communication plays a very vital role in the evaluation system.
- The system should be operational i.e. focussed on action and not only on information. The findings of the control must reach the persons responsible to take needed action in time.

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Strategic Business Management

Model Short Questions & Answers

Time : 2.5 hrs. Full Marks : 100

Part A 80 marks

Group I (All questions in this section are compulsory) 40 marks

1. CSR aims to strike an appropriate balance between which two issues? (2)
2. Resource allocation for CSR aims to fulfil which twin objectives? (2)
3. What are the characteristics of global competition? (3)
4. Which are major ways of gaining international competitive advantage? (3)
5. Explain the issues in setting ethical standards in corporate behaviour. (4)
6. Explain profit sanctuaries & cross-market subsidies in global strategy (4)
7. Why should CSR be incorporated into strategy making? (4)
8. What are the drivers of unethical corporate behaviour? (4)
9. List the risks of following a multiple strategy horizon policy. (4)
10. List the ten commandments of crafting business strategy. (I 0)

Group II (Answer any 8 of the following questions from this section) 40 marks

11. Which are the principle areas wherein differences crop up across countries? (5)
12. Differentiate between the traits of moral, amoral & immoral managers. (5)
13. What could be the strategic muscle flexing options of an industry leader? (5)
14. How does weak business steer end game strategy towards higher SR returns? (5)
15. Mention some of the best offensive strategies that are used by runners-up firms. (5)
16. What sort of actions are normally taken under compliance approach to CSR. (5)
17. What are the important keys to success in high-velocity markets? (5)
18. In the battle over the net a firm's success depends on which factors? (5)
19. Under which conditions do foreigh market activities get concentrated/ dispersed? (5)
20. Mention some of the strategic options open to firms in mature markets. (5)

Part B 20 marks

1. Tutorials individually allocated

Internal Exam Answers

1) CSR to strike an appropriate balance between 2
   - Creating value for shareholders &
   - Obligation to contribute to larger social good
2) Deciding allocation of resources to be aimed at
   - Addressing social concerns
   - Bettering well being of society/environment 2
3) Characteristics of global competition are :
   - Vying for worldwide leadership in globally competitive industries, firm markets products in more than 50 countries with operations continually expanding into other markets
   - Competitive conditions across country markets are strongly link;ed with truly international market existig & many of same rivals compete in many of the same country markets
   - Firm's competitive position in one country is affected by that in other countries
   - Competitive advantage is based on firm's overall operations & global standing
4) 3 major ways of gaining international competitive advantage :
   - Activity allocation amongst nations to lower costs/achieve greater product differentiation based on both (unique) locational advantages & hedging of risk/ development of alternatives 3
   - Efficient/effective transfer of competitively valuable competencies & capabilities between company operations across countries
   - Coordinating dispersed activities in ways a domestic-only competitor cannot
5) Issues In setting ethical standards in corporate behaviour are :
   - Virtues as honesty, trustworthiness, fairness, avoiding unnecessary harm, respect for environment are universal basics. But cross-country variations (e.g. religious beliefs, historic traditions, social customs, prevailing political & economic issues)

exist in what societies generally agree on as right/wrong in conduct of business and in the degree to which certain behaviors are considered unethical. 4

- 2 schools of thought-*Ethical Universalism* holds ethical rules are cross¬cultural as human nature is same all over while Ethical Relativism says different societal cultures & customs lead to divergent values & Principles of right/wrong.
- Since what constitutes ethical/unethical conduct can vary per time, circumstances, local cultural norms, religion etc., no objective way exists to prove that some acts are correct and others not about business ethics. Thus there is merit 'in relativist view that proper ethics has to be viewed in context of a country's societal norms.
- A thorny ethical problem often faced by MNCs is degree of cross-country variability in paying bribes/kickbacks as part of business dealings. Firms forbidding similar payments in their. codes of conduct face stiff challenges in nations where payments are well entrenched as local custom. US law prohibiting firms from paying bribes anywhere, is adhered to more in violations. Different approaches to managing a company's ethical conduct are-unconcerned/non¬issue, damage control, compliance & ethical culture styles.

6) Profit sanctuaries, valuable competitive asset in global growth, are country markets where firm has strong, protected, market position and derives substantial profits from. Usually, the most strategically crucial profit sanctuary is its home market.

   Cross-market subsidy is the paying for competitive offensives in one market with resources/profits diverted from others to try lure away customers with moves as lower prices, heavy advertising, discounted promotions etc.

7) Reasons for incorporating CSR into strategy making are

- Business should promote the betterment of society, acting in ways to benefit all their stakeholders because it's the right thing to do! Based on an implied social contract, civil society grants a business the right to conduct its business affairs, agrees not to unreasonably restrain a business' pursuit of a fair profit. In return for a "license to operate," a business should act as a responsible citizen and do its fair share to promote the general welfare.
- Generates internal benefits by enhancing recruitment of quality employees, increasing employee retention, improving productivity and lowering cost of recruitment & training.

- Lowers risk of reputation-damaging incidents, leading to increased buyer patronage.
- Works in the best interest of shareholders by minimizing costly legal & regulatory actions, bringing in enhanced investments by socially conscious mutual funds/ investment managers and focusing on environment issues may improve earnings.

8) Drivers for unethical corporate behaviour are
   - Large numbers of immoral & amoral people in business
   - 'Overzealous pursuit of personal gain, wealth, other selfish interests
   - Heavy/unrelenting pressures on company managers to meet/beat earnings targets
   - Company cultures that place profits & performance above ethical behavior

9) Risks of pursuing multiple strategy horizons ate :
   - Pursuing all desirable options may stretch firm's resources too thin
   - Pursuit of medium & long-jump initiatives may cause firm to stray too far from its core competencies
   - Competitive advantage may be difficult to achieve in medium & long-jump businesses that do not mesh well with firm's present resource strengths
   - Payoffs of long-jump initiatives may prove elusive

10) The 10 commandments of strategy making are :
   i. Always give top priority to crafting & executing strategic moves that improve firm's competitive position over long-term and that serve to establish it as an industry leader.
   ii. Be prompt in adapting & responding to changing market conditions, unmet customer needs & buyer wishes for something better, emerging technological alternatives and new initiatives of rivals. Responding late or with too little often puts a firm in the precarious position of playng catch-up .
   iii. Invest in creating sustainable competitive advantage, for it is the most dependable contributor to above-average profitability
   iv. Avoid strategies capable of succeeding only in the best of circumstances
   v. Don't underestimate either reactions or the commitment of rival firms

vi. Keep in mind that attacking competitive weakness is usually more profitable than attacking competitive strength

vii. Be judicious in cutting prices without an established cost advantage

viii. Employ bold strategic moves in pursuing. differentiation strategies to open up very meaningful gaps in quality/service/advertising/other product attributes

ixs. Endeavour not to get "stuck back in the pack" with no coherent- long-term strategy or distinctive competitive position and little prospect of becoming an industry leader

x. Be aware that aggressive strategic moves to wrest crucial market share away from rivals often provoke aggressive retaliation in form of a marketing "arms race" and/or price wars

11) Principle differences across political boundaries crop up in the areas of :

- Govt' s economic policies, legal requirements; financial systems & political demands
- Exchange. rates & fluctuations
- Input {manufacturing) & distribution costs due to national variations in, wage rates, worker productivity, labour availability, inflation, •costs of energy & capital, access to finance, tax rates etc.
- Market demographics-size, growth, distribution logistics, competition etc.
- Cultural practices & lifestyle patterns
- Buyer psychographics & behaviour patterns tastes & preferences, buying habits etc.
- Driving Forces
- Quality of business environment & enabling conditions vary ; suppliers, trade associations & complementary product makers often cluster operations in same general location
- Trade policies differ on export restrictions, import price regulations, import tariffs/quotas, local content rules, technical standards, certifications, prior approval on capital spends, fund withdrawls, ownership (minority/majority) by local citizens

12) The moral managers is

- Dedicated to high standards of ethical behaviour both personally & officially
- Demonstrates ethical leadership & becomes a. steward of ethical behaviour
- Not only follows law in letter & spirit but usually operates beyond the call of duty

Whereas the immoral one

- ls ruled by greed
- Focuses only on profits
- Pursues selfish interest at cost of that of others
- Actively opposes ethical behaviour
- Wilfully ignores ethical principles at both individual/official levels
- Considers legal standards as barriers

Intentionally amoral ones

- Believe business & ethics are not be mixed as latter inappropriate for different rules of competitive world
- Don't factor in ethics into own actions as business is beyond morality
- Right/wrong is law driven (extended upto limits law can be stretched to) Unintentional ones are
- Blind to/casual about ethics of decision-making in business actions
- Do necessary compliance with laws but limit themselves to accepting whatever is not illegal is allowed
- Usually consider self as well-intentioned and/or ethical

13) Strategic options within muscle flexing suggest

- Be quick to meet price cuts of rivals
- If rivals boost advertising, counter with large-scale/intensive promotional campaigns
- Offer better deals to rivals' major customers
- Dissuade dealers from carrying rivals' products
- Provide salespersons with documentation about weaknesses of competing products

- Make attractive offers to key rival executives
- Use arm-twisting tactics to pressure present customers not to use rivals' products

14) End game steers a mid-course between status quo & exiting quickly, slowly trading market position for bigger SR cash flow/profit thru
    - Operating budget reduced to bones
    - Least reinvestment & none on new capital
    - Stringent internal cost cuts & controls
    - Gradual raising of prices
    - Quality reduction in non-visible ways
    - Curtailing of non-essential services
    - Shaving of maintenance & promotional costs

15) Some of the best "mover-&-shaker" offensives for a runners-up firm can be
    - Pioneer a leapfrog technological breakthrough
    - Get new/better products into market ahead of rivals & build reputation for product leadership
    - Be more agile & innovative in adapting to evolving market conditions & customer needs
    - Forge attractive strategic alliances with key distributors &/or marketers of similar products
    - Find innovative ways to dramatically drive down costs to win customers from higher-cost rivals
    - Craft an attractive differentiation strategy

16) Actions normally undertaken under compliance approach are
    - Make code of ethics a visible & regular part of communications with employees
    - Implement ethics trairiing programs
    - Appoint ethics committees under a chief ethics officer to give similar guidance
    - Install ethics hotlines to help detect & deter violations and institute formal procedures for investigating alleged violations

- Conduct ethics audits to measure & document compliance and institute ethics awards for outstanding efforts by employees

17) The keys to success in high-velocity markets are
    - Cutting-edge expertise
    - Agility Innovativeness
    - Resource flexibility
    - Opportunism
    - First-to-market capabilities
    - Turnaround time
    - Collaborations

18) If the internet is used as exclusive channel for all buyer-seller contact & transactions, success depends on firm's ability to incorporate features as :
    - Capability to deliver unique value to buyers
    - Value chains that enable differentiation/lower costs/better value-for-money/ combos
    - Refreshing, innovative, interesting, user friendly, comprehensive, secure website
    - Clear focus on limited no. of competencies & relatively specialized value chain activities
    - Minimal reliance on ancillary revenues
    - Innovative marketing techniques

19) Certain nations offering better resources, activity coordination or other valuable advantages, activities are usually concentrated when
    - Input costs are sizably lower in certain places
    - Sizable scale economies exist in the move
    - Learning curve associated with performing activity in single location is steep and dispersed when
    - They need to be performed close to buyers
    - Transportation cost, scale diseconomies or trade barriers make centralization

expensive

- Buffers for fluctuating exchange rates, supply interruptions & adverse politics are needed

20) Competitive strategic options for firms in mature markets could be :

- Pruning of marginal products & models
- Emphasis on innovation in value chain
- Strong focus on cost reduction
- Increase of sales to present customers
- Purchase of rivals at bargain prices
- International expansion
- Building of new, more flexible competitive capabilities

WRITING AN EFFECTIVE BUSINESS PLAN

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AGENDA

- ◆ Why and when do you need a business plan
- ◆ What does it do for you
- ◆ What is in a business plan
- ◆ Some DOs and DONTs
- ◆ How do you get started

WHAT IS A BUSINESS PLAN

- ◆ A business plan describes a company's past, present, and future operations. It demonstrates how a desired investment or loan help satisfy company goals and reward the lender or the investor
- ◆ A business plan is a selling document, a professional looking document, a

professional looking document, and is presented only to one lender/investor

WHY & WHEN DO YOU NEED A BUSINESS PLAN?

- HELPS YOU GET FINANCING
- HELPS YOUR COMPANY KEEP ITS COURSE AND GROW

WHY & WHEN DO YOU NEED A BUSINESS PLAN?

- HELPS YOU DECIDE NOT TO GET INTO A BUSINESS
- HELPS AND RETAIN GOOD PEOPLE WHAT'S IN A BUSINESS PLAN? (In plain English)
- What will you make or serve .
- Where will you do this
- How many employees do (will) you have
- What do they do and how is their work managed
- Who will buy your services and products
- How will you sell-distribute them
- How will you make or serve them
- How will you organize• your activities

WHAT'S IN A BUSINESS PLAN? *(describes table of contents and formats)*

WHAT'S INCLUDED IN A LETTER OF TRANSMITTAL?

- Start why this plan is submitted to this individual or this institution ; if possible
- Identify yourself and your business including the goals of the businesses
- State why this letter-e.g., to request funding including the use of the money
- Indicate amount and type of moeny and when you need it-include the equaity (money & 'sweat') already in the business
- Indicate how will the money be used
- Describe the potential of your business and how will the money help realize it
- Demonstrate how will you pay back-include terms & conditions of financing as well as any collateral

- Close the letter

WHAT'S IN/ON A COVER PAGE?

- Company logo if possible-today, almost any computer can create a nice logo
- Name of your business
- Address, telephone, fax and email
- Date your business was started
- Name of the lender
- Date business plan submitted
- Copy number of the plan if multiple copies have been submitted

SUMMARY PAGE *(most plans are made in this section)*

- Description of the business & its 'history if any
- How will goals could be achieved during the start-up, development, and the initial growth phase of the business
- Brief descriptions of the market segments & how do you plan to reach them
- How is your business organized & managed ; who owns what; especially important for a new start-up will be your team's relevant experiences
- Summary of financial needs & application of funds-working capital & asset financing ; include capital expenditures at start-up
- Pro-forma sales & profits with financing-show how financing will help business
- Potential returns to the lender or the investors

PRODUCTS & SERVICES *(describe what you make, distribute, serve)*

- Proprietary position such as patents, copyrights
- Special arrangements with customers, suppliers, others
- Comparison with your competitors- why should anybody buy from you
- Special features, new features, new product introduction quality, safety, convenience, service, cost through the life of the product

OBJECTIVES *(measurable with a time line)*

- Market share
- Sales and profits and their growth
- Selected financial ratios-ROI, ROA, EPS
- Quality objective/statement of intent
- Intangible areas such as employee development and training
- Cost objectives

MARKET ANALYSIS *(as complete as you can make it-state key assumptions)*

- Examine industry data including trends affecting your industry
- Identify internal company strengths & weaknesses.
- Identify external opportunities & threats
- Target market

who-where-how often-when-how many

- Competition

  who-where-how do they compete identify your position

  do you know why customers buy from you

- Projections including why you believe them ... State the assumptions behind the numbers .... HI-MED-LO
- Show what would happen if you really made a mistake
- Look for market research without pain

MARKETING PLAN *(as detailed as possible)*

- Overall strategy to position your product & services
- Service-quality-price-other guarantees
- Promotion & advertising

  Trade-Media-Shows

- Distribution and Placement

  Manufacturer's rep-retail-contract-jobshop

- Pricing strategy and decisions

cost plus-margin-percent markup-bindding

- Importance of market research
- Needs are not markets

SELLING PLAN *(selling is not marketing and is just as important if note more)*

- Selling is part of marketing-Promotion
- Unless you sell, you have no revenues
- Direct versus indirect selling
- Importance of effective communication skills
- Importance of presentation skills
- Importance of advertising
- Track selling expenses

OPERATIONS PLAN *(often costs get out of hand in making selling & serving)*

- Suppliers
- Facility and office space considerations

  Location, Buy/Lease, Capacity, Zoning, Maintenance
- Equipment needs-identify special equipment
- Employee skills, cost, and their availability-Governemnt assistance
- Quality policies and procedures
- Inventory philosophy
- Managing back orders
- Manufacturing processes if applicable

FINANCIAL PLAN *(don't be bashful)*

- Historical performance, if relevant & available-start-ups often do not have historical" performance record. Use industry averages to validate projections-RMA, others
- Pro forma statements Monthly cash flow

  Quarterly for the 2" and 3" years

Profit and loss or income statements

Balance sheet

- Provide separate capital budgets
- Start-up cost & how you plan to finance them
- Personal financial statements
- Financial controls, budgeting, cash management
- Describe how you plan to use funds
- Investor perspective includes ...

getting money back

Earning a return

ORGANIZATION & MANAGEMENT *(your plan is stronger with a strong team)* FUNDING & FINANCING NEEDS *(provide a range & most likely numbers ; explain why)*

- How much money do you need
- How much money are you putting up
- In what form and when

Debt-Equity

- How will funds be used
- How will loans be repaid
- What is the expected return to the lender; to your equity partner
- What is your requested schedule and terms
- Sensitivity-what is analyses-what happens to profits & cashflow when your projections are not met-show you understand the numbers-forecast are always wrong!

RISKS, POTENTIAL PROBLEMS, & RESOLUTIONS *(also known as contingency plans)*

- State major areas of concern Challenge your assumptions Ask through questions
- State assumptions & their likelihood of occurrence $ What are your plans to

avoid misfortune

- To resolve them, if the problems occur
- Are there any unusual costs you may incur
- How will you manage these challenges
- Describe your personal assessment about the challenges

SUMMARY AND CONCLUSIONS *(pay careful attention to how you plan to manage all this)*

- Where have you been
- Where are you now
- Where do you plan to be
- How will you manage and achieve"your stated goals

WHAT DO SUCCESSFUL START-UPS HAVE IN COMMON? *(generic advice)*

- 6MS for HI PROBABILITY SUCCESSFUL START-UPS MARKET
- – MENTOR
- – MANAGEMENT
- – MONEY
- – MAKE
- – MOTIVATION
- **A VBhide's CONTRIBUTION**
- – Get operational fast
- – Quick, break-even, cash generating projects
- – Offer high value products/services that can sustain direct personal selling
- – Don't try to hire THE crack team
- – Keep growth in check
- – Focus on cash
- – Cultivate banks early

SOME DOs & DONTs *(not all apply in all situations)*

- Keep it short, avoid exaggeration
- keep it oriented toward future
- Highlight critical risks and discuss how you would resolve them
- Give evidence of effective team
- Stay focused
- Keep the writing objective, even impersonal this is tricky, some readers prefer personal style.
- Emphasize uniqueness of target market, if it's unique
- Show your implementation plan
- Employees accept & commit to vision
- Use graphs & charts if useful-don't overdo

AGAIN,

- All aspects are importan
- Plan your contingencics
- Measure measure measure
- Control control control
- Review review review
- Update often, at least annually

ADVICE FROM A BANKER FOR A START-UP *(what to do when your company doesn't have a history)*

- Provide solid information about yourself-relevant industry experience and relevant skills and knowledge
- Identify professionals who will be assisting you in the venture
- Provide believable projections-there is nothing more damaging to your case than 'puffed-up' projections
- By all means reveal your potential weaknesses-also add how you plan to remedy them or counter them
- Check for inconsistencies-e.g. marketing projections not consistent with financial

needs

- Finally, plan plan plan-there is no substitute for good planning

ADVICE FROM ANOTHER BANKER-NOT A START-UP *(what's in a typical business plan)*

- Three years financial projections with clear and reasonable assumptions
- Tax returns for last three years
- Balance sheet a start-up (this is not the same as the pro-forma)
- Pro-forma balance sheet and P & L statements for three years
- Personal experience of the principals in the chosen industry/market and personal statements about why this venture

ADVICE FROM INTERNATIONAL BUSINESS CENTRE, MARYLAND *(a compelling look into the future-practical dreaming)*

- What will your sales be in IO years
- Net profits in 10 years
- How many employees will you have then
- What will be your customer base
- What will they buy from you in IO years
- Can you identify by name largest I 0% of your present customers
- can you succinctly say why people (should) buy from you

CALVIN GARLIC'S SEVEN DEADLY QUESTIONS *(Mr. Galic is with the First National Bank of Maryland)*

- Exactly how much money are you looking for
- Why do you need a bank loan & why from my bank
- Exactly what will you do with the loan ; keep the miscellaneous entries small
- What do you think the repayment term should be
- What ,do you think the interest rate should be
- What's the collateral and what's its worth
- Will you give your guarantee

SUPPORTING DOCUMENTS AND APPENDICES *(give a lot, but don't overdo it)*

- Corporate papers including by-laws
- Resumes of key staff
- Latest audited financial statement
- Personal financial statement (2)
- Terms and conditions of the loan
- Letters of support and recommendation
- Details of special production processes, patents
- Purchase or sales agreements and contracts
- Licenses and franchises
- Insurance
- Company brochures and sales promotion materials ONE MORE TIME (definition again)

ONE MORE TIME, AGAIN *(watch out for this five-minute reading)*

- Determine characteristics of the venture and its industry growth, size, competition, barriers to entry, profitability
- Determine financial structure of the plan debt and equity
- Read the latest balance sheet liquidity, net worth, debt/equity
- Determine the quality of entrepreneurs in the venture sometimes the most important step
- Establish what is different why should I do business with you, what do you have that others do not and will pay for
- Read the entire plan over lightly get a feel, look at charts, graphs

FINALLY, HOW DO I GET STARTED? *(unfortunately, there is no magic formula)*

- START ON PAGE 1
- DIG IN
- LEARN BY DOING

INFORMATION SOURCES FOR MARKET ANALYSIS

Trade Journals-"Standard Rate and Data Sources" give names

Trade Shows-your industry and your customers industries'

Books about Leaders, Industry, Companies-check "Books in Print"

Business Periodicals, Newsletters-there is an index at local library

Cultivate Editors of Magazines and Associations-good networking

Write to Big Companies for Licensing Technology

Stock Analysts-they have reports on industries CMIE-market surveys

Talk to Customers about your competition-they know

Talk to your Suppliers-they also know about your competition & more

INFORMATION SOURCES FOR MARKET ANALYSIS (contd.)

SISI-West bengal Government sources

Go to places where people in the industry socialize-network and alliances

Talk, to manufacturers' representatives-ask lots of questions

Local University-library, video tapes, market data, forecasts

CMIE's periodical directories-monthly industry interests

Our own Chamber of Commerce-referrals and networking

Worldwide Infor

Find out about special libraries

Check infor on related products