UNIVERSITY OF MUMBAI

(INSTITUTE OF DISTANCE EDUCATION)

M.COM. PART – I

STRATEGIC MANAGEMENT

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RESTRUCTURED COURSE OF M.COM – PART - I IN COMMERCE

PAPER - I : STRATEGIC MANAGEMENT (COMPULSORY PAPER)

Objectives :

1. To introduce students to the subjects of Strategic Management.
2. To give them fair understanding of strategy formulation, implementation, monitoring and evaluation.
3. To familiarize students to corporate strategies, functional strategies and global strategies.
4. To develop capabilities of the students to analyze cases and develop strategic solutions.

SYLLABUS

Module 1 : Introduction to business policy – their definitions, nature, scope, significance, elements and processes.

Module 2 : Introduction to strategic management – their definitions, nature, scope, significance, elements and processes.

Module 3 : Strategic Formulation – Vision, Mission, Business Purpose, Objectives and Goals.

Module 4 : Environmental Scan – Internal Environment and External Environment & SWOT Analysis.

Module 5 : Formulating Strategic alternatives and Strategic choice

Module 6 : Strategic formulation – the input stage, matching stage and decision stage, cultural aspect of strategic choice and functional strategies.

Module7 : H.R. Strategies, Marketing Strategies, Financial Strategies, Operational Strategies, Making Strategic Choice.

Module 8 : Matching the organizational structure with Strategies

Module 9 : Stages in Organizational Development and Strategy Structure, Restructuring and Re-Engineering

Module 10 : Introduction to Corporate Level Strategies – modernization, integration, diversification.

Module 11 : Introduction to Corporate Level Strategies - turn around, liquidation and disinvestment.

Module 12 : Introduction to Corporate Level Strategies – mergers, takeovers, joint ventures.

Module 13 : Strategy implementation – issues in implementation, project implementation and control procedures, resource allocation.

Module 14 : Strategy Implementation – Resource allocation

Module 15 : Corporate ethos, culture and ethics, management of change.

Module 16 : Strategy Implementation – Management of change

Module 17 : Strategic Evaluation – monitoring and control of strategic formulation and implementation

Module 18 : Techniques Of Evaluation And Control – Strategic Control And Operational Control, Budgetary Control

Module 19 : Techniques Of Evaluation And Control – PERT / CPM, Variance Analysis, Measuring Organizational Performance, Taking Corrective Action

Module 20 : Global issues in strategic management – the global challenges, strategies for competing in global markets, local markets.

Module 21 : Export Strategies, Licence strategies, Franchising strategies.

Module 22 : Multi country organization global strategies, guidance for success as a global competitor.

Module 23 : Applying the Strategic Management process through case study method – the case preparation process, analyzing cases, reporting recommendations.

Suggested Readings / Books:

1. **Strategic Mgt.**

   Fred R. David

   Prentice Hall International
2. **Business Policy & Strategic Mgt.**

   Dr. Azhar Kazmi - Tata McGraw Hill Publi. Col Ltd.
3. **Strategic Mgt.**

   Beni Banerjee
4. **Business Policy & Strategic Mgt.**

   Jauch Lawrence R & William Glueck

   McGraw - Hill Book Co.
5. **International Strategic Management (suggested for Global Strategies)**

   R.M. Shivstava

   Himalayan Publishing House.
6. **Strategic Mgt. - a multi-perspective approach**

   edited by Mark Jenkins & Veronique Ambrosmi

   Palgrave (Publication)
7. **Strategic Mgt. - Thomas L. Wheelers & J. David Hunger**

   Addison -- Wesley Publishers.
8. **Strategic Mgt. Competitiveness & Globalisation.**

   Michael Hitt, R. Duane Ireland, Robert E. Hoskisson

   South - Western Thomson Learning

9. Business Policy & Strategy - Concepts & Readings.

Daniel Mc Carthy, Robert Minichiello, Joseph Curran

All India Traveller Bookseller – Delhi

10. Strategic Mgt.

John A. Pearce II & Richard B. Robinson Jr.

A.I.T.B.S. Publishers & Distributors – Delhi

11. Strategic Mgt.

Alex Miller & Gregory G. Dess

The McGraw-Hill Companies, Inc.

12. Strategic Mgt. - Concepts & Cases

Arthur A. Thompson Jr. & A.J. Strickland III

Tata McGraw - Hill Publi. Coin. Ltd.

13. Business Policy & Strategic Mgt.

Dr. L.M. Prasad. Sultan Chand & Sons. New Delhi

MODULE 1

INTRODUCTION TO BUSINESS POLICY – THEIR DEFINITIONS, NATURE, SCOPE, SIGNIFICANCE, ELEMENTS AND PROCESSES

1.1 INTRODUCTION TO BUSINESS POLICY
1.2 NATURE, SCOPE AND SIGNIFICANCE OF BUSINESS POLICY
1.3 ELEMENTS AND PROCESSES OF BUSINESS POLICY
1.4 FACTORS DETERMINING BUSINESS POLICY
1.5 SCOPE OF BUSINESS POLICY

"The greatest difficulty in the World is not for people to accept new ideas but make them forget about old ideas" – John Maynard Keynes (Economist)

1.1 INTRODUCTION TO BUSINESS POLICY

The organisation sets the objectives and works towards their achievement. Once these objectives are defined and strategies determined, certain policies have to be made to put them into action. Business policies act as a guide to action. They provide the frame work within which an organisation has to meet its business objectives. The policy points out the direction in which the company ought to go.

Decision making is the primary task of a manager. While making decisions, it is common that managers consult the existing organizational policies relevant to the decisions. Policies provide a basic framework within which managers operate. Policies exist at all level in the organization. Some may be major policies affecting the entire organization while others may be minor in nature affecting the departments or sections in the organization. It has to be remembered that a policy is also a decision. But it is an due time standing decision, in the light of which, so many routine decisions are made. Following are examples of business policies.

i) "We promote employees on the basis of experience"
ii) "We sell televisions only for cash"

From the above policies, one could understand that there is a problem and the policies help as a guide for finding the solution.

Some policies are just broad guidelines while some can be more specific. According to Koontz and O'Donnell, "Policies are plans in that they are general statements of principles which guide the thinking, decision making and action in an organisation."

Policies aid in decision making and are the basis for procedures. They are responsibilities of top management. Policies are applied in long range planning and are directly related to goals. They are concerned with estimating availability of resources, their procurement their augmentation and their efficient utilization.

Types of Policies:

Policies come into being in any orgnisation in different ways. Koontz and O'donnel have classified policies on the basis of their source under the following categories-

1. **Original Policy:** The top management formulates policies for the important functional areas of business such as production, finance, marketing etc. The objective is to help the concerned functional managers in decision making in their respective areas. Thus originated policies are the result of top management initiative. These policies are formulated in the light of the enterprises objectives. They may be broad or specific depending on the degree of centralization of authority. If they are broad, they allow the manager some operational freedom. On the other hand, if they are specific they are implemented as they are.

2. **Appealed Policies:** Managers often confront with particular situations as to whether they have the authority to take a decision on a particular issue or problem. The policies regarding some issues may be unclear or may be totally absent. In such case, he appeals the matter to his superiors for thinking. Appeals are taken upwards till they reach the appropriate level in the hierarchy. After thorough examination of the issues involved, policy decision would be taken at the appropriate level.

3. **Implied Policies:** In some cases there may not be specific policies. Managers draw meaning from the actions and behaviour of their superiors. Though there is no explicit

policy, managers may assume it in a particular way and go about in their day-to-day operations.

4. **Externally Imposed Policies:** These are the policies which are not deliberately conceived by the managements. They are rather, imposed as the organisations by the agencies in the external environment like Government Trade Unions, Industry Association, Consumer Councils etc. These agencies to protect the interest of the respective groups may lay down certain policies to be followed by the business. As the interaction of the business with external environment is increasing, one can find many policies thus coming into being in any modern business. For instance, the recruitment policy of the organization is influenced by the Govt's policy towards reservation to weaker sections. Anti-pollution measures, concern for the quality of the product, customer care and service etc. come under this category.

1.2 NATURE, SCOPE AND SIGNIFICANCE OF BUSINESS POLICY

Business policy is the guide post to decision making. It helps in the managerial thinking process and thus leads to the efficient and effective attainment of the objectives of any organisation.

Business policy has been defined as "Management's expressed or implied intent to govern action in the pursuit of the company's objectives." Business policy clarifies the intention of management in dealing with the various problems faced. It gives the managers a transparent guideline to take their decisions by being on the safe side. Business policy helps the manager in identification of the solutions to the problem. It provides the framework in which he has to take the decisions. Following are the different view points of leading authorities as to what is business policy ?

1. The first category holds the opinion that policy and strategy are synonymous. Business policy has been defined by William Glueck as "Management policy is long range planning. For all practical purposes, management policy, long range planning and strategic managernent mean the same thing." However, this view is quite controversial as strategy and Business policy do not mean the same thing. Strategy includes awareness of the mission, purpose and objectives. It has been defined as, "the determination of basic long term goals and objectives of all enterprise, and the

allocation of resources necessary to carry out these goals", while policies are statements or a commonly accepted understandings of decision making and are thought oriented guidelines. Therefore, strategy and Business policy cannot be used interchangeably as there is a clear line of differentiation between the two terms. This view stress upon the assumption that business strategy and policy are more or less the same. However, this view did not receive much support from various authorities in the area of business management.

2. The second group of experts view Business policy as the process of implementing strategy in the words of Frank 1. Paine and William Naumes, "Policies guide and channel the implementation of strategy and prescribe the processes within the organisation will function and be administered. Thus the term policy refers to organisation procedures, practices and structures, concerned with implementing and executing strategy."

Supporting this view, Robert Mudric has defined Business policy as "A policy establishes guidelines and limits for discretionary action by individuals responsible for implementing the overall plan."

The view represents Business policy to be:

- Restrictive
- Laying stress only on the practical side and ignoring the strategic dimension.

3. The third group considers business policy to be decisions regarding the future of an organisation.

Robert J. Slockler defines Business policy as, "Strategic guidelines for action and spells out what can and what cannot be done in all areas of a company's operation."

According to the policy manual of General Electric Company, "Policy is definition of common purpose for organisation components of the company for benefit of those responsible for implementation, exercise discretion and good judgment in appraising and deciding among alternative courses of action."

The views of different management authorities differ because of following reasons:

- There is no clear differentiation of policy from other elements of planning.
- There are different policies made at different levels of management for directing executives.
- Business policy encompasses and relates to the entire process of planning.

Thus, Business policy focusses on the guidelines used for decision making and putting them into actions. It consists of principles along with rules of action that provides for successful achievement of Business objectives.

1.3 ELEMENTS AND PROCESSES OF BUSINESS POLICY

After understanding the concept of Business policy, following features can be identified:

- **General Statement of Principles**: Policies are general statement of principles followed by Business for the attainment of organisational objectives. These principles provide a guide to action for the executives at different levels.
- **Long Term Perspective**: Business policies have a long life and are formulated with a long term perspective. They provide stability to the organisation.
- **Achievement of Objectives**: Business policy is aimed at the fulfillment of organisational objectives. They provide a framework for action and thus help the executives to work towards the set goals.
- **Qualitative Conditional and General Statements**: Business policy statements are qualitative in nature. They are conditional and defined in general manner. These statements use words as to maintain, to follow, to provide etc. They call be specific at times but most of the times, a Business policy tends to be general.
- **Guide for Repetitive Operations**: Business policies are formulated to act as a guide for repetitive day to day operations. They are best as a guide for the activities that occur frequently or repeatedly.
- **Hierarchy**: Business policies have an hierarchy i.e. for each set of objectives at each level of management there is a set of policies. The top management determines the basic overall policy, then the divisional and / or departmental policies are determined by the

middle level management and lower level policies are more specific and have a shorter time horizon than policies at higher levels.

- **Decision Making Process**: Business policy is a decision making process. In formulating Business policy one has to make choices and the choice is influenced by the interests and attitudes of managers engaged ill making the policies.
- Mutual Application: Business policies are meant for Mutual application by subordinates. They are made for some specific situation and have to be applied by the members of the organisation.
- **Unified Structure**: Business policies tend to provide predetermined issues and thus avoid repeated analysis. They provide a unified structure to other types of plans and help mangers in delegating authority and having control over the activities.
- **Positive Declaration**: Business policy is a positive declaration and a command to its followers. It acts as a motivator for the people following it and thus they work towards the attainment of the objectives efficiently and effectively. The Business policy lays down the values which dominate organisation's actions.

1.4 FACTORS DETERMINING BUSINESS POLICY

The Business policy of an organisation is influenced by various interrelated and interacting, factors. These factors can be classified as internal and external factors. The determinants which are internal to the firm/organisation and which influence the decisions directly are known as the internal factors. External factors include all those factors which act from outside the firm and influence the organisation externally. We discuss these determinants one by one below:

Internal Factors

The determinants include the Business mission, Business objectives, Business resources and the management values which are all internal to the organisation and play a very important role in the formulation of Business policy.

1. **Business Mission**: The policy maker has to understand the Business mission, so that the policy is in tune with it. Business mission provides the company with the meaning

for which it exists and operates. Because policy provides guidelines for managerial action, it has to be made in a manner that it accomplishes the Business mission.

2. **Business Objectives**: Another internal determinant of Business policy are the Business objectives. All organisations frame organisational objectives and work towards their achievement. Policy makers must take into account the economic, financial and other objectives of the company.
3. **The Resources**: The organisation has to carry out its activities keeping in mind the resources it has. The Business policy has to identify the various resources available and then only call it be made sound. The size of plants, capital structure, liquidity position, personnel sk0is and expertise, competitive position, nature of product etc. all help in the formulation of Business policy.
4. **Management Values**: Business policy reflects the values imbibed in the organisation. The personal values of the managers forming Business policy influences its formulation. Management values differ from organisation to organisation. It is an important determinant of Business policy.

External Factors

These include the forces external to the firm. The external determinants of Business policy are industry structure, economic environment and political environment.

1. **Industry Structure**: The formulation of Business policy is influenced by the industry ill which the firm exists. The structure of industry comprises of size of firms, the entry barriers, number of competitors etc. The Business policy is formulated keeping in mind competitors, strategies, policies, etc.
2. **Economic Environment**: Economic environment comprises of the demand, supply, price trends, the national income, availability of inputs, the various institutions etc. It includes all these factors which influence the policies of the firm. Therefore, it becomes one of the most important determinants of Business policy.
3. **Political Environment**: The firm has to carry Out its activities in accordance with the government regulations and policies. If these are not complied with the firm would not be able to meet its objectives in ail efficient manner. The various policies like monetary policy, fiscal policy, credit policy influence the Business policy of the firm.

4. **Social Environment**: The firm affects various sections of the society. The various sections ill turn influence the activities of the firm. The social beliefs of the managers influence policies. The religious, cultural and ethnic dimensions have to be dealt with while formulation policies of an organisation.
5. **Technology**: Every now and then, new technologies are entering the market. An organisation has to change with the changes in the environment. It has to remain up to date with respect to technology it uses. Thus technology also plays an important role in formulation of Business policy.

1.5 SCOPE OF BUSINESS POLICY

Business policies are statements of guidelines for Business thinking and action. They lay down the approach before the management to deal with the challenges in the environment. They cover the following broad areas that affect the decisions of the Organisation.

1. Business policy consists of a variety of subject that affect various interest groups in the Organisation and Outside it.
2. Business policy is concerned with the various functional areas like production, human resources, marketing and finance.
3. We call understand Business policy areas in two broad categories: Major and minor policies. The overall objectives, procedures and control are covered in major policies. These policies are concerned with each and every aspect of the Organisation, its structure, its financial status, its production stature, its human resources and all those issues which require attention like mergers, research, expansion, etc. Basically, the top management is involved in the framing of such major policies. Further, the operations and activities are also carried Out by executives so that the organizational objectives are met.

The minor policies are concerned with each segment of the Organisation with emphasis oil details and procedures. These policies are part of the major policies. The operational control call be made possible only if the minor policies are implemented efficiently. The minor policies are concerned with the day to day operations and are decided at the departmental levels. The minor policies may cover relations with dealers, discount rates, terms of credit etc.

Thus, Business policies cover wide range Of Subjects ranging from operational level policies to the top level policies.

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MODULE 2

INTRODUCTION TO STRATEGIC MANAGEMENT – THEIR DEFINITIONS, NATURE, SCOPE, SIGNIFICANCE, ELEMENTS AND PROCESSES

2.1 WHAT IS STRATEGY?
2.2 INTRODUCTION TO STRATEGIC MANAGEMENT
2.3 DEFINITIONS, NATURE, SCOPE, SIGNIFICANCE, ELEMENTS AND PROCESSES OF STRATEGIC MANAGEMENT
2.4 COMPONENTS OF STRATEGIC MANAGEMENT
2.5 FUNCTIONS OF STRATEGIC MANAGEMENT

2.1 WHAT IS STRATEGY?

STRATEGY IS

- A plan or course of action or a set of decision/rules making a pattern or creating a common thread.
- A pattern or common thread related to the organization's activities which are derived from the policies, objectives and goals.
- Concerned with pursuing those activities which move an organisation - from its current position to a planned future position
- Concerned with the resources necessary for implementing a plan or a predetermined course of action.

Five P's Of Strategy

- **Strategy is a Plan**
- **Strategy is a Ploy**
- **Strategy is a Pattern**
- **Strategy is a Position**
- **Strategy is a Perspective**

2.2 INTRODUCTION TO STRATEGIC MANAGEMENT

The twenty fifth National Business Conference sponsored by the Harvard Business School Association in 1955 made one of the earliest attempts to discuss the concept of strategy. In 1965, Ansoff published a book "Business Strategy" which was based on his experiences at the Lock heed Aircraft corporation. Chandler's historical study of the development of some of the American enterprises proposed strategy as one of the most important variables in the study of

organizations. From the literature on strategic management, it is evident that strategic planning refers to the management processes in organizations through which the future impact of change is determined and current decisions are made to reach a designed future.

2.3 DEFINITIONS, NATURE, SCOPE, SIGNIFICANCE, ELEMENTS AND PROCESSES OF STRATEGIC MANAGEMENT

The word strategy is derived from the Greek word "strategtia" which was used first around 400 B.C. This implies the art and science of directing military forces. In business parlance, there is no definite meaning assigned to strategy. A few definitions stated below may clarify the concept of Business strategy:

Kenneth Andrews (1955) "The pattern of objectives, purpose, goals and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be"

Igor Ansoff (1965) explained the concept of strategy as "the common thread among the organizations, activities and product markets, that defines the essential nature of business that the organisation was or planned to be in future".

Alfred Chandler (1962) "Strategy and structure of the American Enterprise".
"The determination of the basic long-term goals and objectives for an enterprise and the adoption of action and the allocation of resources necessary for carrying out these goals"

Henry Mintzerg (1987) explains that "strategies are not always the outcome of rational planning ……………….. a pattern in a stream of decisions and actions".

Ansoff (1984) "Basically a strategy is a set of decision making rules for the guidance of organisational behaviour".

William Glueek defines the term strategy as "the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through implementation process"

Arthur Sharplin (/985) Strategic Management.

"A plan or course of action which is of vital, pervasive or continuing importance to the organisation as a whole".

From the definitions discussed above, we may identify the following elements:

- It is a plan or course of action or a set of decision rules.
- It is derived from its policies, objectives and goals.
- It is related to persue those activities which move an organisation from its current position to a desired future state.
- It is concerned with the requisite resources to implement a plan.

The term "Strategic Management" is gaining importance in the era of privatisation, globalisation and liberalisation. A few aspects regarding the nature of strategy are as follows:

- Strategic Management is related mostly to external environment.
- Strategic Management is being formulated at the higher level of management. At operational level, operational strategies are also formulated.
- Strategic Management integrates three distinct and closely related activities in strategy making. The activities are strategic planning, strategic implementation and strategic evaluation and control.
- Strategic Management is related to long term.
- It requires systems and norms for its efficient adoption in any organization.
- It provides overall frame work for guiding enterprise thinking and action.
- It is concerned with a unified direction and efficient allocation of organization resources.
- Strategic Management provides an integrated approach for the organization and aids in meeting the challenges posed by environment.

2.4 COMPONENTS OF STRATEGIC MANAGEMENT

The major components of Business strategy are purpose and objectives, vector, competitive advantage, synergy, personal values and aspirations and social obligations. APsoff has used the term "common thread" for the purpose. According to him, the common thread is a statement of relationship between present and future product market postures. In this section, the different components of Business strategy are discussed.

Objectives

Business objectives should be stated in such a way so that they may provide a clear idea about the scope of the enterprise's business. Objectives give the direction for which action plan is formulated. Objectives are open-ended attributes denoting a future state. Objectives translate the purpose into goals. A few specific aspects about objectives are as follows:

The objectives should

- have time frame
- be attainable
- be challenging
- be Understandable
- be measurable and controllable

For having clarity in objectives, the business domain is de fined specifically in terms of a product class, technology, customer group, market need or some other combination.

Vector

Business strategy has one more important component i.e. Vector. Vector gives the directions within an industry and across industry boundaries which the firm proposes to pursue. If an organization has the objective to maximize sales, the series of decisions will be to enhance salesman's commission, release nationwide advertisement, introduce total quality management and introduce new product range. Vector signifies that a series of decisions are taken in the same direction to accomplish the objectives.

Competitive Advantage

Business strategy is relative by nature. In the formulation of Business strategy, the mana0ernent should isolate unique features of the organization. The steps to be taken must be competitively superior. While making plans, competitors may be ignored. However, when we formulate Business strategies, we cannot ignore competitors. If all organization does not look at competitive advantage, it cannot survive in a dynamic environment. Tills aspect builds internal strength of the organization and enhance the quality of Business strategy.

Synergy

Synergy means measurement of the firm's capability to take advantage of a new product market move. If decisions are made ill the same direction to accomplish the objectives there will be synergic impacts. The Business strategy will give the synergy benefit.

2.5 FUNCTIONS OF STRATEGIC MANAGEMENT

Strategic Management performs the following functions:

1. It provides a dual approach to problem solving. Firstly, it exploits the most effective means to overcome difficulties and face competition. Secondly, it assists ill the deployment of scarce resources among critical activities.
2. It focuses attention upon changes ill the organizational set up, administration of organizational process affecting behaviour and the development of effective leadership.
3. It offers a technique to manage changes. The management is totally prepared to anticipate, respond and influence to look at changes. It also offers a different way of thinking.
4. It furnishes the management with a perspective whereby, the latter gives equal importance to present and future opportunities.
5. It provides the management with a mechanism to cope with highly complex environment characterized by diversity of cultural, social, political and competitive forces.

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MODULE 3

STRATEGIC FORMULATION – VISION, MISSION, BUSINESS PURPOSE, OBJECTIVES AND GOALS

3.1 MEANING OF STRATEGY FORMULATION

3.2 DEVELOPING STRATEGIC PERSPECTIVES

3.3 FOURTEEN PROCESSES OF STRATEGIC PLANNING

3.4 BUSINESS VISION

3.5 BUSINESS PURPOSE

3.1 MEANING OF STRATEGY FORMULATION

Every organization whether small or big has certain objectives to be achieved. Each of them has to prepare a broad plan for achieving those objectives.

Strategy is a plan of action prepared to achieve the organizational goals. It is a broad long term plan formulated to direct the business activities. Strategy formulation means defining the strategy in a very clear and simple words. Strategy formulation means stating the outline and the features of a strategy. It simply means preparing the action plan.

Strategy is a pattern or plan that integrates an organization's values, major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.

Developing Strategy:

Formulation strategy that is an effective guide to action s both an art that individual managers must develop and a process that a well managed firm must implement.

Steps in Strategic Formulation:

Benefits of Strategic Planning

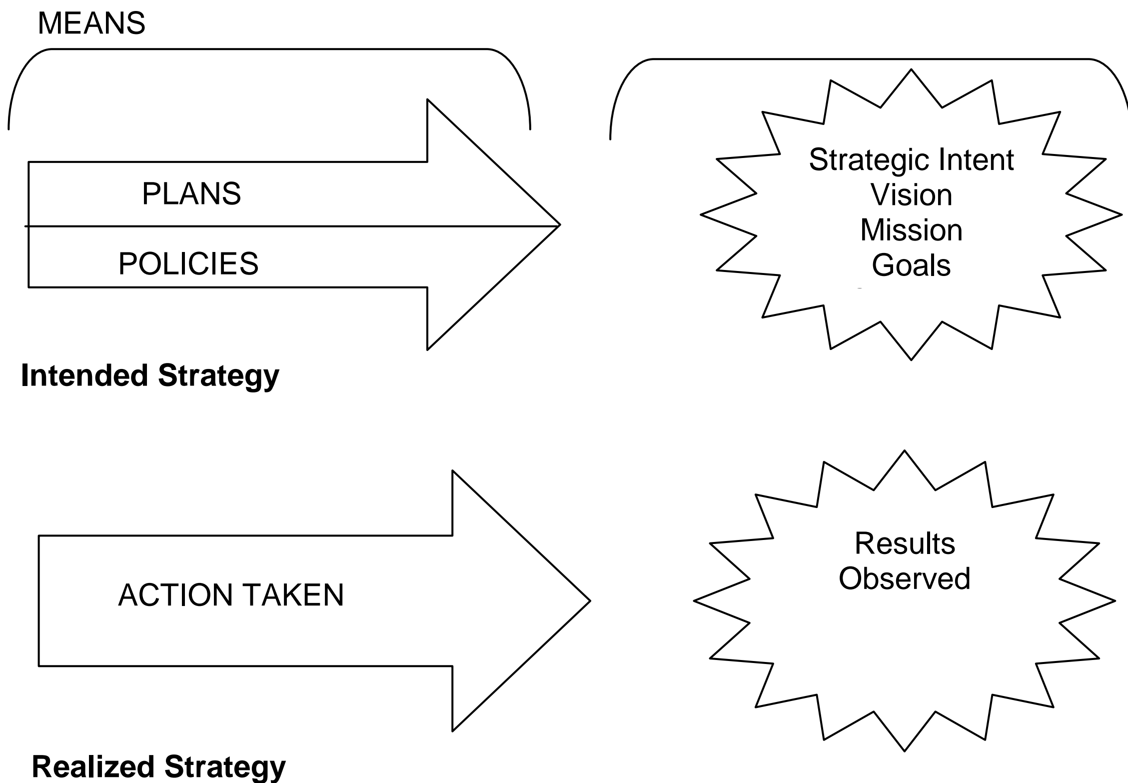
- Able to set more realistic objectives that are demanding, yet attainable.
- A need for better information for decision-making may be recognized.
- Growth can be accelerated and improved.
- Poor performing areas can be identified and eliminated
- Gain control of operational problems.
- Develop better communications with those both inside and outside of the company.
- Provides a road map to show where the company is going and how to get there.
- Develops better internal coordination of activities.
- Develops a frame of reference for budgets and short – range operating plans
- Gives a sense of security among employees that comes from better understanding of the changing environment and the company's ability to adapt.

3.2 DEVELOPING STRATEGIC PERSPECTIVES

Developing a right strategic perspective contributes to effective implementation of strategy. However organization often fail to develop sound strategic management perspective for a variety of reasons. some of these reasons are:

1. Lack of awareness within the top management team about the organization's real operating situation. This happens when information systems fail to provide the information the top management needs to determine the organization's position relative to competitors , consumption trends, relative costs, etc.
2. 'Kidding themselves syndrome": This happens when senior managers are collectively deluding themselves about the organizations conditions. Usually this occurs when the senior management team act as a tightly knit group. As there is no flow of either fresh information or new perspectives, the top managers tend to hold the same stereotyped views of the business environment .
3. Vested interests of the managers also play havoc with strategic planning. managers prefer to maintain their exiting position and power. This personal interest results in continuation of the same strategies even in a changed business environment.
4. Excessive involvement in everyday operational problem also leads to inefficient strategic plans. This over-emphasis on regular activities leaves no time to study emerging trends and to think about future plans
5. The top management in many organizations gets complacent after some initial successes. This blinds the managers to difficult situations the company faces. This is another reason why managements often continue with tries and trusted strategies that may be inappropriate in the present and future scenarios.
6. A change in direction is often misinterpreted as an admission that what was done in the past was a mistake .This managers who were closely associated with decision taken in the past reluctant to see the organization move in a new direction.
7. Inability on the part of the top management to locate its competitive edge may also lead to its ignoring strategy, planning altogether.

Strategies Comparing an Organization's Most Fundamental Ends and Means



3.3 FOURTEEN PROCESSES OF STRATEGIC PLANNING

1	Developing A Company philosophy	:	Establishing the beliefs,values,attitude and unwritten guidelines that add up to "the way we do things here"
2	Planning Strategy	:	Development of Concepts, ideas & plans to achieve objectives
3	Establishing Goals	:	Deciding achievement targets shooter in time range or narrower in scope than objective
4	Setting Objectives	:	An objective is typically enduring and timeless.
5	Establishing Policies	:	Deciding on plans of action to guide the performance of all major activities in carrying out strategy in accordance with company Philosophy

6	Planning the Organisation structure	:	The "harness" that helps people pull together in performing activities in accordance with strategy ,Philosophy & Policies.
7	Providing Personnel	:	Selection, Recruitment & Training
8	Establishing Procedure	:	For Important & recurring activities
9	Providing Facilities	:	Plant Equipment & other facilities
10	Providing Capital	:	Making sure that business has money & credit needed to provide facilities & working Capital
11	Setting Standards	:	Establish measures of performance that will enable the business to achieve its long term objective
12	Establishing Management Programs & Operational Plans	:	There are phases of total planning process that include strategic Planning.
13	To Provide Control Information	:	Supply of facts and figures to help people, follow strategy, policies, procedures, programs: to keep alert to forces at work inside & outside the business and to own performance against established plans & standards.
14	Activating People	:	Commanding and Motivating people up and down the line in accordance with Philosophy, Policies, Procedures and Standards in carrying out plans of the Company

What Is not Strategic Planning

1. Strategic Planning does not attempt to make future decision. Decision can be made only in Present.
2. Strategic Planning is not forecasting Product Sales & then determining what should be done to assume the fulfillment of the forecasts with respect to such things as material purchases, facilities, manpower etc. Strategic Planning goes beyond present forecasts of much more fundamentals such as:
   - Are we in the right business?
   - What are our basic objectives?
   - When will our present become obsolete?

- Are our markets accelerating or eroding? Gap Analysis from present to future.

3. Strategic Planning is not necessarily the preparation of massive, detailed, interrelated sets of plans.
4. Strategic Planning is not an effort to replace managerial intuition & judgment.
5. Strategic Planning is not a simple aggregation of functional plans or an extrapolation of current budgets. It is a systems approach to maneuvering an enterprise over time through the uncertain waters of its changing environment prescribed aims.

Steps of Strategy formulation

The process of strategy formulation broadly involves the following steps.

1. Establishing objectives

The main element of corporate strategy is the objectives of the firm. Objectives of the firm acts as a foundation or base on the strategy is based. Hence objectives should properly defined.But objectives should be realistic in nature and achievable. E.g. if the firm's aim is to expand the business, firm has to pursue a growth strategy.

2. Analysing the Environment

In this stage general environment is analyzed from different angles.This involves assessment of internal and external business environment.This will help the firm to appraise its strengths and weaknesses and identify the major strengths and weaknesses of their competitors.

3. Fixing quantitative targets

In this state a firm may set quantitative target for some of its objectives. At this stage, the purpose is not to set targets for comparison with future outcomes, but to set global targets for the firm as a whole, so as to assess the contribution that may be made by different product areas or operating divisions.

4. Relating targets to divisional plans

This step of strategy formulation identifies the contribution that can be made by each division or product group within the corporation and for this purpose, a provisional strategic plan must be developed for each sub-unit. These plans should be based upon the analysis of macro

economic trends and the competitive environment specific to the sub-unit. Corporate targets when related to divisional plans ensure better chance of their attainment.

5. Relating targets to divisional plans

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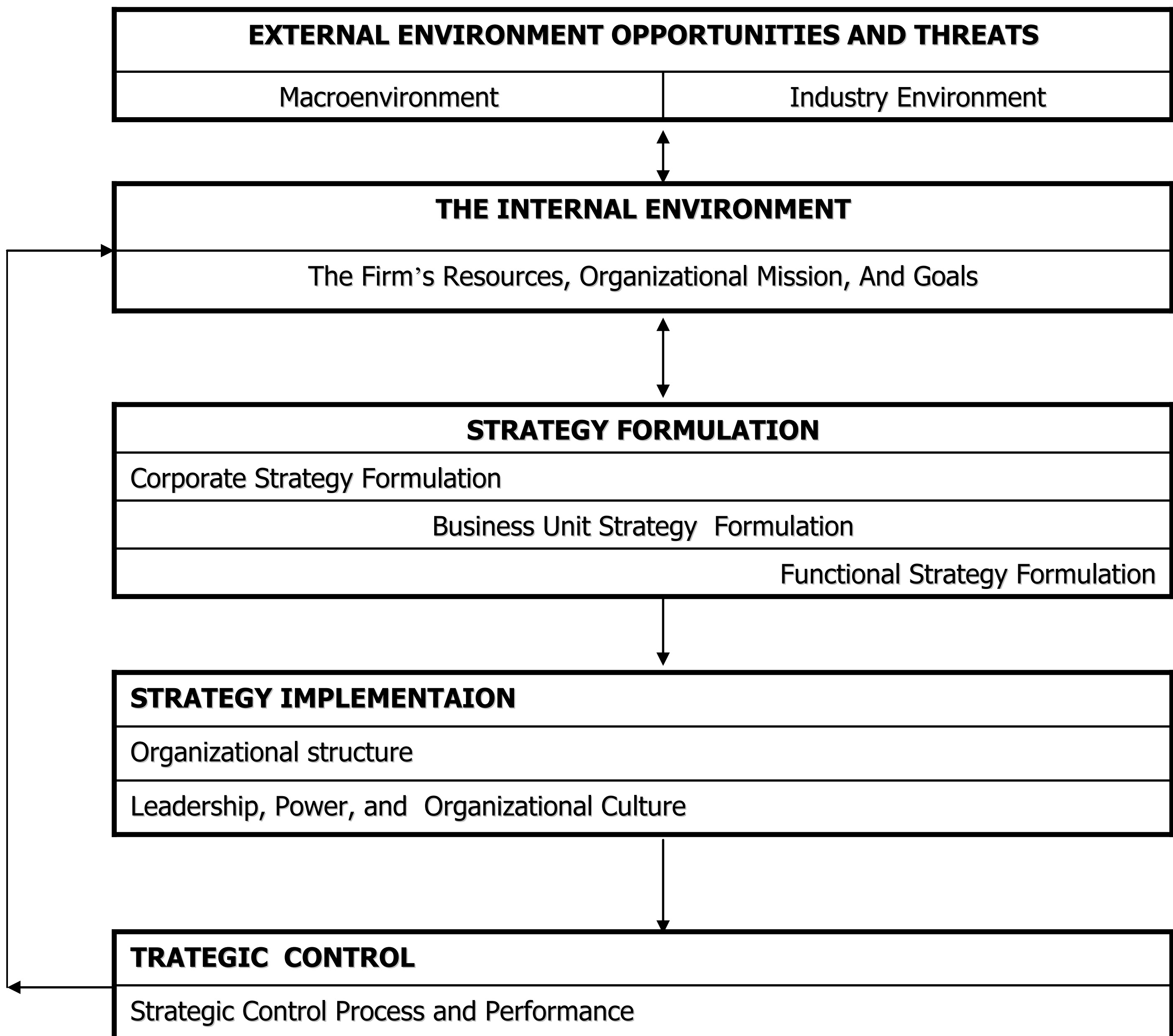
6. Gap Analysis

Gap Analysis is the identification and analysis of a gap between planned or desired performance. The organization must analyze critically its previous performance, its present condition and the desired future conditions. Such an analysis helps to reveal the extent of gap that exists between the present reality and future aspirations of the organizations. The organization also tries to estimate its likely future state if the present trends and activities continue.

7. Strategy formulation



Different strategies are formulated to achieve the target. It is only enough to formulate only one strategy. Keeping in mind the aims and the changing business environment, various strategies have to prepared.

8. Choice of Strategy

This is the final stage in the formulation of corporate strategy. It is a well considered course of action which is chosen by relating corporate goals, external opportunities, corporate capabilities and limitations. Different strategies are evaluated from different angles and the appropriate strategy is chosen.

3.4 BUSINESS VISION

Vision is a descriptive image of what a company wants to be or want to be known for. Vision reminds us of what the goals are. Without vision performance of the business are likely to be affected. A vision is a statement for where the organization is heading over the next five to ten years. It is the statement that indicates mission to be accomplished by the management distant future.

Warren Bennis and Burt Nanus described the role of vision as follows

"To choose a direction, a leader must first have developed a mental image of a possible and desirable future state of the organization………… which we call a vision. Vision articulates a view of a realistic / credible, attractive future for the orgnaization………. with a vision, the leader provides the all important bridge from the present to the future of the organisation".

BUSINESS MISSION

A Business organization can not set objectives without mission statement. Therefore, it is of utmost importance to frame a mission statement. Many organizations define the basic reason for their existence in terms of a mission statement.

An organization's mission includes both a statement of organizational philosophy and purpose. The mission can be seen as a link between performing some social function and attaining objectives of the organization.

In military circles, the word " Mission " is used instead of objectives. It also denotes and end point of the activities which doer wants to fulfill. In business management terminology, a mission is an objectives that has been psychologically accepted by the doer. A mission explains the reason for the existence and operation of an enterprise. It is a key statement that

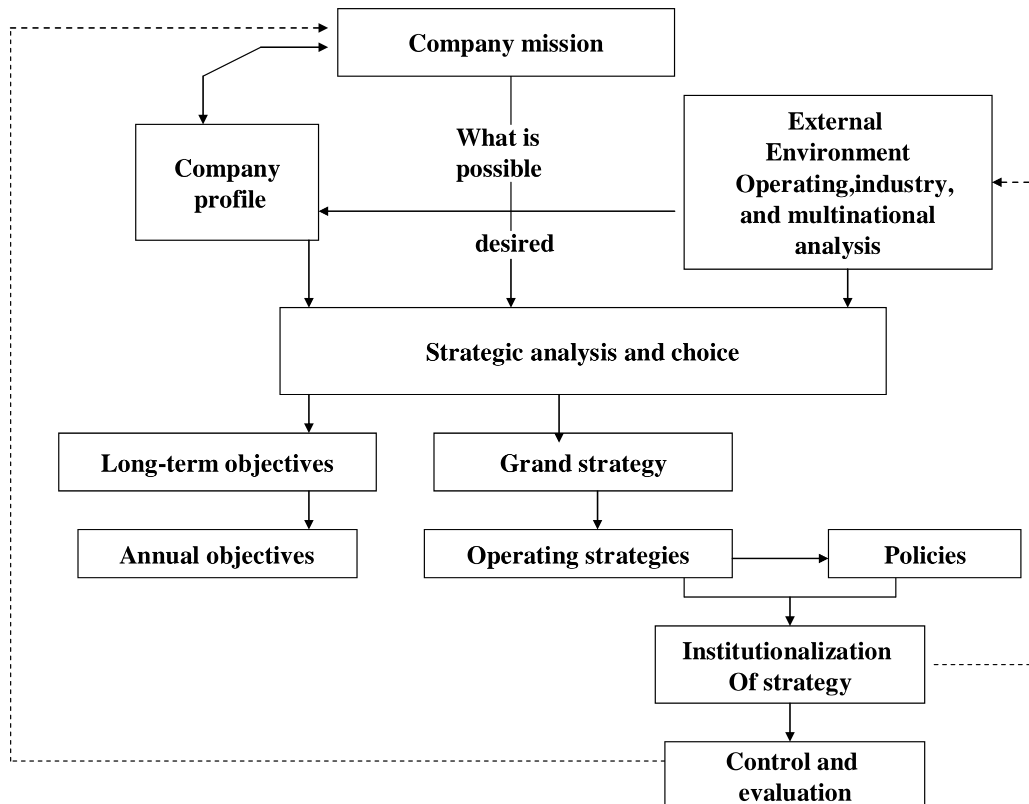
provides guidelines for the company's business objectives. Mission indicates what is the company's business and what should it be. It reflects the company's philosophy and values.

Organisations often commit their major goals and corporate philosophy to writing in a Mission Statement or a statement of purpose. Though vaired in its structure and form, the statement typically describes the company's reasons for existing. If also simetimes outliens the "core values" on which the organization is based and to which it expects corporate behaviour to confirm.

A good mission statement outlines customer needs and utilities. It places emphasis on public need rather the company' product e.g. Oil and Natural Gas Commission and the Indian Oil Company may stress that they are meeting the energy need of the people rather than producing and selling oil or gas. Similarly, the Mahanagar Telephone Nigam Ltd. (MTNL) may emphasis that it is helping better and faster communications and not merely selling or operating telephones.

Some firms use mission statement to develop core principles or norms which guide decision marking or behaviour. These principles serve as guidelines for a company's course of business as well as strategic decision making or behaviour. Business definition statement is a part of the mission statement. It means a description of products, services, functions, activities and markets of the firm.
In any good strategy formulation, mission must be imbibed in the management and the staff. Clarity of a mission statement and publicity given to it on the right lines would get the conveying of mission in a convincing manner to the staff.

Corporate Mission



3.5 BUSINESS PURPOSE

The organizational purpose defines the activities that the organization performs or intends to perform and the kind of organization that it is or intends to be. The establishment of an organisation's purpose is vital, as without a definite statement of purpose, it is virtually impossible to develop clear objectives and strategies. An organizational purpose must be defined not only at its inception, but also must redefined during both traumatic times and successful periods.

A good business or purpose will include a statement of products, markets, functions and objectives. The basic business purpose of **General Motors is " to provide products and services of such quality that our customers will receive superior value, our employees and business partners will share in our success, and our stockholders will receive a sustained, superior return on their investment ".**

BUSINESS OBJECTIVES

An objective is something aimed at or something sought for. It is noting but the goal or destination of the organization. Objectives should be very clearly spelt out, as clearer the objectives the more the strength one derives to achieve them.

The organization should see to it that while fixing business objectives interest of all groups should be considered and under no circumstance should it be sacrificed for others.

DEFINITIONS

1. **According to George Terry**

   " A Managerial objectives is the intended goal which prescribes definite scope and suggests direction to efforts of a manager ".

2. **According to D. E. McForland**

   " Objectives are the goals, aims or purposes that organizations wish to achieve over varying period of time ".

FEATURES OF BUSINESS OBJECTIVES

1. Ultimate goals

Objectives are the aims, goals and the destination where the organization wants to go Objectives differentiate one company from others. Every organization must have a clearly defined objective, e.g. a marketing objective of an organization may be to increase its profits by 5% or increase its market share by 3%.

2. Future Oriented

Objectives are future destinations which the organization wants to reach. However these objectives are finalized after considering the past trends and the past performance of the organisation. This is necessary in order to formulate realistic objectives.

3. Guides

Objectives, whether economic, social or human guide the organization in taking relevant and quick decisions. Objectives guide in formulating the policies, the programmes and the plans which in turn guide the employees while implementing the plans in order to achieve the objectives

4. Complex

Business environment is very complex. Change in one environment may have different impacts on the other environmental factors. Moreover these environmental factors are uncontrollable. Objectives have to be modified continuously in order to suit the changed environment. Thus dynamic environment makes setting of objectives difficult.

5. Qualitative

There are certain objectives which are of qualitative nature, especially advertising objectives. Advertising objectives can be creating awareness, changing attitudes, perceptions, enabling recognition of the brand etc. Qualitative objectives are therefore difficult to measure.

6. Quantitative

Quantitative objectives are those which can be measured in volume or value terms. Marketing objectives are generally of quantitative in nature. Some of the common marketing objectives are increasing sales, increasing market share, increasing profits etc.

7. Hierarchical

All objectives may not be equally important at a given moment of time, for instance if the organization is new, its objective generally is survival, rather than growth or achieving prestige and recognition. However since many groups are involved like shareholders, creditors, employees etc. identifying proper hierarchy is difficult.

IMPORTANCE OF BUSINESS OBJECTIVES

1. Identity to the organisation

Every organization must have an objective. In fact it is the objectives that justifies an organisation's existence. Outwardly all organizations may be similar but what differentiates one organization from another is it's objectives.

2. Facilitates co-ordination

There are various departments in an organization. Success of any organization depends upon the achievements of each department, which in turn depends upon the proper co-ordination between people and functions of different departments. This would enable the different department to work as a cohesive unit.

3. Guides decision-making

The top management has to take number of decisions in different areas everyday. Decisions can be relating to extending the product line or changing the pricing structure or the place of sale. Decisions depend entirely upon the objectives of the organization. So, it is the objectives that guide individual as well as group decision making.

4. Motivation

Motivation is the simulation to work with zeal and enthusiasm. When objectives are clear, the employees know what is expected of them and the reward which they would earn on achieving those objectives. So clear definition of business objectives motivates employees to put in their best efforts as they are aware as to what to achieve.

5. Ensures planning

It is said that most people don't succeed in life because they don't know what they want to achieve. One can plan properly only when one knows what one wants to achieve. Moreover implementation would be effective only if it is planned properly. Therefore objectives ensures proper planning.

6. Reduces wastage

Objectives facilitate preparing programmes and schedules for achieving the predetermined goals. Men, money, materials etc. are scare. Success of a business organization depends upon the effective utilization of the resources. So to the extent possible wastage of resources should be avoided

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MODULE 4
ENVIRONMENTAL SCAN – INTERNAL ENVIRONMENT AND EXTERNAL ENVIRONMENT & SWOT ANALYSIS

4.1 MEANING OF BUSINESS ENVIRONMENT
4.2 COMPONENTS OF BUSINESS ENVIRONMENT
4.3 ENVIRONMENTAL SCANNING
4.4 SWOT ANALYSIS

4.1 MEANING OF BUSINESS ENVIRONMENT

Business Environment consists of all those forces both internal and external that affect the working of a business. It refers to the conditions, forces, events and situations within which business enterprises have to operate.

Business and its environment are closely related and the effectiveness of interaction of the two determines the success or failure of a business.

DEFINITION

According to Wheeler " Business Environment is the total of all things external to firms and individuals, which affect their organization and operations ".

4.2 COMPONENTS OF BUSINESS ENVIRONMENT

The business environment can be broadly divided into two groups

A. Internal Environment

B. External Environment

A. Internal Environment

1. **Management Philosophy**

   The management philosophy greatly influences the working of business firm. The management may adopt a traditional philosophy or a professional philosophy.

   Nowadays business firm need to adopt professional approach. A proper analysis of internal environment will reveal the weaknesses of the traditional approach and force the management to adopt a professional approach.

2. Mission and Objectives

It is always advisable to frame a mission statement and then to list out the various objectives.An analysis of internal environment will enable the firm to find out whether the objectives are in line with the mission statement and whether the objectives are accomplished or not.

3. Human Resources

The survival and success of the firm largely depends on the quality of human resources.An analysis of internal environment in respect of human resources would reveal the shortcomings of human resources and as such measures can be taken to correct such weaknesses.

4. Physical Resources

Physical resources include machines, equipments, building, furniture etc. A firm needs adequate and quality physical resources.An analysis of the internal environment may reveal the weaknesses of the physical resources and company can take appropriate measures to correct such weaknesses.

5. Financial Resources

A firm needs adequate working capital as well a fixed capital. There is a need to have proper management of working capital and fixed capital.An analysis of the internal environment will help to make optimum use of available funds as well as to raise additional funds.

6. Corporate Image

A firm should develop, maintain and enhance a good image in the minds of the employees, investors, customers and others. Poor corporate image is a weakness.An analysis of the internal environment enables the firm to build good public image.

7. Research and Development facilities

If the organization has adequate research and development facilities, it is in a position to innovate, introduce new products and services continuously. This enable the firm to remain ahead of the competition

8. Internal Relationship

There should be a proper flow of vertical and horizontal communication i.e. between superiors and subordinates and between colleagues at the same level. A free flow of ideas enables a healthy relationship between colleagues.

B. External Environment

External environment includes all those factors and forces which are external to the business organization. These include factors such as economic, socio-cultural, legal, demographic etc. These factors are beyond the control the company.

1. Demographic Environment

Demographic environment studies human population with reference to its size, density, literacy rate, sex-ratio, age composition etc.

These factors affect the demand for good and services, quantity and quality of production, distribution etc. e.g. a rapidly growing population indicates growing demand for many products.

2. Natural Environment

Business firms use natural resources like water, land, iron, crude oil etc. All business units are directly or indirectly dependent upon natural environment. Business firms are responsible for ecological imbalance. So they should take necessary measures to control pollution.

Business operations have caused considerable changes in ecological balance and natural environment of the country. The applications of modern technology in industry leads to rapid economic growth at a huge social cost a measured by the deterioration of physical environment i.e. air pollution, water pollution, noise pollution etc. So business enterprises has to calculate net social cost of its venture.

3. Economic Environment

A business firm closely interact with its economic environment. Economic environment is generally related to those external forces, which have direct economic effect upon business.

Economic environment is a sum total of

a. Economic conditions in the market
b. Economic policies of the government
c. Economic system of the country.

a. Economic conditions

It includes nature of economy, the stage in economic development, national income, per capita income etc. These operate in the market and influence the demand and supply of goods and services.

b. Economic policies

Economic policies means policies formulated by the government to shape the economy of the country. These include monetary and fiscal policies, export-import policy, industrial policy, licensing policy, budgetary policy etc. The economic policies of the government affect the business. This impact may be positive or negative e.g. liberation of the economy has adversely affected the small scale industry in India.

c. Economic systems

Economic systems means the classification of economies on the basis of role of the government in the functioning of the economy .

Economic system can be classified as

- Capitalist Economy – There exists least government control in regulating the working of a market. E.g. U.S.A.

- Socialist Economy – The government has major control over all activities e.g. China.

- Mixed Economy – It combines the features of both capitalist and socialist economy where both private and public sector play an equally important role e.g. India.

4. Legal Environment / Regulatory Environment

Legal environment includes laws, which define and protect the fundamental rights individuals and organizations. It creates a framework of rules and regulations within which business units have to operate. Business firm must have up to date and complete knowledge of the laws governing production and distribution of goods and services. Some of the important laws are

Indian Companies Act, 1956

The Consumer Protection Act, 1986

The MRTP Act, 1969.

The Essential commodities Act, 1955. etc.

5. Political Environment

It refers to the influence exerted by 3 political institutions namely the legislature, the executive and the judiciary in developing and controlling business activities.

Business decisions are greatly influenced by the developments in the political environment. A change in the government brings about a change in attitude, preference, objectives etc. Business firms need to keep a track of all political events, anticipate changes in government policies and frame production and marketing strategies accordingly.

6. Cultural Environment

Every society has a culture of its own. Culture includes knowledge, belief, art, morals, laws, customs and other capabilities and habits acquired by an individual as a member of society. Cultural values are passed on from one generation to another. Culture thus determines the types of goods and services a business should produce.Business should realize the cultural differences and bring out products accordingly.

7. Technological Environment

Technology is the systematic application of scientific or other organized knowledge to practical tasks. Technological advancement make it possible to improve the quality of products, increase the output and decrease the cost of product.

Technological changes are rapid and to keep pace with it, businessmen need to be alert and flexible in order to quickly incorporate them in their business organization so as to survive and succeed in the competitive business world.

8. International Environment

The international environment is an outcome of political and economic conditions in the international market. Business firms engaged in the foreign trade are more affected by the changes in the international environment factors like war, civil disturbances, political instability, changes in trade policies in other countries with which India has trading links do affect Indian exporters and importers. Therefore, business firms, which cater to foreign trade must constantly monitor implications of international environment on their business.

The components of international environment are

- Import and Export policy of a country.
- Rules and regulations laid down by International Institutions like IMF, World Bank etc.
- The policies of trading blocks like SAARC, EEC, ASEAN etc.
- Foreign exchange regulations like tariffs, quotas.
- Trade cycle like boom, recession at world level

4.3 ENVIRONMENTAL SCANNING

Environmental Scanning means an examination and study of the environment of a business unit in order to identify its survival and prosperity chances. It means observing the business environment both external and internal and understanding its implications for business opportunities. It also involves knowing beforehand the risks and uncertainties as well as threats to the business unit.

As business environment is dynamic in nature, it is always changing, environmental scanning has to be quick and regular. It should not be one time act to scan the environment. It is the constant telescoping of external environment and microscoping of internal environment.

Environmental Scanning provides a broader prospective to corporate planners in formulating plans and strategies. In short , the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning.

NEED FOR ENVIRONMENTAL SCANNING

Environmental Scanning is essential because of following reasons :

1) **Prime Influence** – Environment is a prime influence on the effectiveness of business strategies. If strategic planning is done without considering environment, it is likely to be defective. Besides, the success of the implementation of the strategy depends on the environmental factors.

2) **A tool to anticipate Changes** – Environmental scanning is a very useful tool not only to understand business surroundings, but also as a good instrument to anticipate the changes and be prepared to face the challenges of such changes.

3) **Time for adjustment** – A business unit cannot change the business activities overnight. It needs time to adjust with the changing environment. If it has to face the changed environment suddenly, it may be possible to make immediate changes according to the demand of the changed environment. Environmental scanning gives time to the company to get adjust to the changed environement.

4) **Early Warning system** - Environmental Scanning gives advance warning or danger signals of the adverse changes in environment. It helps the company to design defense mechanism to avoid future adverse effects of environment on the business activities e.g. with the changing marketing environment, many companies are adopting on-line marketing to survive in this competitive environment.

TECHNIQUES /APPROACHES OF ENVIRONMENTAL SCANNING

Environmental Scanning can be effectively done following different techniques or approaches as follows :

1) **Seeking and getting opinion** – Opinions of experts or knowledge people can be got by talking to them. Depending upon the nature of industry, and type of markets, these experts would differ, but they would be the people who are good at reading the current trends as well as future trends e.g. a businessman who wishes to establish a holiday resort may talk to an expert in Tourism or expert person in the hotel business in order to know the prospects of the resort.

   Opinions can be sought even from non-experts or laymen who are involved in the relevant business. This can be done through surveys or informal chats or meetings with the concerned people.

   The opinions of experts and non-experts should be integrated to have a clear picture of environment and future trends.

2) **Extrapolating** – To extrapolate means to calculate or estimate unknown factors or future trends by inference or logic after knowing the facts or present trends. It involves estimating or forecasting an unknown , present trends. It helps a businessmen to read future with the help of the present. It is not guesswork. It is a calculation that peeps into the future or in the unknown with the help of proper reading of the present.

3) **Estimate** – An estimate is a techniques of designing the worse case scenario and the best case scenario. It estimates the best opportunities and the worst threats that are likely to emerge from the analysis of the environment. It thereafter weights the possibilities and probabilities of the opportunities and threats and preparing a balanced, realistic environment.

4) **Mapping** – It is an analytical tool that tries to read the process of transformation of factors in environment. The whole of the environment does not change suddendy, certain factors change, while others remain the same over a period of time. Mapping is a techniques that tries to track the environmental factors to find out how many of them, and which of them are changing. It tries also to find out the direction and the

speed of the change. It locates and plots the changes, their routes and their magnitude or extent.

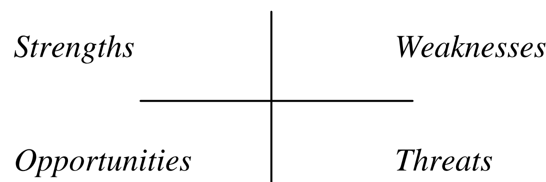
5) **Modelling** - There are many types of modeling that can be used to scan the environment. E.g. Regression analysis or probability tables are also used in more complex types of modeling.

6) **Industrial espionage** – It is used for 2 purposes
   - To gather vital information from government department
   - To collect clues from the competitors

   A spy can be a government employee or an employee of a competitor, a competitors supplier or customer. E.g. Japanese visitors to American factories, plants and facilities gather information. Research students working in laboratories may take up vacation jobs with companies as a part of spying assignments.

4.4 SWOT ANALYSIS

In order to survive and grow in this competitive environment, it is essential for every business organization to undertake SWOT analysis. The process by which the enterprises monitor their relevant environment to identify their business opportunities and threats affecting their business is known as environment analysis or SWOT analysis. In other words analyzing the surrounding environment before framing policies and taking business decisions is called as SWOT analysis.



'SW' stands for strengths and weaknesses
'OT' stands for opportunities and threats

A Strength is something a company is good at doing or a characteristic that gives it an important capability. Possible strengths are :

- Name recognition

- Proprietary technology
- Cost advantages
- Skilled employees
- Loyal customers etc.

Strengths and weaknesses are derived from internal environment . Opportunities and threats arise from external environment.
SWOT analysis help the business unit to know its positive points as well as negative points.

Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors e.g. Marketing of Hindustan Leaver Limited, they have around 15 lakhs retail outlets for distributing their various products in India.

A Weakness is something a company lacks or does poorly (in comparison to others) or a condition that places it at a disadvantage. Possible weaknesses are :

- Poor market image
- Obsolete facilities
- Internal operating problems
- Poor marketing skills etc.

Weaknesses is an inherent limitation, which creates a strategic disadvantage for the organization e.g. limited finance.

Opportunities – An opportunity is a favourable condition in the organization's environment which enables it to strengthen its position.

Threats – A threat is an unfavourable condition in the organization's environment that creates a rise for or cause damage to the organization.

ROLE AND IMPORTANCE OF SWOT ANALYSIS

1. **Identify strengths** – The analysis of the internal environment help to identify the strengths of the firm. The internal environment refers to plans and policies of the firm, its resources-physical, financial and human resources e.g. If company has good

relations with workers, the strength of the company can be identified through the workers loyalty and dedication on the part of workers.

2. **Identify weaknesses** – A firm may be strong in certain areas, whereas it may be weak in some other areas. The firm should identify such weaknesses through SWOT analysis so as to correct them as early as possible e.g. Lack of capital may be a weakness of the company, but company should try to raise additional funds to correct the weaknesses.

3. **Identify Opportunities** – An analysis of the external environment helps the business firms to identify the opportunities in the market. The business firm should make every possible effort to grab the opportunities, as and when they come e.g.

4. **Identify threats** – Business may be subject to threats from competitors and others. Identification of threats at an earlier date is always beneficial to the firm as it helps to defuse the same. For instance, a competitor may come up with innovative product. This not only affects the firm's business but also endanger its survival, so business firm should take necessary steps to counter the strategy of the competitors.

5. **Effective Planning** – A proper study of environment helps a business firm to plan its activities properly. Before planning, it is very much necessary to analysis the internal as well as external environment. After SWOT analysis , the firm can list out well-defined and time-bound objectives, which in turn help to frame proper plans.

6. **Facilitates Organising Resources** – Environment analysis not only helps in organizing the resources of right type and quantity. A proper analysis of environment enables a firm to know the demand potential in the market. Accordingly, the firm can plan and organize the right amount of resources to handle the activities of the organization.

7. **Face Competition** – A study of business environment enable a firm to analyse the competitor's strengths and weaknesses. This would enable the firm to incorporate the

competitor's strengths in its working. The firm may also try to exploit the competitors weaknesses in its favour.

8. **Flexibility in Operations** – The environmental factors are uncontrollable and a business firm finds it difficult to influence the surrounding of its choice. A study of environment will enable a firm to adjust its operations depending upon the changing environmental situation.

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MODULE 5

FORMULATING STRATEGIC ALTERNATIVES, STRATEGIC CHOICE

5.1 STRATEGIC ALTERNATIVES
5.2 GENERATING STRATEGIC ALTERNATIVES
5.3 CLASSIFYING STRATEGIC ALTERNATIVES
5.4 HORIZONTAL EXPANSION AND DIVERSIFICATION
5.5 CLASSIFICATION BASED ON THE DESIRED RATE OF GROWTH
5.6 MERGERS AND ACQUISITIONS
5.7 THE LEGAL POSITION ABOUT MERGER

5.1 STRATEGIC ALTERNATIVES

Strategic alternatives refer to different courses of action which an organisation may pursue at a point in time. These alternatives are crucial to the success of the orgnisation. More often than not, these are influenced by factors external to the organisation and over which -the organisation has limited control. For example consider a situation where a firm is experiencing increased competition of its products. How should the organisation respond? Should it reduce price'? Should it improve the quality of the product'! Should it use a mix of' the two? Should it improve the distribution network? Should it improve promotional effort? Is there a set of guidelines which could be followed by the organisation? Alternatives external to the organisation such as mergers, acquisitions and joint ventures may also be. considered. The list of alternatives will be incomplete without the alternative of disinvestment. There are situations when withdrawal from an existing business is the most suitable course of action. In fact, it may be wrong to consider that continuing to produce a particular product or service is a must.

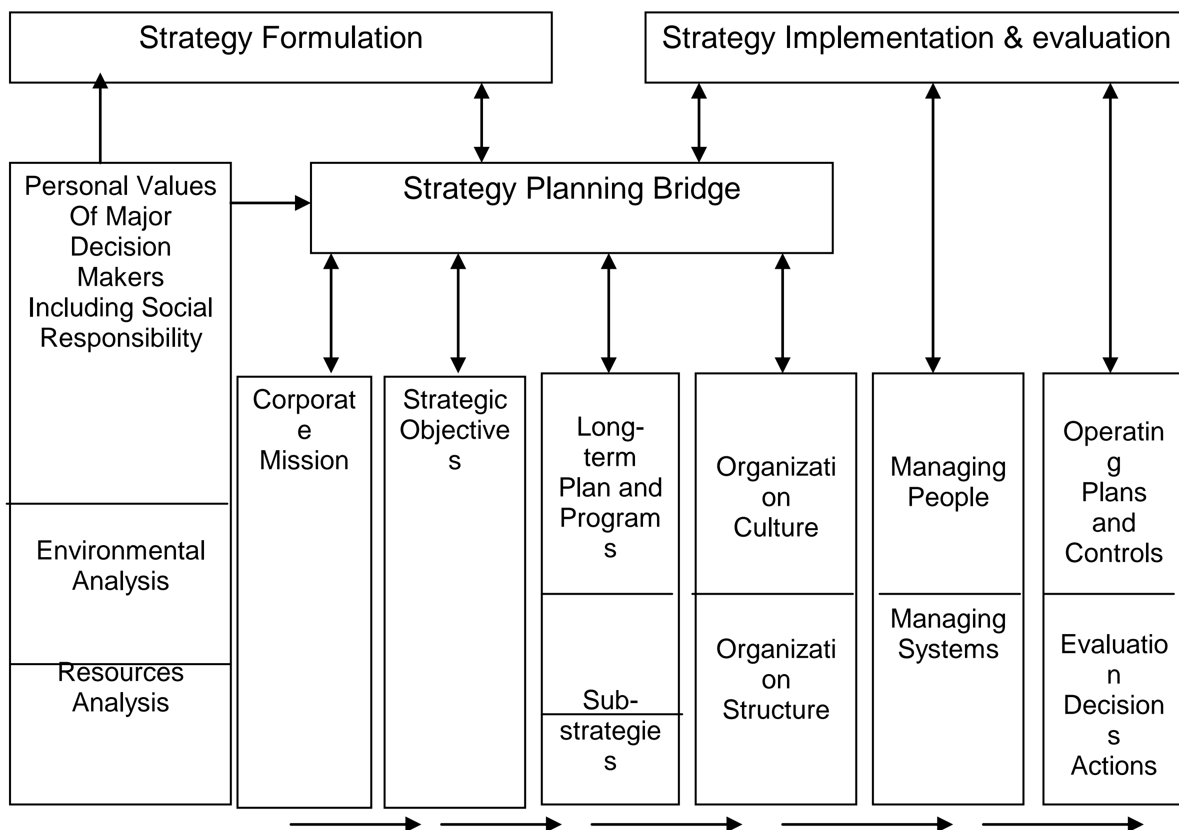
A firm may consider withdrawal from a business if the present value of the anticipated stream of earnings from that business is less than its present worth. Thus, if the present value of the stream is of earnings from the textile unit of a corporate group is less than the net worth of the textile business, the organisation should withdraw from the textile business. Sometimes there may be obstacles if the organisation wishes to withdraw. The most serious opposition may come from the Government in its anxiety to protect workers likely to be rendered unemployed. This kind of a situation is being faced by the DCM Limited, a highly diversified

group. Any organisation contemplating to withdraw from a particular business should attempt to foresee the constraints and evolve ways to overcome them. Some obvious alternatives include:

i) offering alternative jobs to workers in other units;

ii) providing attractive retrenchment terms to workers so that they would not easily turn down the offer (the golden handshake).

The Strategic Management Process Tasks



5.2 GENERATING STRATEGIC ALTERNATIVES

How does an organisation identify alternative courses of action for its survival and growth? The procedure may differ from organisation to organisation depending upon its size, style of management, work ethos and industry characteristics.

Small Organisations

In a small organisation all decisions are made by the owner himself or by the chief executive. These decisions deal with what an organisation should do under alternative situations. What new businesses should be added or what existing businesses should be done away with the success or failure of the organisation depends upon the experience and technical competence of the chief executive. Thus, in small organisations strategic alternatives are identified by the owner-manager. Of course his decision may he influenced by some bureaucrats, industrialists, etc. with whom he interacts. The procedure used for identifying alternatives may be intuitive rather than based on a well-defined procedure. The process of implementing alternatives in small business is however reasonably fast.

Large Organisations

In organisations of medium to large size, the following mechanisms may be employed for identifying strategic alternatives.

- brain-storming sessions;
- special meetings for the purpose;
- services of outside consultant;
- joint meetings of the consultant and the senior employees of the organisation.

Brain Storming Session

In most organisations strategic alternatives are identified during the brain-storming sessions. In such meetings participants are encouraged to come out with any course of action which they feel is possible. At this stage no importance is attached to relative merits and demerits of the alternatives. In the next stage each alternative is reviewed and subjected to a close scrutiny. The alternatives which are considered fairly appealing are further examined and analysed for final selection of one or more alternatives.

Consider the case of power shortage in an organisation which produces an energy -intensive product such as aluminium. What shouldthe organisation do? Since the decision is, bound to affect the organisation crucially, the alternatives are of crittical, importance. These may include:

i) buy a generator,

ii) start producing those products which are not very energy intensive,

iii) have a stand-by generator for meeting part of the, requirements;
iv) introduce a change in, the product-mix, with an emphasis on; those products which, have a higher contribution per unit of investment.

The few alternatives listed above have their own: implications in, terms of financial, physical facilities, manpower requirements, etc. The chief executive has to select the alternative which is, the most appropriate in his opinion. The current resource position of the organisation with be a major influencing factor in this decision.

Special Meetings

Large organisations, recognising the significant of generating strategic alternatives, hold special meetings away from the place of their work in a hotel or a holiday resort. This is to ensure that the process of thinking, is, not disturbed by interruptions during the course of deliberations. The participants present alternative scenarios alongwith their recommended courses of action. Alternative scenarios- may be based upon: assumptions regarding.

i. rate of growth of the economy
ii. position, regarding foreign exchange
iii. rate of inflation
iv. rate of unemployment
v. ideology of the political party in power
vi. rate of change in technology
vii. socio-cultural factor having a bearing on the profitability of the organization

Depending on the assumptions, regarding the values and future trends of the above parameters, alternative courses of action, are often recommended. An attempt is made through the discussions to arrive at a consensus. The turnaround, strategy of a leading pharmaceutical company Brurroughs Wellcome was conceived in. a series of meetings the Chief Executive had with his senior managers.

Outside Consultants

This procedure of identifying strategic alternatives is based on the premise that an outsider can observe the phenomenon in an objective manner. It is recognised that the executive's who have been actively associated with, a particular project, are often so involved with it that they

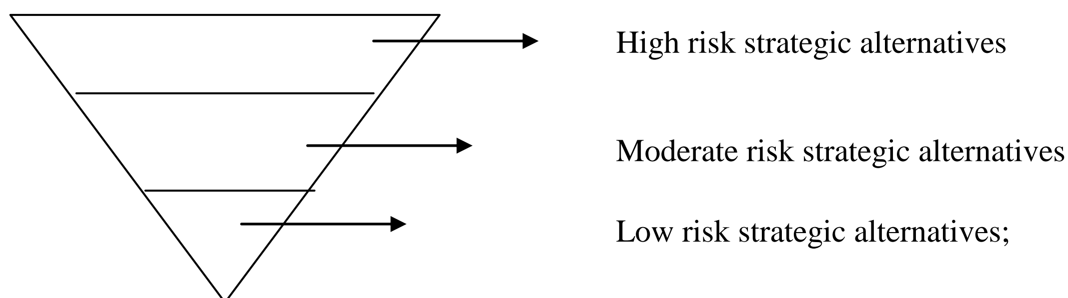
tend to, be subjective and over look its shortcomings. Others, from within the organization may also be unable to see its limitations. Under such conditions, engaging outside consultant may be a more effective way to generate, strategic alternatives on an objective basis. The outside viewpoint is expected to, be new and fresh, and thus, can show, up many new opportunities, to the organisation.

Joint Meeting

Another desired way of generating alternatives is to hire the services of a, consultant but also associate some internal members in the process. This method, is able to combine the advantages of the new ideas contributed by outsiders being blended with workable solutions from within the organisalion. In, any case, an, outside consultant may like tot seek the opinion of the internal members on his proposals.

5.3 CLASSIFYING STRATEGIC ALTERNATIVES

From the point of view of an organisation, strategic alternatives may be classified on the basis of degree of risk involved. Thus we have:



Within this broad classification there may be a number of specific courses of action. The above classification provides the following strategic options in that order of risk:

- Niche
- Vertical integration-backward and forward
- Horizontal expansion
- Diversification

Niche Strategy: Niche means concentrating around a product and market. It is a strategy involving very low degree of risk and rel5resents the typical behaviour of the small companies. Such organisations, in general, are scared of growing big as it could entail them

into legal, labour and management problems. They are content with their present position and wish to capitalise on their superior knowledge of local conditions and choose a very narrow segment of market. 'NIRMA' until recently followed this alternative with great success.

In India, the Government policy has always favoured small scale units. Such units have been accorded a favourable treatment in the matter of licencing, credit and supply of raw material. Thus, the factors internal to the organisation and government policies have contributed to the growth of small companies in India.

Vertical Integration: This can assume two forms: backward and forward. Backward integration means inhouse production of critical inputs for the main business or going in for marketing of products by opening retail outlets. The company may also add to the existing products/processes by taking up the production of intermediate goods. In the case of forward integration the companies try to reach customers through their own distributional network. Organisations follow forward integration to take advantage of the closer contact with the customers and to ensure a control over retail price of their products. Reliance company has pursued this strategy very effectively. Integration is a moderate risk alternative.

5.4 HORIZONTAL EXPANSION AND DIVERSIFICATION

Horizontal expansion results when a firm adds new products or enters into new markets.
Most pharmaceutical companies follow this strategy.
In diversification, an enterprise takes up new products or business which may related or unrelated to its existing business.
Diversification, in particular, involves high degree of risk as it amounts to manufacturing new products or entering into new-markets unfamiliar to the organisation. There are two broad categories of organisations that follow diversification. The first category includes those which are not doing too well in the traditional lines and are exploring the possibility of other products or markets. The second category would include organisations which enjoy considerable resource strength and would like to expand operation by looking at new businesses.

Companies in India have followed both vertical integration and diversification. For instance, Walchand Group's activities cover mainly large construction projects, heavy engineering,

specialised automobiles, Sugar, concrete pipes, confectionary, machine tools castings, and fabrication etc. Hindustan Lever has pursued a strategy of vertical integration for soaps and toiletory business. It has also followed diversification in basic chemicals. Some business houses have gone in for large scale diversification i.e., DCM, Tatas Group, Birla Group, Thapar Group, ITC, etc. Larsen and Toubro has had major diversifications in recent. times by entering into cement and shipping industry.

5.5 CLASSIFICATION BASED ON THE DESIRED RATE OF GROWTH

The various alternatives provided are:

a) internal expansion (adding more capacity)

b) internal stability (by augmenting resources)

c) internal retrenchment (manpower or assets)

d) external retrenchment (by disposing company-owned outlets)

e) external expansion through mergers (joining with other business units)

f) a combination of the above strategies

Some of these alternatives are explained as follows:

Internal Retrenchment: This is also known as 'turnaround' in which the Organisation starts generating profit after incurring losses for a number of years. This may be brought about through restructuring of capital, changes in manage ' ment personnel and better control in functional areas. In the Indian context, Hindustan Photo films presents a good case of turnaround strategy.

External Retrenchment: This expression is used as synonym for divesture. Thus an organisation may like to withdraw from a business incurring a loss over a period of time. Obviously, the approach is the opposite of mergers. Subject of the clearance of the 6evernment, the DCM wishes to divest out of its texthes business. ITDC, about a year back, decided to close Akbar Hotel.

Divesture is prompted by factors such as inadequate market, lower profits and availability of better alternatives, technological changes requiring investment which the managernent is unable to undertake. Divesture may include the following:

- A part of the unit may be floated as an independent unit
- It may be sold to employees

- It may be sold to an independent buyer
- It may be liquidated and its assets sold

Glueck 2 has classified strategic alternatives into the following categories:

i) stable growth strategies

ii) profit strategies

iii) stable growth as pause strategies

iv) sustainable growth strategies.

The first alternative is useful when a firm pursues its original objective or objectives similar to the original one, or when the focus of its main strategic decision is on the incremental improvement of functional performance. In this case, achievement level is fixed on the basis of past performance corrected for known rate of inflation. The underlying premises in this case are:

- reasonably stable environment and
- management not being in favour of undertaking high degree of risk though it is not risk averse

Modi Xerox, since its inception, has followed a stable growth strategy in India. It has concentrated on a narrow range of products and quality aspect of after-sales service.

The second alternative is followed when the main aim of the strategic business unit is to generate surplus. In the process other objectives may be sacrificed. This aspect may get considerable importance during the phase of recession.

The stable growth alternative applies in those situations where a firm deliberately slows down to improve efficiency. Such a behaviour is observed among organisations who find it difficult to manage growth. This difficulty is usually experienced by organisations of small to medium size. But unmanageable growth has been experienced by large organisations too. A very large number of television manufacturers in India are f6rced to control their growth inspite of large market opportunities that exist before them. Since most of the TV manufacturers are small or medium sized firms lacking substantial resources, they follow a stable growth strategy by focussing their efforts in certain geographical markets and around few products.

The sustainable growth alternative includes a modified incremental growth to take one of the unfavourable external conditions. These include:

a) internal growth strategies consisting of:
   -concentric diversification, and
   -conglomorate diversification
b) external growth strategies consisting of
   -mergers,
   -joint ventures
c) liquidation

Concentric growth is an alternative where the firm goes into businesses which are related to the existing ones, say from manufacture of spare parts for passenger cars to the manufacture of spare parts for tractors. This no doubt is an example of the product related concentric growth. An example of customer related concentric growth is when a firm producing farm equipment decides to enter the business of chemicals and fertilisers.

Under the growth alternative of conglomorate diversification, a firm may acquire another firm which has surplus cash even though there may be nothing in common with the existing business. The RPG Enterprises have pursued this alternative within the scope of its limited resources.

Merger is all alternative where two firms join. There are different objectives of mergers including the need-to tide over the finan6al crisis. The objectives of mergers and the procedures followed in negotiating a merger are discussed in detail in another unit in this block.

Joint venture is an alternative which can meet a number of needs such as rapid rate of growth desired by the firm, maintaining the risk within reasonable limit, and to tide over the constraint of resources. Thus a firm having constraint of production capacity can have ajoint venture with a firm having surplus production capacity. Pepsi Cola (a US multi-national company), Voltas and Punjab Agro have recently joined hands to promote a joint venture in the area of agro industries.

Liquidation indicates a situation where the firm -finds the business unattractive. There may be a dearth of people who have interest in the proposition. Neither the employees nor do outside parties find it an attractive proposition to be revived. Obsolete equipment is the usual cause. Disinvestment may be considered attractive when the present worth of expected earnings is less than its present worth.

5.6 MERGERS AND ACQUISITIONS

Merger:

In merger, a firm may acquire another firm or two or more firm may combine together to improve their competitive strength or to gain control over additional facilities. Merger may be of two types:

1. A firm merges with other firms in the same industry having similar or related products, using similar processes and distributing through similar channels. Such a merger creates problems of co-ordination between the merged units.
2. Under this type of merger, firms merging together are engaged in altogether different lines of business and have little common in their products, processes and distribution channel. They are known as conglomerate merger.

Acquisition or take-over:

Acquisition generally refers to buying another firm, either its assets or as an operating company. In a take over, or acquisition, one company gets control over the acquired company. Takeover involves a change in ownership and management of the acquired company. In pre 1991 India, the MRTP Act, Industrial Licensing Policy and the companies Act, 1956 etc. made take-overs difficult to accomplish. The post 1991 scenario 15, of course, very different. There are several instances of take-overs, both friendly and hostile are reported since 1992.

5.7 THE LEGAL POSITION ABOUT MERGER is contained in sections 394 to 396 of the Companies Act. But these sections have to be interpreted in conjunction with section 94 (Power of limited companies to alter share capital) 95, 97 (dealing with special resolution for reduction of capital), 101, 102, 104 and 107. Some of the important provisions of the Companies Act deal with the power of the court, with whom an application for amalgamation has been pending, to make any alternation or modification in the scheme for amalgamation. I he most important aspect is the protection of the interests of the dissenting shareholders. Any

scheme for transfer of whole or any part of an undertaking requires the approval of the r4ne-tenths in value and three-fourths in number of share holders of the company. Probably the most important section is 396 dealing with the power of the Central Government to provide for amalgamation of companies in public interest. The sick units are being amalgamated with other companies or are being taken over by the Government.

In actual practice it is difficult to draw a distinction between mergers and acquisitions. Strictly speaking, in case of mergers, the existing companies lose their identity and a new company is formed, while in the case of acquisitions it is the purchase of a company by another company. Madura Coats is a company born out of the merger of Madura Mills and Coats India Limited in early seventies.

At times it is profitable to diversify through mergers. The process of mergers gives the advantage of not having to start from scratch. Amalgamations enable the companies to have advantage of fast changing technologies: the underlying assumption in this case is that one of the merged companies enjoys distinct strength in the area of R&D. Mergers may also enable reduction in administrative costs. Given the indivisibility of certain expenditure on personnel, the merger will result in better utilisation of their time. Further, the merger may facilitate the process of linking the products and may amount to vertical integration. This could be undertaken where for various reasons the merging companies individually would not have been able to implement vertical integration. The process often results in providing a complete product line. It goes without saying that some companies undertake merger as a means to plan their tax liability. (The most amusing example is provided by an advertisement which appeared in a reputed newspaper stating 'wanted companies which may have incurred a loss upto a specified amount).

Ansoff and Ors have presented a detailed procedure for screening projects for diversification based on merger. The sequential steps are: (i) define the objective of merger (to reflect how better utilisation of resources is to be achieved and the manner in which the adaptability to the changing environment is going to take place), (ii) review the strengths and weaknesses, (iii) develop criteria to identify the most advantageous merger prospects, (iv) find out the financial resources available, and (v) develop strategies for choosing among the industries.

Desirably, the management of the buying company should be aware of the extent of its need for the other company because the price payable (or the exchange ratio) depends dpon the bargaining power of the two managements. Management of the buying company has to convince the management of the selling company that the sale is in the latter's interests. One has to look to the alternative offers the selling company may be having. If the forecasts of resources generated after merger show a brighter picture, a generous price offer can be made. Nierenberg has discussed the steps in defining (i) the range within which the terms may be offered and (ii) other party's position. The steps involved in defining one's own position are:

- Study of relevant information and forecasts to identify the maximum price and the mode of payment.
- Incorporation of non-price terms in the final contract.
- Formulation of alternative course of actions and their implications with contingency provisions.
- Awareness of company's stand on ethics. integrity and honesty.
- Review of the related factors like timing of the negotiations, the person to negotiate and so on.

Steps in estimating the selling company's position are:

- Identify the alternatives that may be open to this company regarding price and the mode of payment.
- Substantiate or cross-check the information.
- Review the assumptions by approaching the problem from the seller's point of view.
- Identify the factors that could be important to the other company.

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MODULE 6

STRATEGIC FORMULATION - INPUT STAGE, MATCHING STAGE AND DECISION STAGE, CULTURAL ASPECT OF STRATEGIC CHOICE AND FUNCTIONAL STRATEGIES

6.1 SELECTION OF STRATEGY
6.2 PRODUCT LIFE CYCLE APPROACH
6.3 MANAGERIAL FACTORS AND STRATEGY.
6.4 STRATEGIC CHOICE
6.5 GLOBAL STRATEGY
6.6 CULTURAL ASPECTS OF STRATEGIC CHOICE

6.1 SELECTION OF STRATEGY

Once the analysis of current and projected performance of the company based on existing strategies and the assessment of desired performance is done, the strategic gap is identified. Strategic alternatives are then generated to bridge the gap if the projected performance in future falls short of the expected or desired performance. A number of alternatives may be possible but only one or a few of them may finally be accepted as a strategy or strategies for future. "Strategic choice is the decision to select from among the alternative strategies considered, the strategy that will meet the enterprise's objectives. The decision involves focussing on few alternatives, considering the selection factors, evaluating the alternatives against these criteria, and making the actual choice".

The process of narrowing down a large number of possible strategic alternatives starts with the consideration of strategic gap. Strategic gap is the perceived difference between the targeted performance and projected performance following the present strategies. Strategic gap could be very narrow or quite large. If the perceived gap is narrow or the projected performance is likely to be better than targeted, one would expect that the stability strategy would be followed. A large gap could be caused by increase in targeted level of performance or the adverse changes in the environment which would lead to poor performance in future from the present strategies. In the former case the strategic gap may be said to be positive while in the latter it is negative. One would expect the growth strategy to be followed in case of large positive strategic gap and retrenchment strategy in case the strategic gap is negative

and 1arge. A large positive gap is likely to occur due to environmental opportunities and a large negative gap due to environmental threats. It must be noted that the importance of leadership in any situation cannot be underestimated. The same environment may be viewed by one as threatening and by another as providing an opportunity. Thus a large positive strategic gap is more likely to be associated with dynamic leadership which may have substantially higher aspiration levels of performance. The transformational type of leaders will, in all probability, have a large positive strategic gap.

Like environmental conditions, the strengths and weakness of the organisation also determine the strategic alternatives to be considered. If the internal analysis shows strength, the growth strategies are more likely to be considered. Organisational weaknesses may push for retrenchment strategies.

The vehicle for effecting the strategy is likely to be internal if the gap is small or large positive. It is likely to be external if the gap is very large as the organisation may find it difficult to cope with the demands of implementation following internal approach. Same is the case with relatedness of strategies.

It is to be noted that while in small organisations and in some medium size organisations, only one of the strategies may be followed. In large, complex, multi-product / business orgamsations a combination of strategies is most likely.

It is worth mentioning that there are certain sectoral patterns observed in terms of strategies. In a recent study it was found that compared to public sector companies and multinationals in India, large domestic private sector companies tend to prefer growth strategies. There are also instances of domestic private sector companies growing more than either the public sector companies or multinationals.

The high growth strategies followed by such companies may be attributed to the philosophy of encashing the environmental opportunities. It has also be observed that due to obvious reasons public sector enterprises and multinationals in India tend to follow related diversification more than unrelated diversification.

Various approaches can be helpful in the selection of strategy, one such approach is the Product Life Cycle approach.

6.2 PRODUCT LIFE CYCLE APPROACH

Product life cycle describes the hypothetical passage of a product/service through a series of stages, namely, the embryonic (introduction), growth, maturity and decline.

Product life cycle is a useful concept in the selection of a strategy. The business strategy at different stages of the product life cycle would be different. For instance, in the growth phase huge investment in plant and machinery would be required. While in the decline phase it would be otherwise. In the embryonic stage the R&D requires significant attention and resources while in the maturity phase low cost efficient process requires more emphasis. Besides the appropriate functional strategies, the product life cycle approach also suggests appropriate overall strategy, It also helps us in timing the change in strategy and in assessing whether the corporate portfolio is balanced so that new products would be introduced while others pass through growth to maturity phase.

6.3 MANAGERIAL FACTORS AND STRATEGY.

In previous sections we have discussed how a firm could reduce the number of possible alternatives to a reasonable level. The choice of strategy as emerging from the process of narrowing down the alternatives is moderated by several managerial factors discussed below.

Managerial attitudes towards risk vary from ' 'high risk to, risk-aversion. If the attitude is that cif risk aversion then the stability strategy is likely to be accepted. If it is that of high risk taking, the growth strategy even with external change (acquisitions & mergers) may be pursued. Balanced attitudes are likely to favour combination strategies. The attitude towards risk also depends upon the stakes involved. If the whole of the firm is at stake, the risk assessment, would be different than if only a part was at stake.

Another factor that influences managerial choice is the awareness about how strategies have worked in the past. The development of strategy builds up on past strategy. According to Mintzberg 1, the past strategies tend to become programmed and bureaucratic momentum keeps it going, and when the strategies begin to fail due to changing conditions, there is a

tendency to graft new strategies onto the old ones. In many cases, therefore, more strategic changes are likely to come when the new chief executive or top management takes over.

Perceived external dependence too has an effect on the strategy. Many company's product lines are restricted by the technology e.g., most Indian companies bank on foreign collaboration. Aggressive growth strategies, therefore, depend technology available for import. Indeed, the very choice of business by a firm in India at any time is determined by the technology it could manage to import. Similarly most Indian companies depend on borrowed funds and changes in credit policies influence the choice of strategy.

The timing of choice is also a very important factor. Many strategies are bound by time. If delayed, the strategic alternative may not remain available. For instance, if the government decides to give licences for a particular product, they may be available only for a short period. If government approves import of technology it does not open the gate once for all. If the decision is delayed the licences may go to other companies and no more licenses may be available. If the company wants to increase market share by upgrading technology through imports, it may not have the opportunity open for ever.

The strategic selection process may not necessarily be a rational process always. More often than not, it is a political process. The power relationships in the organisation at times have a very important bearing on strategic choices. The political process may even influence the objectives (criteria for choice) arid the way analytical approaches are used and interpreted. In Mintzberg's view the values and goals of key managers must be analysed, considered and incorporated in the choice process. The political process has overriding influence in as much as 30 per cent of the time. It is not a question of choice but is one of pragmatism. The strategies not acceptable to key managers are unlikely to be implemented successfully.

Perhaps the most important influence on strategic choice process is the key managers' perception of the ability of the organisation to implement the strategy. The implementation involves management of change and matching of several intricate factors. The demands of implementation to ensure proper matching among the structure, the skills, the style, the staff the shared values, and the strategy, are of administrative and creative nature. The assessment of the task of implementation and the skills available for change is quite difficult and

subjective. The managers therefore tend to select strategies which put little demands on them in terms of effecting implementation. It is perhaps this factor which explains why many organisations do not go for high growth strategies and defer even retrenchment strategy from consideration.

6.4 STRATEGIC CHOICE

Companies use four basic strategies to enter and compete in the international environment which are discussed below. Each of these strategies has its advantages and disadvantages.

International Strategy

Companies that pursue an international strategy create value by transferring valuable skills and products to foreign markets where local competitors lack those skills and products. Most international companies have created value by transferring differentiated product offerings developed at home to new markets overseas. Consequently, they tend to centralise product development functions in their home country. However, they also tend to establish manufacturing and marketing functions in each major country in which they do business. Although they may undertake some local custornisation of product offering and marketing strategy, this tends to be limited in scope. Ultimately, in most international companies the head quarters retains tight control over marketing and product strategy.

An international strategy makes sense if a company has valuable unique competencies that local competitors in foreign markets lack and if the company faces relatively weak pressures for local responsiveness and cost reductions. In such situations, an international strategy can be very profitable. However, when pressures for local responsiveness are high, companies pursuing this strategy lose out to companies that place a greater emphasis on custornising the product offering and market strategy to local conditions. Furthermore, because of the duplication of manufacturing facilities, companies that pursue an international strategy tend to incur high operating costs. Therefore, this strategy is often unsuitable for industries in which cost pressures are high.

Multidomestic Strategy

Companies pursuing a multidomestic strategy orient themselves toward achieving maximum local responsiveness. As with companies pursuing an international strategy they tend to

transfer skills and products developed at home to foreign markets. However, unlike international companies, multidomestic companies extensively customise both their product offering and their marketing strategy to different national environments. Consistent with this approach, they also tend to establish a complete set of activities - including production, marketing, and R&D in each major national market in which they do business. As a result, they generally do not realise value from experience-curve effects and location advantages and, therefore, often have a high cost structure.

A multidornestic, strategy makes most sense when there are high pressures for local responsiveness and low pressures for cost reductions. The high cost structure associated with the replication of production facilities makes this strategy inappropriate in industries in which cost pressures are intense. Another limitation of this strategy is that many multidomestic companies have developed into decentralised groupings in which each national subsidiary functions in a largely autonomous manner. As a result, after some time they begin to lose the ability to transfer the skills and products derived from distinctive competencies to their various national, subsidiaries around the world.

6.5 GLOBAL STRATEGY

Companies that follow a global strategy focus on increasing profitability by reaping the benefits of cost reductions that come from experience-curve effects and location economics. That is, they are pursuing a low-cost strategy. The various activities such as production, marketing, and R&D of companies pursuing a global strategy are concentrated in a few favourable locations. Global companies do not tend to customise their product offering and marketing strategy to local conditions. This is because custornization raises costs because it involves shorter production runs and the duplication of functions. Instead, global companies prefer to market a standardized product worldwide so that they can reap the maximum benefits from the economies of scale that lie behind the experience curve. This strategy makes sense in those cases in which there are strong pressures for cost reductions and where demands for local responsiveness are minimal. These conditions exist in many industries manufacturing industrial goods.

Transnational Strategy

Companies whose operations are spread across several locations worldwide and are not confined to any country or a region and which pursue low cost and product differentiation at the same time are referred to as transnational companies. In essence, transnational companies operate on a global level while maintaining a high level of local responsiveness. A transnational strategy makes sense when a company faces high pressures for cost reductions and high pressures for local responsiveness. Companies that pursue a transnational strategy basically try to achieve low-cost and differentiation advantages simultaneously. Although this strategy looks attractive, in practice it is a difficult strategy to pursue. Pressures for local responsiveness and cost reductions place conflicting demands on a company. Local responsiveness raises costs, which clearly makes cost reductions difficult to achieve. Although a transnational strategy apparently offers the most advantages, it should be remembered that implementing it raises difficult organisational issues. The appropriateness of each strategy depends on the relative strength of pressures for cost reductions and for local responsiveness.

6.6 CULTURAL ASPECTS OF STRATEGIC CHOICE

There is an often told story of a person new to a company asking an experienced co-worker what an employee should do when a customer calls. The old-timer responded: "There are three ways to do any work. Do the job - the right way, the wrong way, and the company way. Around here, we always do things the company way." In most organizations, the "company way" is derived from the corporation's culture. Corporate culture is the collection of beliefs, expectations, and values learned and shared by a corporation's members and transmitted from one generation of employees to another. The corporate culture generally reflects the values of the founder(s) and the mission of the firm. It gives a company a sense of identity: This is who we are. This is what we do. This is what westand for. The culture includes the dominant orientation of the company, such as research and development at Hewlett-Packard, customer service at Xerox Corp, or product quality at TVS Group. It often includes a number of informal work rules (forming the "company way") that employees follow without question. These work practices over time become part of a company's unquestioned tradition. Corporate culture has two distinct attributes, intensity and integration. Cultural intensity is the degree to which members of a unit accept the norms, values, or other culture content associated with the unit. This shows the culture's depth. Organizations with strong norms promoting a

particular value, such as quality at TVS, have intensive cultures, whereas new firms (or those in transition) have weaker, less intensive cultures. Employees in an intensive culture tend to exhibit consistent behavior, that is, they tend to act similarly over time. Cultural integration is the extent to which units throughout an organization share a common culture. This is the culture's breadth. Organizations with a pervasive dominant culture may be hierarchically controlled and power oriented, such as a military unit, and have highly integrated cultures. All employees tend to hold the same cultural values and norms. In contrast, a company that is structured into diverse units by functions or divisions usually exhibits some strong subcultures (for example, R&D versus manufacturing) and a less integrated corporate culture. Corporate culture fulfills several important functions in an organization:

1. Conveys a sense of identity for employees
2. Helps generate employee commitment to something greater than themselves
3. Adds to the stability of the 3rganization as a social system
4. Serves as a frame of reference for employees to use to make sense out of organizational activities and to use as a guide for appropriate behavior

Corporate culture shapes the behavior of people in the corporation. Because these cultures have a powerful influence on the behavior of people at all levels, they can strongly affect a corporation's ability to shift its strategic direction. A strong culture should not only promote -survival, but it should also create the basis for a superior. competitive position. For example, a culture emphasizing constant renewal may help a company adapt to a changing, hypercompetitive environment. To the extent that a corporation's distinctive competence is embedded in an organizations culture, it will be a form of tacit knowledge and very difficult for a competitor to imitate.

A change in mission, objectives, strategies, or policies is not likely to be successful if it is in opposition to the accepted culture of the firm. Foot-dragging and even sabotage may result as employees fight to resist a radical change in corporate philosophy. Like structure, if an organization's culture is compatible with a new strategy, it is an internal strength. But if the corporate culture is not compatible with the proposed strategy, it is a serious weakness.

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MODULE 7

H.R. STRATEGIES, MARKETING STRATEGIES, FINANCIAL STRATEGIES, OPERATIONAL STRATEGIES, MAKING STRATEGIC CHOICE

7.1 STRATEGIC HUMAN RESOURCE MANAGEMENT (HRM) STRATEGIES
7.2 MARKETING STRATEGIES
7.3 MARKETING AND PRICING STRATEGIES
7.4 MARKETING AND PRODUCT DEVELOPMENT STRATEGY
7.5 STRATEGIC MARKETING ISSUES
7.6 FINANCIAL STRATEGY

7.1 STRATEGIC HUMAN RESOURCE MANAGEMENT (HRM) STRATEGIES

The primary task of the manager of human resources is to improve the match between individuals and jobs. A good HRM department should know how to use attitude surveys and other feedback devices to assess employees' satisfaction with their jobs and with the corporation as a whole. HRM managers should also use job analysis to obtain job description information about what each job needs to accomplish in terms of quality and quantity. Up-to-date job descriptions are essential not only for proper employee selection, appraisal, training, and development for wage and salary administration, and for labor negotiations, but also for summarizing the corporate wide human resources in terms of employee-skill categories. Just as a company must know the number, type, and quality of its manufacturing facilities, it must also know the kinds of people it employs and the skills they possess. The best strategies are meaningless if employees do not have the skills to carry them out or if jobs cannot be designed to accommodate the available workers. Hewlett-Packard, for example, uses employee profiles to ensure that it has the right mix of talents to implement its planned strategies.

Evolution of H.R. Functions

1930s Companies set up Industrial Relations depts. to respond to unions.

1940s Selection tools introduced – selection of 'right' candidate.

1950s Focus on personal change; training groups and productivity.

1960s & 1970s Legal issues, compensation systems, pay for performance, flexi-systems.

1980s	Move from people to systems, alignment of H.R. with business strategy
1990s	Focus on organization and not people, team work and organization, development of profession.
2000s	Emergence of **knowledge worker**.

Use of Teams

Management is beginning to realize that it must be more flexible in its utilization of employees in order for human resources to be a strength. Human resource managers, therefore, need to be knowledgeable about work options such as part-time work, job sharing, flex-time, extended leaves, contract work, and especially about the proper use of teams. Over two-thirds of large U.S. companies are successfully using autonomous (self-managing) work teams in which a group of people work together without a supervisor to plan, coordinate, and evaluate their own work.**16 Northern Telecom** found productivity and quality to increase with work teams to such an extent that it was able to reduce the number of quality inspectors by 40%.

As a way to move a product more quickly through its development stage, companies like Motorola, Chrysler, NCR, Boeing, and General Electric are using cross-functional work teams. Instead of developing products in a series of steps-beginning with a request from sales, which leads to design, then to engineering and on to purchasing, and finally to manufacturing (and often resulting in a costly product rejected by the customer) - companies are tearing down the traditional walls separating the departments so that people from each discipline can get involved in projects early on. In a process called concurrent engineering, the once--isolated specialists now work side by side and compare notes constantly in an effort to design cost-effective products with features customers want. Taking this approach enabled Chrysler Corporation to reduce its product development cycle from 60 to 36 months. For such cross-functional work teams to be successful, the groups must receive training and coaching. Otherwise, poorly implemented teams may worsen morale, create divisiveness, and raise the level of cynicism among workers.

Importance of HRM Strategies

- **Corporate goals must factor in individual career growth.**
- **Company profits must be linked to personal rewards.**

- **Organisational learning must involve employee training.**
- **Business strategies must consider human resource issues.**

"The successful organizations will be those that are able to quickly turn strategy into action; to manage processes intelligently and efficiently; to maximize employee contribution and commitment" - Dave Ulrich.

Quality of Work Life and Human Diversity

Human resource departments have found that to reduce employee dissatisfaction and unionization efforts (or, conversely, to improve employee satisfaction and existing union relations), they must consider the quality of work life in the design of jobs. Partially a reaction to the traditionally heavy emphasis on technical and economic factors in job design, quality of work life emphasizes improving the human dimension of work. The knowledgeable human resource manager, therefore, should be able to improve the corporation's quality of work life by adopting the following techniques-

(1) introducing participative problem solving,

(2) restructuring work,

(3) introducing innovative reward systems, and

(4) improving the work environment. It is hoped that these improvements will lead to a more participative corporate culture and thus higher productivity and quality products.

Human diversity refers to the mix in the workplace of people from different races, cultures, and backgrounds. This is a hot issue in HRM. Realizing that the demographics are changing toward an increasing percentage of minorities and women in the U.S-workforce, companies are now concerned with hiring and promoting people without regard to ethnic background. According to a study reported by Fortune magazine, companies that pursue diversity outperform the S&P 500. Good human resource managers should be working to ensure that people are treated fairly on the job and not harassed by prejudiced coworkers or managers. Otherwise, they may find themselves subject to lawsuits. Coca-Cola Company, for example, agreed to pay $192.5 million because of discrimination against African American salaried employees in pay, promotions, and evaluations from 1995 and 2000. According to Chairman and CEO Douglas Daft, "Sometimes things happen in an unintentional manner. And I've made it clear that can't happen anymore."

An organization's human resources are especially important in today's world of global communication and transportation systems. For example, on a visit to China during Spring 2000, one of CocaCola Company's executives was challenged by Chinese reporters regarding the company's racial problems. Advances in technology are copied almost immediately by competitors around the world. People are not as willing to move to other companies in other countries. This means that the only longterm resource advantage remaining to corporations operating in the industrialized nations may lie in the area of skilled human resources. Research does reveal that competitive strategies are more successfully executed in those companies with a high level of commitment to their employees than in those firms with less -commitment.

7.2 MARKETING STRATEGIES

The different market structures have different view points with respect to competition. In monopoly, competition is not fierce as the monopoly firm has an advantage over other firms. This advantage may be in terms of product, process, technology, etc. In case of monopolistic competition, all the firms try to achieve this advantage so that they could be more successful than their competitors. Firm's operations in oligopoly and duopoly market structures also aim for sustainable competitive advantage to survive in the market.

In the short run, a firm's **competitiveness derives from pricing or application** attributes of the products but in the long run, a firm's competitiveness derives from its ability to develop and grow at low cost and at a faster pace than its competitors. The most important point about competitive advantage is that management must be able to integrate corporate wide technologies and processes into competencies that provide a solid ground to the individual business so that it could adopt quickly to the ever changing opportunities. Core competence has been regarded as an effective way to help the organisation in the task of restructuring its products, markets, management, organisational setup and technology in the complex and dynamic environment.

According to Prahalad and Hemal, core competence is the collective learning in the organisations, especially how to coordinate diverse production skills and integrate multiple streams of technologies. When the organisation is faced with competition in the market, it is

the core competence which proves to be an asset and which can be enhanced through application and sharing.

In all the market structures, price determination is an important strategy to win competition but it is the core competence concept which focuses on the preservation of firm's existing superior skills. For instance, a monopolist would always like to remain a monopolist by continuously improving and enhancing the product or service because of which it has hold over the market. On the other hand, in monopolistic competitive market every firm tries to compete through new ideas and strives to develop core competencies. With respect to core competencies, Prahalad and Hernal provide the following key issues:

- A core competence is one that provides access to various markets. For example, a firm can operate as a monopolist in one business and can operate in a monopolistic competitive market at the same time in other business.
- A core competence should make a significant contribution to the perceived customer the benefits of the end product. A core competence should be difficult for competitors to initiate. For instance, a firm entering a monopoly market may acquire some of the processes that comprise core competency but it will not be easier to duplicate monopolist's pattern of internal coordination.

In any market, sustainable **competitive advantage plays a major role and core** competencies are nurtured so as to meet the turbulent environment and improve and grow by grabbing the right opportunity at the right time.

Apart from core competence, the possible strategic alternative to have sustainable competitive advantage for different market structures are as follows:

Monopoly : Stability is the best strategic alternative. For strengthening the position, vertical integration (either forward or backward) will be most effective. If any competitor enters, mergers and acquisitions may be the appropriate option.

Perfect Competition : The firm should not go for advertising or price differentiation. concentration strategy will improve the economics of scale and firm's sustainable competitive advantage will increase.

Monopolistic Competition : Advertising, quality control and branding are the appropriate measures. Strategic alliances with respect to price may work. Differentiation strategy may work. Diversification strategy may further enhance the competitive strength.

Duopoly and Oligopoly : Wide variety of options are available. They may go for diversification, integration, mergers, etc. They may look into promotional strategies for better competitive advantage.

7.3 MARKETING AND PRICING STRATEGIES

The different market structures adopt different pricing strategies. A few pricing strategies help deterring the entry of competitors. They may also enhance competitive strength and force some of the competitors to go for exit promoting strategies. Various pricing strategies used by the firms in different market structures have different implications. A few pricing strategies are narrated below:

1) **Price Lining Strategy**

In this kind of pricing strategy, the firm fixes the price of one product in the total line of its products. For example, a firm producing dresses fixes up the price of particular size and price of rest of the sizes is then fixed on the basis of differences in sizes. This strategy eliminates those competitors who can not compete on price.

2) **Limit Pricing Strategy**

For this strategy, some sort of collusion is necessary among existing firms. In this, the firm may try to establish a price that reduces or eliminates the threat of entry of new firms into the industry in which the firm operates. Normally, oligopolist and firms operating in monopolistic competition go for this alternative.

3) **Stay-out Pricing Strategy**

When a firm is not able to ascertain the price of the product, it introduces the product at a very high price. If it is not able to sell its product at this price, it would lower the price and go on lowering it till it meets the targeted sales. With the help of this strategy, the firm gets to know the maximum possible price it can charge from its customers. Monopolists experiment this strategy to have maximum profits. They are also not having any fear from competitors.

4) Psychological Pricing Strategy

Here, a firm fixes the price of its product in a manner which gives the impression of being low. For example, if the price of the product is fixed at Rs.199.99 rather than Rs.200, it has psychological impact on consumers that price is in 100s rather than in 200s. This strategy may influence sales sometimes. In monopolistic competition, this alternative may give better results.

5) **Skimming Price**

This strategy could be used in a market with sufficiently large segment whose demand is relatively inelastic i.e. not sensitive to a high price. Another condition for this strategy is that high price is unlikely to invite competition and unit costs are relatively unaffected by small volume. The strategy implies skimming the cream by taking advantage of the target markets willingness to pay a high price. This strategy is discriminatory. It enhances the quality image. In monopolistic competition and monopoly, this pricing strategy gives results.

6) **Penetration Price**

This strategy requires a highly price sensitive market with high price elasticity. It is characterised by low price which is likely to discourage competition. The policy is to charge low price so as to stimulate demand and capture large share of the market.

There are various other strategies as well like sliding down the demand curve, premium pricing, fraction below competition, price discrimination and put-out pricing. A firm can use any of these strategies to compete in the market. Different strategies could be used at different time periods by the same firm as per the conditions.

7.4 MARKETING AND PRODUCT DEVELOPMENT STRATEGY

Marketing strategy deals with pricing, selling, and distributing a product. Using a market development strategy, a company or business unit can (1) capture a larger share of an existing market for current products through market saturation and market penetration or (2) develop new markets for current products. Consumer product giants such as Procter & Gamble, Colgate-Palmolive, and Unilever are experts at using advertising and promotion to implement a market saturation/penetration strategy to gain the dominant market share in a product category. As seeming masters of the product life cycle, these companies are able to extend product life almost indefinitely through "new and improved" variations of product and packaging that appeal to most market niches. These companies also follow the second market development strategy by taking a successful product they market in one part of the world and marketing it elsewhere. Noting the success of their presoak detergents in Europe, for example, both P&G and Colgate successfully introduced this type of laundry product to North America under the trade names of Biz and Axion.

Using the product development strategy, a company or unit can (1) develop new products for existing markets or (2) develop new products for new markets. Gujarat Cooperative Milk Marketing Federation (GCMMF) has had great success following the first product development strategy by developing new products to sell to its current customers. Acknowledging the widespread appeal of its Amul brand dairy products, the company generated new uses for its dairy business by introducing ice-cream and Desserts, health drinks, soups etc. Using a successful brand name to market other products is called line extension and is a good way to appeal to a company's current customers.

There are numerous other marketing strategies. For advertising and promotion, for example, a company or business unit can choose between a "push" or a "pull" marketing strategy. Many large food and consumer products companies in India have followed a push strategy by spending a large amount of money on trade promotion in order to gain or hold shelf space in retail outlets. Trade promotion includes discounts, in-store speci4l offers, and advertising allowances designed to "push" products through the distribution system. The Kellogg Company recently decided to change its emphasis from a push to a pull strategy, in which advertising "pulls" the products through the distribution channels. The company now spends more money on consumer advertising designed to build brand awareness so that shoppers will

ask for the products. Research has indicated that a high level of advertising (a key part of a pull strategy) is most beneficial to leading brands in a market.

Other marketing strategies deal with distribution and pricing. Should a company use distributors and dealers to sell its products or should it sell directly to mass merchandisers? Using both channels simultaneously can lead to problems. In order to increase the sales of its lawn tractors and mowers, for example, John Deere decided to sell the products not only through its current dealer network, but also through mass merchandisers like Home Depot. Deere's dealers,. however, were furious. They considered Home Depot to be a key competitor. The dealers were concerned that Home Depot's ability to under price them would eventually l6d to their becoming little more than repair facilities for their competition and left with insufficient sales to stay in business. Most of the leading consumer durable firms in India follow this strategy of using simultaneous channels.

When pricing a new product, a company or business unit can follow one of two strategies. For new product pioneers, skim pricing offers the opportunity to "skim the cream" from the top of the demand curve with a high price while the product is novel and competitors are few. Penetration pricing, in contrast, attempts to hasten market development and offers the pioneer the opportunity to use the experience curve to gain market share with a low price and dominate the industry. Depending on corporate and business unit objectives and strategies, either of these choices may be desirable to a particular company or unit. Penetration pricing is, however, more likely than skim pricing to raise a unit's operating profit in the long term.

7.5 STRATEGIC MARKETING ISSUES

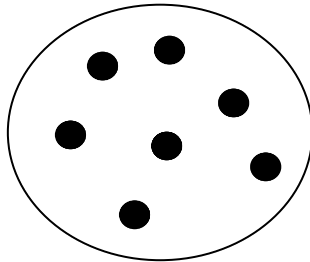
The marketing manager is the company's primary link to the customer and the competition. The manager, therefore, must be especially concerned with the market position and marketing mix of the firm.

Market Position and Segmentation

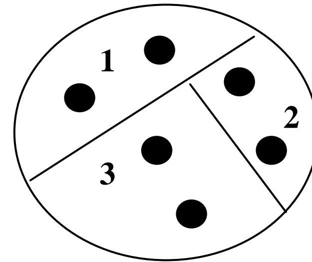
Market position deals with the question, "Who are our customers?" It refers to the selection of specific areas for marketing concentration and can be expressed in terms of market, product, and geographical locations. Through market research, corporations are able to practice market segmentation with various products or services so that managers can discover what niches to

seek, which new types of products to develop, and how to ensure that a company's many products do not directly compete with one another.

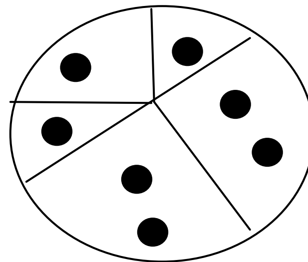
MARKET SEGMENTATION MODEL



Market Before Segmentation



Market Segmented into 3 groups



Completely Segment Market

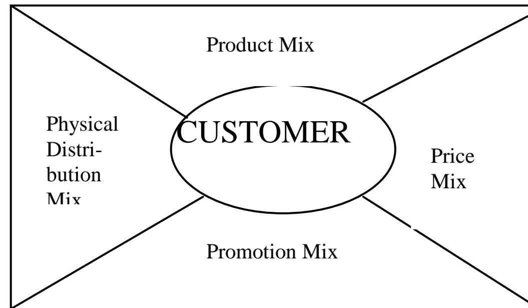
Techniques of Market Segmentation:

- Geographic Segmentation
- Demographic Segmentation
- Socio-graphic Segmentation
- Psychographic Segmentation
- Behaviouristic Segmentation
- Product Segmentation
- Benefit Segmentation
- Multi-attribute Segmentation (geoclustering)
- Status Segmentation

Marketing Mix

The marketing mix refers to the particular combination of key variables under the corporation's control that can be used to affect demand and to gain competitive advantage. These variables are product, place, promotion, and price. Within each of these four variables

and several subvariables, that should be analyzed in terms of their effects on divisional and corporate performance.



Each of these four marketing variables are followed by different sub-variable, for eg.
The product variable has tangible and intangible components of sub-varaibles.

Tangible components	Intangible components
1. Size 2. Features 3. Colours 4. Durability 5. Package 6. Taste 7. Others	1. Style 2. Quality 3. Image 4. Prestige 5. Warranty 6. Brand Name 7. Others

Similar sub-variables can be traced while analyzing price related factors, promotional factors and physical distribution factors.

7.6 FINANCIAL STRATEGY

The word 'Finance' is derived from the French word 'Finer' meaning thereby to pay, settle or finish. It is a science of money. It is the means of payment in business. A business needs funds at every step to set up a business and even to close the business. A business needs funds from "cradle to its grave". Corporate financial strategy embraces all theories, procedures, institutions, instruments, problems and policies that are involved in the acquisition and use of money by business enterprises.

Financial strategy examines the financial implications of corporate and business-level strategic options and identifies the best financial course of action. It can also provide

competitive advantage through a lower cost of funds and a flexible ability to raise capital to support a business strategy. Financial strategy usually attempts to maximize the financial value of the firm.

The tradeoff between achieving the desired debt-to-equity ratio and relying on internal long-term financing via cash flow is a key issue in financial strategy. Many small- and medium-sized companies try to avoid all external sources of funds in order to avoid outside entanglements and to keep control of the company within the family. Many financial analysts believe, however, that only by financing through long-term debt can a corporation use financial leverage to boost earnings per share, thus raising stock price and the overall value of the company. Research indicates that higher debt levels not only deter takeover by other firms (by making the company less attractive), but also leads to improved productivity and improved cash flows by forcing management to focus on core businesses."

Research reveals that a firm's financial strategy is influenced by its corporate diversification strategy. Equity financing, for example, is preferred for related diversification while debt financing is preferred for unrelated diversification. " The recent trend away from unrelated to related acquisitions explains why the number of acquisitions being paid for entirely with stock increased from only 2% in 1988 to 50% in 1998.

A very popular financial strategy is the Leveraged Buy Out (LBO). In a leveraged buy out, a company is acquired in a transaction financed largely by debt-usually obtained from a third party, such as an insurance company or an investment banker. Ultimately the debt is paid with money generated from the acquired company's operations or by sales of its assets. The acquired company, in effect, pays for its own acquisition! Management of the LBO is then under tremendous pressure to keep the highly leveraged company profitable. Unfortunately the huge amount of debt on the acquired company's books may actually cause its eventual decline by focusing management's attention on short-term matters. One study of LBOs (also called MBOs-Management Buy Outs) revealed that the financial performance of the typical LBO usually falls below the industry average in the fourth year after the buy out. The firm declines because of inflated expectations, utilization of all slack, management burnout, and a lack of strategic management. Often the only solution is to go public once again by selling stock to finance growth.

The management of dividends to shareholders is an important part of a corporation's financial strategy. Corporations in fast-growing industries such as computers and computer software often do not declare dividends. They use the money they might have spent on dividends to finance rapid growth. If the company is successful, its growth in sales and profits is reflected in a higher stock price-eventually resulting in a hefty capital gain when shareholders sell their common stock. Other corporations that do not face rapid growth must support the value of their stock by offering generous and consistent dividends.

A financial strategy being used by large established corporations to highlight a high-growth business unit in a popular sector of ihe stock market is to establish a tracking stock. A tracking stock is a type of common stock tied to one portion of a corporation's business. This strategy allows established companies to highlight a high-growth business without selling the business. By keeping the unit as a subsidiary with its common stock separately identified, the corporation is able to keep control of the subsidiary and yet allow the subsidiary the ability to fund its own growth with outside money. It goes public as an IPO and pays dividends based on the unit's performance. Because the tracking stock is actually an equity interest in the parent company (not the subsidiary), another company cannot acquire the subsidiary by buying its shares.

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MODULE 8

MATCHING THE ORGANIZATIONAL STRUCTURE WITH STRATEGIES

8.1 ORGANISATIONAL STRUCTURE

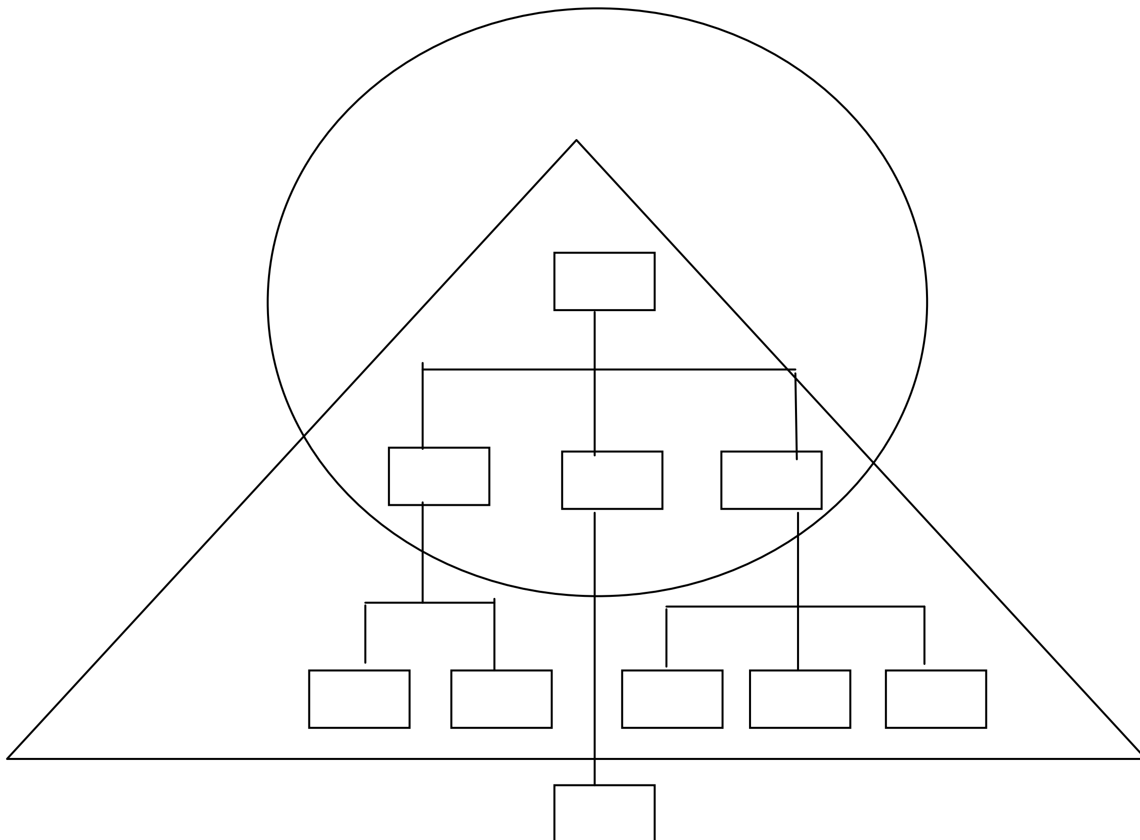
8.2 MATCHING ORGANISATIONAL STRUCTURE WITH BUSINESS STRATEGY

8.3 STAGES OF DEVELOPMENT OF ORGANISATIONAL STRUCTURE

8.1 ORGANISATIONAL STRUCTURE

The organization structure refers to established pattern of relationship among the components or parts of an organization. It is through the structure that the various parts of an organization are interrelated or interlinked. Organization structure involves issues such as division of work among various units or departments, and the coordination of activities to accomplish organizational objectives.

A SIMPLE STRUCTURE OF ORGANISATION



The organization has to be designed according to the needs of the strategy implementation. Any changes in corporate strategy may require some changes in the organization structure and

in the skills required in certain positions. Managers must, therefore closely examine the way their company is structured in order to decide what (if any), changes should be made in the way work is accomplished.

Although it is agreed that the organizational structure must change with environment conditions, which in turn, affect an organizational strategy, there is no agreement about an optimal structural design. What was appropriate for DuPont and General Motors in the 1920s might not be appropriate today. Firms in the same industry do, however, tend to organize themselves likewise. For instance, automobile firms tend to emulate General Motor's divisional concept, whereas consumer good firms tend to adopt the brand-management concept introduced by Proctor & Gamble. The general conclusion seems to be that following similar strategies in similar industries tend to adopt similar structures.

Structural Mechanism to implement strategy

The implementation of strategy requires performance of tasks. To perform taks , there should be various structural mechanism. The structural mechanism help to undertake the various activities required to implement the strategy. The various structural mechanism can be broadly divided into two groups :

A. Organisational Structure
B. Organisational Systems

A. Organisational Structure

In order to implement strategy, an organization must :

- Identify the major tasks required to implement strategy
- Group the tasks into departments or units
- Make arrangement of necessary resources to undertake tasks
- Assign the duties to employees
- Define and delegate the authority and responsibility
- Establish superior-subordinate relationship
- Provide a system of coordination of interlink the various tasks

The above process would lead to creation of a structure. A firm must design a suitable structure to undertake activities required to implement strategy. The structure may range from

simple organization structure to a major complex one – matrix or network structure. The type of structure depends upon :

- The size of the organization
- The number of product lines
- The number of plants or factories
- The number of markets – local, national or international

A simple organization structure, i.e., line organization structure is suitable for small organization having concentrating on one or few products and is restricted to local market. A functional organizational structure is suitable to organization that grow in size from the original entrepreneurial firm. As the business expands in diverse produce lines, the organization may adopt the strategic business unit structure, where each division is functionally independent to manage its performance. Some complex organization with multi plans and multi products may adopt the matrix organization or the network organization.

B. Organizational system

These are many types of organizational systems each one playing its own role in the implementation of a strategy. An organization has to perform a preset tasks in order to achieve the goals and objectives. It is therefore very important to evolve systems that will combine these divisions and departments in a well coordinated way. Communications between various sections are also specifically laid down.

1. **Information System**

   For any strategy to be properly implemented, communication channels are essential so that information from one manager can be sent to another. The structure of the organization divides the total responsibility of the whole organization while the information system is required to co-ordinate the responsibility that has been divided sectional wise. Information system is essential to enable the manager to get the necessary information required to perform his task effectively. It is also known as Management Information System. It is a link between various activities within the organization so that they can be effectively performed.

Strategies should be aware of the effects of the strategic changes on the requirements of the information system because this information system provides the base of the administration and design of the other organizational systems.

2. Motivation System

The motivation system is essential as it plays a positive role in getting the desired and required behaviour of an individual or a group of individuals. This is required so tat managers are encouraged to work efficiently and effectively towards the achievement of the corporate goals.

An organization comprises of different types of individuals, from all walks of life , from different backgrounds and cultures. The individual objectives of the organizational members may not be consistent with the objectives of the organization. This hence requires a system of motivation through the system incentives

Strategists have to deal with all the issues related to the design and administration of the motivation system which induce the desired positive behaviour from an individual.

3. Control System

The main function of the control system is to enforce a particular desired behaviour. Here the top management measures the performance of each section / departments and determines corrective action on those that are away from the duration. This is done keeping in view the goals and objectives of the company so that they can effectively attained.

The management evaluates the performance against some pre-set standards.

Controls thus enables the implementation of the strategy to be adopted according to predetermined plans.

A control system is required only when the owner-manger cannot do all the work himself. Hence he allocated the responsibility to another individual. In order to ensure that the other person does the work properly, controls are necessary. Controls are devices to enforce strategic behaviour so that the organization can operate as one entity towards a preset goal.

4. Appraisal System

The appraisal system is required to evaluate the performance of an individual / section so that the required behaviour can be made best use of. This system evaluates an individuals / sections / management performance with respect to the organizational objectives. It serves as an auditing system. It is through appraisal that personal salary, rewards, promotions are fixed.

It is very important to have a proper mix of qualitative and quantitative factors so that the appraisal of an individual / section can be viewed as a whole.

The person who does the appraisal of another should not have close contact with that other person. It is only then that he will be able to evaluate the performance of the other individual /section. Appraisal should be done at regular intervals and not yearly just before the yearly increments / promotion. In the case of committees appointed for a specific assignment, appraisal is done at the completion of that assignment.

5. Planning Systems

Planning systems are essential for the formulation of the strategy only. In some companies planning of strategies are done as a staff function and they provide the strategies to the line personnel to be executed. In other companies those managers who are responsible for the achievement of the goals are also part of the formulation of plans. This is essential as they alone will know which plan / goal is feasible and will try their best to achieve their targets. Thus when these managers are consulted in the formulation of targets and plans the successful implementation of these targets enchanced.

Planning systems can work in a centralized manger in the case of an entrepreneurial firm but in case of a very large organization a decentralized one will be more successful with the active participation of all the divisional leads

Thus it is important to adapt the planning system according to the strategy being implemented.

6. Development Systems

Development of skills, knowledge of top management is a must in todays fast competitive world. Here the systematic improvement of the attitude, skills, knowledge, performance of top managers is done systematically through class sessions, seminar and

out stations trips. Career planning of managers to prepare them for future strategic tasks. This is required as if the managers are unhappy, then their unhappiness can percolate to those in his section also. These managers should also be updated with the latest development in the organization. This is done through training and education of managers through internal and external training programme.

8.2 MATCHING ORGANISATIONAL STRUCTURE WITH BUSINESS STRATEGY

Changes in strategy often require changes in the way an organization is structured for two major reasons. First, structure largely dictates how objectives and policies will be established. For example, objectives and policies established under a geographical organizational structure are couched in geographic terms. Objectives and policies are stated largely in terms of products in an organization whose structure is based on product groups. The structural format for developing objectives and policies can significantly impact all other strategy-implementation activities.

The second major reason why changes in strategy often require changes in structure is that structure dictates how resources will be allocated. If an organization' structure is based on customer groups, then resources will be allocated in that manner. Similarly, if an organization's structure is set up along functional business lines, then resources are allocated for functional areas. Unless new or revised strategies place emphasis in the same areas as old strategies, structural reorientation commonly becomes a part of strategy implementation.

Changes in strategy lead to changes in organizational structure. Structure should be designed to facilitate the strategic pursuit of a firm and therefore, follows strategy. Without a strategy or reasons for being (mission), companies find it difficult to design an effective structure.

There is no optimal organizational design or structure for a given strategy or type of organization. What is appropriate for an organization may not be appropriate for a similar firm, although successful firm in a given industry do tend to organize themselves in a similar way. For example, consumer goods companies tend to emulate the divisional structure by product form of organization. Small firms tend to functionally structured (centralized) Medium sized firms tend to be divisionally structured (decentralized). Large firms tend to use a SBU (Strategic business unit) or Matrix structure. As organization grow, their structures generally change from simple to complex as a result of concatenation, or the linking together of several basic strategies.

Numerous external and internal forces affect an organization ; no firm could change its structure in response to every one of these forces, because to do so would lead to chaos.

8.3 STAGES OF DEVELOPMENT OF ORGANISATIONAL STRUCTURE

Successful companies tend to follow a pattern of structural development as they grow and expand. Beginning with the simple structure used by entrepreneurial firm characterized decision making moves on to divisional structure to mange different product lines. The following are the different stages in organizational development and strategy structure:

Stage I : Simple Structure

Stage I firms are small enterprises managed by the founder. The entrepreneur makes all the important decisions and is involved in every detail and phase of the organisation. The strategies adopted may be of expansion type. The greatest advantage of Stage I firm are its flexibility and dynamism. The greatest disadvantages is its extreme reliance on the entrepreneur to decide general strategies as well as detailed procedures. The problems of managing the organisation all by himself and therefore, he may go for functional structure.

Advantages of such firms are:

- Since there is only one decision maker, the decisions are taken faster.
- Quick and timely on the spot decisions are taken depending on the environmental changes and competition.
- These firms are very simple in nature.
- These firms are very informal in nature.

Disadvantages of such firms are :

- Since the owner has to do nearly everything including taking decisions has time can be demanded by almost everyone. He concentrates so much on day to day activities that major expansion decisions are left pending.
- When the owner is on holiday or such the firms operations usually fall due to lack of supervision. Excessive reliance on the owner.
- Future expansion only depends on the owners ability to invest money.

Stage II : Functional Structure

Stage II is the point when a team of managers who have functional specializations replaces the entrepreneur. The transition to this stage requires a substantial managerial style change for the chief executive, especially if he was the Stage I entrepreneur. He must learn to delegate, otherwise having a team of managers bring no benefit.

The organizational structure is functional type divided into various departments such as finance, marketing, personnel and production. There can be further departmentalization such as area wise , process wise product wise, etc. depending upon the size and business operations. The strategies is adopted may range from stability to expansion. The greatest advantages is that the firm can effectively concentrate and specialize in one industry. However, concentration in one industry may not help the firm, as it may no longer remain attractive. Therefore, firm may move in diversified product lines.

Advantages of such firms are :

- The day to routine work is delegated to people thus the owner/chief executive can concentrate on strategic business decisions.
- Efficient distribution of work through specialization. Hence work is done faster.

Disadvantages of such firms are :

- Co-ordination between different departments is difficult. Everyone wants to work in watertight compartments.
- Line and staff departments usually conflicts.
- This creates specialists which results in narrow spscialisation.

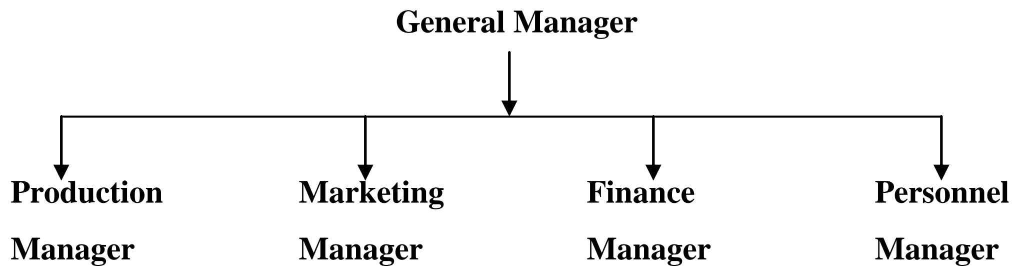
Stage III : Divisional Structure / Departmental Structure

As a small organization grow, it has more difficulty managing different products and services in different markets. Some form of divisional structure generally becomes necessary to motivate employees, control operations and compete successfully in diverse locations.

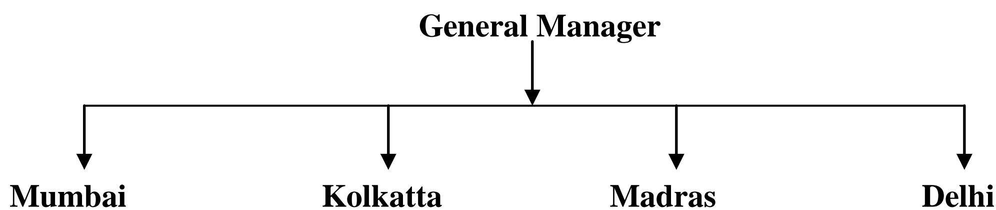
The functional structure may not work well for large firms with diverse product lines. Managers managing diversified product lines need more decision making powers than the top management is willing to provide to them. The company needs to move to a different structure, i e. divisional structure. Each division is semi-autonomous and linked to the headquarters but functionally independent.

Divisional Structure is the result of grouping of jobs, processes and resources into logical units to perform some organizational task. Large organizations divides its organizational structure into units and sub-units so as to effectively and efficiently plan, organize, direct and control its activities to achieve desired objectives.

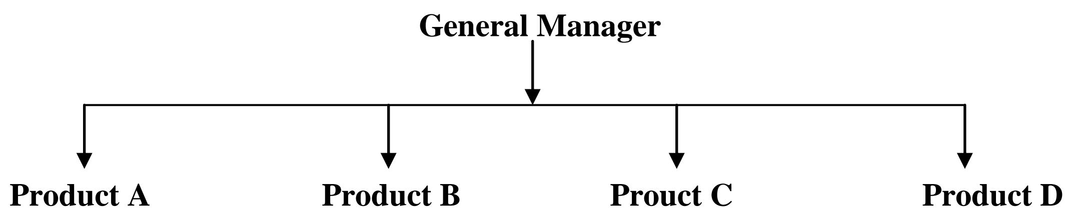
Strcuture Divided On The Basis Of Functions



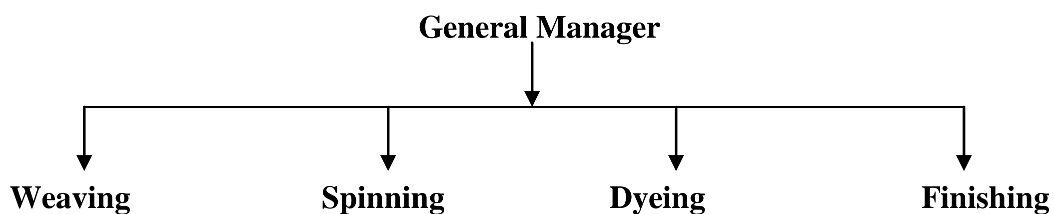
Area wise Division of Structure



Product wise Division of Structure



Process wise Division of Structure



In 1970s and 1980s divisions of large organizations have been developed into Strategic Business Units (SBU) to better reflect product marker considerations. Each SBU may look

after the production and marketing of a particular product / brand or a group of products / brands. The units are not tightly controlled but are held responsible for the their own performance. The greatest advantages of a Stage III firm is its almost unlimited resources. Its greatest weakness is that it is usually so large and complex that it tends to become relatively inflexible. General Motors, Ford Motors, and DuPont are Stage III corporations. The strategies adopted may range from stability and expansion.

The advantages of such firms are :

- This structure encourages the grouping of various functions which are required for the performance of activities with respect to a particular division.
- Here the top management can concentrate on strategic business policies and decisions while the day to day operations are conducted by those in the lower rung of the ladder.
- This structure generates quick response to environmental changes affecting the businesses of different divisions.

The Disadvantages are:

- Company overheads increase duplication of work in each unit is also there.
- Policy inconsistencies between the different divisions.

The divisional structure can be organized in one of 4 ways :

- By Geographic Area
- By Customer
- By Product or Service
- By Process

a. Geographic area based structure

This type of structure is appropriate of organizations whose strategies need to be tailored to fit the particular needs and characteristics of customers of different geographic area. This type of structure can be most appropriate for organizations that have similar branch facilities located in widely dispersed areas. It allows local participation in decision marking and improved coordination within a region.

b. Customer-based Structure

In some organization, divisions are made according to the customers serviced. The reason behind dividing according to customers so that exclusive and more priority attention can be given to top customers.

Advantages

- A customer based structure offers are employing market orientation to serve customers better, use of specialized skills specially in marketing and timely response to changing customer need
- Top clients with big billing can be given exclusive treatment and attention to service them better.

Disadvantages

- Differentiate treatment to different customers of the company

c. Product – based structure

The activities are grouped according to the product lines followed by the organization. Such a requirement is essential when the strategy adopted requires exclusive attention to a particular product (may be a new one) or one is the declining stage.

Expansion and diversification strategies may require a product based structure as it facilitates the addition of deletion of product divisions.

d. Process based structure

Here the activities are organized according to the way work is actually performed. An example of a divisional structure by process is a manufacturing business organized into six divisions : electrical work, glass cutting, welding , grinding, painting and foundry work. In this case, all operations related to these specific processes would be grouped under the separate divisions.

Stage IV : Strategic Business Unit (SUB):

The SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in strategy can facilitate strategy implementation by

improving coordination between similar divisions and channeling accountability to distinct business units.

An SBU has three characteristics:

- It is a single business or collection of related business that can be planned separately from the rest of the company.
- It has its own set of competition.
- It has a manager who is responsible for strategic planning and profit performance and who controls most of the factors affecting profit.

The purpose of identifying the company's strategic business units is to assign to these units strategic planning goals and appropriate tending. These units send their plans to company headquarters which approves them and sends them back for revision. The head office reviews these plans in order to decide which of its SBU to BUILD , MAINTAIN , HARVEST and DIVEST.

Sharplin explains SBU as any part of a business organisation which is treated separately for strategic management purpose. When companies face difficulty due to its high complexity of operations size, different areas of operation etc. the top management cannot control the whole company. Here the concept of SBU is helpful in creating an SBU organizational structure.

The advantages of SBU are :

- Establishes co-ordination between divisions having common strategic interests.
- Facilitates strategic management and control of large , diverse organizations.
- Fixes accountability at very distinct business units.

The Disadvantages are:

- There are too many different SBU's to handle affectively in a large diverse organizations.
- Difficulty in assigning responsibility and defining autonomy for SBU heads.
- By adding another layer of management it means it takes longer to take a corporate decision.

Stage V : Matrix Structure:

This type of organization structure was first developed in the United States in the early 1960s to solve management problems emerging in the aerospace industry. It uses two or more co-existing structures. It can combine project organization with functional organization structure. In such a structure the project managers work in close and co-operation with functional or departmental heads. Authority of departmental heads flows downwards, and the authority of the project manager flows across, thereby forming a grid or rectangular array and is called Matrix Structure.

Dept. / Project	Dept 'A' Manager	Dept 'B' Manager	Dept 'C' Manager	Dept 'D' Manager
Project 'A' Manager				
Project 'B' Manager				
Project 'C' Manager				
Project 'D' Manager				
Project 'E' Manager				

Matrix Management is also known as product management/ market management organisation. Companies that produce many products flowing into many markets face a dilemma. They could use a product management system which requires product managers to be familiar with highly divergent markets.

A matrix organization would seem desirable in a multi-product, multi- market company. Such a type of structure is created by assigning functional specialists, who normally work in a

department in their area of specialization to work on a special project or a new product or service. For the duration of the project, the specialists from different areas form a group or team to report to the team leader. Simultaneously they also work in their respective parent departments. Once the project is completed, the team members fully revert to their parent departments

Advantages

- Individual specialists are assigned where their talent is needed most.
- Fosters creativity because of pooling of diverse talents
- Provides good exposure to specialists in general management

Disadvantage

- Dual accountability creates confusion and thus difficulty to individual team members
- This system is costly and conflictual
- There are questions about where authority and responsibility should reside. Shared authority creates communication problem
- Requires a high level of vertical and horizontal co-ordination.

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MODULE 9

STAGES IN ORGANIZATIONAL DEVELOPMENT AND STRATEGY STRUCTURE, RESTRUCTURING AND REENGINEERING

9.1 FUNCTIONAL STRATEGIES
9.2 INTEGRATION OF FUNCTIONAL PLANS AND POLICIES
9.3 RESTRUCTURING AND REENGINEERING

9.1 FUNCTIONAL STRATEGIES

The strategies should give direction to the managers who will use and implement the plans and policies the best and proper method, way to adopt it. The selection of the best strategy alternative is not the end of strategy formulation. Policies define the ground rule for implementation. A policy defines the area in which decisions are to be made, but it does not give the decision. It spells out the sanctioned general direction and areas to be followed.

Functional strategies operate below the Strategic Business unit or business level strategies. Functional strategies or functional plans and policies are made within the guidelines set at higher levels. Plans are made to select a course of action while policies are required to act as guidelines to action.

Environmental factors relevant to each function area have an impact on the choice of plans and policies. Functional areas are traditionally divided into finance, marketing, production and personnel.

Strategies can be divided as basic, general, departmental. Another way to classify policy is Human Resource Strategies, Marketing Strategies, Financial Strategies and Operational Strategies.

A. Financial Strategies

The financial strategies aims to achieve the following functions in the management of finance of an organization.

1. Raising adequate funds.

2. Considering the capital funds through sound management.
3. Using the capital to earn profits.
4. Ensuring regular return to the investors.
5. Paying employees reasonalbe and regular remuneration and protection of their financial interests such as P.F. Pension etc.
6. Ensuring timely payments to creditors.
7. Exercising budgetary controls and making optimum use of available financial resources.
8. Preventing miuse of money.

All organizations before they launch their plans and policies should ensure that sufficient amount of funds are available and how they will use those funds.

All organization have to ensure that the funds are procured from the following sources

- Working capital borrowings
- Reserves and surplus
- Capital

For this they should have excellent relationship with their bankers, lenders and financial institutions. Some companies may get their funds from internal sources or external sources or a mix of both.
Plans and policies with respect to how the funds should be utilized. Various ways are

- Capital investment
- Current Assets
- Fixed Assets acquisition
- Loans and Advances
- Dividend decisions

The plans and policies should be properly laid down. So that the usage of the funds are allocated properly and these can be optimum utilization of funds. The management ability is put to test with the maximum utilization of the minimum resources at their disposal. The major factors relating to the plans and policies are :

- The system of budgeting and accounting
- Management control system
- Risk management
- Tax planning

The management of funds aims at the conservation of optimal utilization of funds. The success or failure of the company depends on the strategic implementation and utilization of the funds.

B. Marketing strategies

Marketing is an important aspect of an organization. The success of the organization is largely attributed to the performance of the marketing. Therefore there must be suitable marketing policies in respect of the following marketing mix.

1. Product

Product include tangible and intangible features offered by the firm to the market to satisfy wants of customers. Specific plans and policies should be clearly laid down regarding characteristic of product e g. quality, types of models, brand name, packaging etc.

Each company should undertake SWOT analysis (Strength, Weakness, Opportunities and Threats) for its product. Similarly USP (Unique Selling Point) of the product should be found out. Based on this the company can implement its competitive strategies based on better quality, features, perception etc.

2. Price

Price plays an important role to the sale of the product /service. Price is nothing but the perceived value of the goods /service. It denotes the amount of money the customer is willing to give an exchange for the goods/services. To the company this is important since this represent the income of the company for its efforts.

Price is attached to various facilities like : discount, mode of payment, allowances. payment period, credit terms. The use of high price or low price is used as a competitive tool by the company.

Prices are used as a basis for market segmentation which in turn becomes the basis for creating different models of the same product. Thus the market is divided into premium and popular segments depending upon the prices charged. Company may adopt Skimming Pricing Strategy or Penetration Pricing Strategy depending upon the market environment.

3. Place

Distribution system is very essential to reach the product /service to the customer. The physical distribution objectives of many companies is getting the right goods to the right places at the right time for the least cost. No physical distribution system can simultaneously maximize customer service and minimize distribution cost. Maximum customer service implies large inventories, premium transportation, and multiple warehouses all of which raise distribution cost. Minimum distribution cost implies cheap transportation, low stocks and few warehouses.

The use of distribution plans and policies in the marketing function as well as strategy implementation is important. The success of market-oriented strategies in todays competitive world depends on the efficiency and effectiveness of the distribution system given the physical distribution objectives, the company must design a physical distribution system that will minimize the cost of achieving those objectives.

4. Promotion

Promotion for the product / service is essential for product awareness to new prospects. The promotional mix consists of four activities : advertising , personal selling, sales promotion and publicity.

Promotional plans and policies are required to be set in order to implement the strategies

C. Operational Strategies

The plans and policies for operating are essential for the manufacturing process. Strategies affect the nature of the product / service, the market that the company serves and the method

in which it is to be served. If strategy of the company is that of expansion through diversification of the current product, will affect what are the products to be offered in which market and how these markets are to be served.

The manufacturing department operations plans and policies will be with respect to the capacity of each plant unit, location of the plant, layout of the plant etc. These plans and policies, affect the supply of the company as a whole. The strategist will therefore take into account the capacity of the manufacturing units, its abilities and capacity of the plant as a whole.

The strategies need to lay down the guidelines with respect to the production capacity of the plant, raw material to be needed, stock, quality management, maintenance of the plant and machinery. Here the aim of the strategists is to ensure that the day to day activities conform to the long term objectives of the company and closer towards the goal of the organization. Here the role of the plan is to make an objectives of the organization , a reality

D. Human Resource Strategies

Human resource strategies of the organization are with respect to the strategies for the Human resource department to follow. This includes the personnel selection, their training and development, compensation, promotion, appraisal. These plans and policies are important for the proper functioning of the company.

The company should also have plans and policies with respect to the issues of trade union and management will deal in and how, staff welfare, training , collective bargaining etc. Industrial relations can make or break a smooth running organizations. All organizations should have clear cut rules and regulation on how to deal with Industrial Relations

Many modern organizations have genuine consultative workers participation in management. Policies are clearly written with respect to retrenchment due to modernization etc.

9.2 INTEGRATION OF FUNCTIONAL PLANS AND POLICIES

Development of functional plans and policies is based on a process of segregation of each segment of the organization. It is at the this stage integration is important to aggregate the functions.

Strategies have to consider issues such as

- **The need for internal consistency**

  A firm must ensure that there is internal consistency in respect of functional policies. For instance, the marketing department cannot frame its policies without considering the impact of its policies on other department such as finance, production and personnel. Whenever marketing department frames any strategy, it should consider the financial resources of the firm, the production capacity and skills and abilities of the organizational staff.

- **Relevance to organizational capacity**

  Integration of functional strategies should aim at developing capabilities relevant to the firm's objectives as a defined through strategy formulation. Resources should be used in those areas in which the firm intends to build up its strategic advantage. There are some companies that aim at market leadership through quality products and heavy promotional efforts, such companies should allocate the resources in technological development and marketing efforts.

- **Trade offs**

  In integrating various functional policies, an organization may face the problem of trade-off decisions. For instance, the marketing department may like to go for aggressive advertising and sales-promotion to increase the market share , which requires high level of expenditure, but finance department may like to cut off its overall expenditure. In such trade offs situations, interest of organization should be given more importance.

- **Intensity of linkages**

  The functions of an organization are interdependent and interlinked. Some functions are directly interlinked and other are indirectly. The degree of linkage determines the level of integration of various functions.

- **Timing of functional plans and policies**

There should be proper integration in respect of timing of implementation of policies. Proper timing would lead to better implementation of the overall strategy of the firm.

Each key area of the organization has its separate plan and policy. Each one operates in isolation. All these segregated key areas are brought together through the process of integration so that as a whole they can achieve the overall objective of the organization

The need for internal consistency is important as it affects integration. The strategists should ensure that the plans and policies of different key areas do no work against each other. They should work in harmony.

Absence of internal consistency may lead to the under optimum implementation of the strategy.

Synergistic effects through integration occur across functional areas and distinctive competencies emerge as a result of the concentration of resources in the areas where an organization wishes to build up strategic advantage.

Strategist should realize that some sacrifice in one or more functional area is required and essential if emphasis is to be given to another functional area.

9.3 RESTRUCTURING AND REENGINEERING

Restructuring and reengineering are becoming commonplace on the corporate landscape across the United States and Europe. Restructuring – also called downsizing, rightsizing, or delaying- involves reducing the size of the firm in terms of number of employees, number of divisions or units, and number of hierarchical levels in the firm's organizational structure. This reduction in size is intended to improve both efficiency and effectiveness. Restructuring is concerned primarily with shareholder well-being rather than employee well-being.

Recessionary economic conditions have forced many European companies to downsize, laying off managers and employees. This was almost unheard to prior to the mid 1990s because European labour unions and laws required lengthy negotiations or huge severance checks before workers could be terminated.

In contrast, reengineering is concerned more with employee and customer well-being than shareholder well-being. Reengineering –also called process management, process innovation, or process redesign – involves reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed. Reengineering does not usually affect the organizational structure or chart, nor does it imply job loss or employee layoff. Whereas restructuring is concerned with eliminating or establishing, shrinking or enlarging or moving

organizational departments and divisions, the focus of reengineering is changing the way work is actually carried out.

Reengineering is characterized by many tactical (short-term, business -function –specific) decisions, whereas restructuring is characterized by strategic (long-term, affecting all business functions) decisions.

Restructuring

Restructuring means rebuilding the firm. Its a strategy that may be found useful in all the different phases of the firm's life cycle-initial period, growth, maturity and decline. It may also be found useful in postponing the death of the firm i.e. the dissolution or liquidation of the company.

Restructuring broadly involves the following two courses of action

1. Rearrangement of the various departments or divisions or zones of a company. It may involve reorganization of production work or resetting of marketing work -structure.
2. Reallocation of resources and their development.

Aims of Restructuring

1. To have better utilization of available resources
2. To attain higher levels of efficiency
3. To have larger economies in the operation of the firm.

Firms often employ restructuring when various ratios appear out of line with competitors as determined through benchmarking exercises. Benchmarking simply involves comparing a firm against the best firms in the industry on a wide variety of performance – related criteria. Some benchmarking ratios commonly used in rationalizing the need for restructuring are headcount to sales volume, or corporate staff to operating employees, or span of control figures.

The primary benefit sought from restructuring is cost reduction. For some highly bureaucratic firms, restructuring can actually rescue the firm from global competition and demise. But the downside of restructuring can be reduced employee commitment, creativity, and innovation that accompanies the uncertainty and trauma associated with pending and actual employee layoffs.

Massive restructuring among companies during the economic downturn of 2002-2003 resulted in huge layoffs. An upside of restructuring , however is that when there are layoffs, those left behind have more opportunity to advance upward in the firm. Layoff survivors also have more opportunity to gain experience in varied areas of the firm and may be given more responsibilities.

Reengineering

The argument for a firm engaging in reengineering usually goes as follows : Many companies historically have been organized vertically by business function. This arrangement has led over time to manager's and employee's mind-sets being defined by their particular functions rather than by overall customer service, product quality, or corporate performance. The logic is that all firms tend to bureaucratize over time. As routines become entrenched, turf becomes delineated and defended, and politics takes precedence over performance. Wall that exist in the physical workplace can be reflections of ' mental ' walls.

In reengineering, a firm uses information technology to break down functional barriers and create a work system based on business processes, products, or outputs rather than on functions or inputs. Cornerstones of reengineering are decentralization, reciprocal interdependence, and information sharing.

The benefit of reengineering is that it offers employees the opportunity to see more clearly how their particular job affect the final product or service being marketed by the firm. However, reengineering can also raise manager and employee anxiety, which, unless calmed, can lead to corporate trauma.

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MODULE 10

INTRODUCTION TO CORPORATE LEVEL STRATEGIES – MODERNIZATION, INTEGRATION, DIVERSIFICATION.

10.1 INTRODUCTION TO CORPORATE LEVEL STRATEGIES
10.2 MODERNISATION
10.3 INTEGRATION
10.4 DIVERSIFICATION

10.1 INTRODUCTION TO CORPORATE LEVEL STRATEGIES

A business unit has to undertake different types of complex activities. In a problematic situation a single strategy is not sufficient and sometimes does not work at all. Company has to pursue multiple strategies at different levels.

Corporate level strategy is an overall plan of action encompassing all the activities and functions performed by the business firms. The plan covers all the objectives of the company allocation of resources and co-ordination among different levels.
Business head office is responsible for formulating such strategies to guide the entire enterprise to achieve the overall objectives of the firm.

Corporate strategies can classified into two types
A) Strategies to be adopted and implemented by a firm on its own.
B) Strategies to be adopted and implemented with other firms

A) Strategies to be adopted and implemented by a firm on its own.

1. Modernisation
2. Diversification
3. Integration
4. Turnaround
5. Disinvestment
6. Liquidation

B) Strategies to be adopted and implemented with other firms.

1. Mergers
2. Takeovers
3. Joint Ventures

10.2 MODERNISATION

Meaning

The term " Modernisation means adopting to modern needs, methods or processes. It also means adopting modern methods, way, views or processes.

Modernisation is concerned with the social and technical reforms introduced to replace outdated practices with a view to increase output, to improve working conditions of labour and to reduce labour cost. Modernisation is basically used to achieve organizational objectives such as increased production, lower costs, efficiency, productivity etc.

Measures of Modernisation – Modernisation includes adopting certain measures in practice :

To use improved quality of raw materials

To have up to date machinery, equipment and tools necessary for production purposes

To adopt latest processes and techniques that would give better and quicker results

To follow latest techniques in marketing of goods

To choose updated advertising and sales promotion techniques

Modernisation in India

Many Indian Companies are giving importance to Modernisation as a necessity to survive in this competitive market. Consider the following examples

1. National Organisation Chemicals Industries Ltd. (NOCIL), a major manufacturer of petrochemicals in the private sector, undertook a Rs. 100 crore modernization plan in order to compete effectively.
2. Modi Industries Ltd. has planned to invest Rs. 30 crores for technological upgradation of its steel unit, for widening its production range.
3. The corporate planning team at Steel Authority of India Ltd., (SAIL), has taken up Rs. 15,000 crore capital spending programme spread over seven years to modernize its steel plants.

Those many companies are adopting modernization strategy, but all in India all companies are not modernized. They do not have advanced techniques of operations. Many Companies are still operating with outdated techniques due to lack of capital. So they can not produce quality goods and can not give better services to the customers. Our exports are also getting affected due low quality goods supplied by Indian exporters.

So Indian companies should adopt modernization techniques on necessary basis. But any schemes of modernization must also consider the social aspects e.g. employees satisfaction and welfare, consumer's expectation, community's need and the need for economic stability. Similarly ecological balance has to be maintained by the businessmen while implementing modernization strategies.

Advantages of Modernisation

Modernisation is required because it serves following purposes.

a. It helps the company to survive in the competitive market
b. It improves the efficiency of the company, reduces the cost of production and improves the quality of products.
c. It ensures stability of the business in the long run.
d. It increases profitability of the company.
e. Modernisation is essential for advancement and expansion.
f. With upto date technology, company can serve the customers in a better way. It enhances customer satisfaction.
g. Company can maintain pace with the changing business environment

10.3 INTEGRATION

Meaning

Integration means combination of business units that are separate but complementary
to one another. It may also refer to coming together of business units that are competing with one another. When business units join hand to accomplish certain well defined goals or objectives, it is called as integration. It may between the firms from the same industry or from different industries.

Features

1. **Association of Business**

   Integration is an association of business units from the same or different industries with a view to accomplish certain well defined objectives like : to control market, eliminate competition, create monopoly or any other agreed objectives.

2. **Risk Factor**

From the point of view integrations minimizes risk and uncertainties and ensures survival and growth of combining units

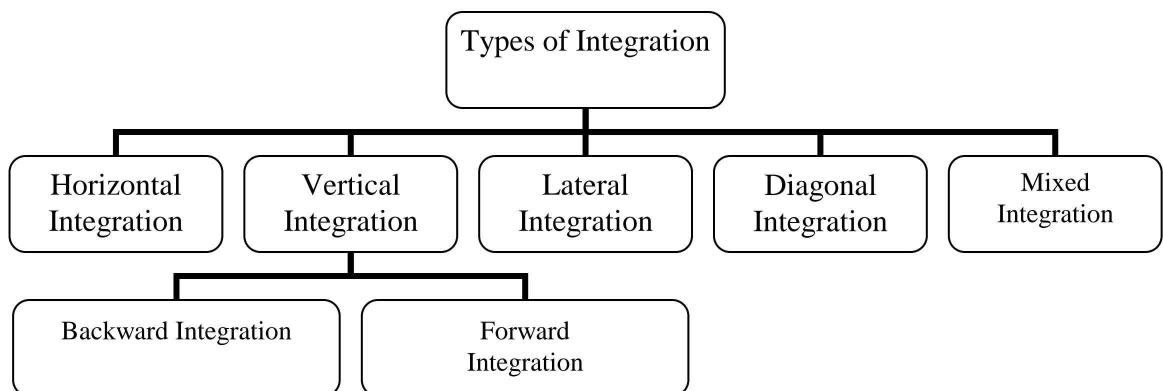
3. **Negative Side**

   Integration reflect association of firms to meet their personal goals of survival, growth and prestige at the cost of consumers. In fact, it reflects the negative side of the business i.e. it is against the interests of consumers and other market functionaries. Business integration are considered as well planned conspiracy to create monopoly like situation in the market and exploit consumers.

4. **Mode of working**

   Integration aims at ensuring survival and growth by regulating or controlling production and supply of goods and price.

TYPES OF INTEGRATION



1. Horizontal Integration

Under this method, business firms from the same type of business or producing same product come together to form a group .It is an integration of two or more units engaged in the same activity. Thus, two producers may combine in order to reduce competition. Associated Cement Companies (ACC) is a good example of horizontal integration, which brought under its control many small cement manufacturing units.

Every member of horizontal combination is expected to follow certain guidelines and jointly the group controls the market. It is called as horizontal integration because all the units are from the same industry. Another example was when Proctor and Gamble and Godrej Soaps came together in 1992 in a marketing alliance in India. It was a horizontal integration.

The main objectives underlying horizontal integration are a) to reduce the degree of competition and to improve the position in the market, b) to follow common policies relating to production, distribution and pricing so as to control market c) to secure benefits of large scale production and reduce cost of production d) to acquire control over market and thereby, make higher profits , e) to adjust supply according to demand in the market by adjusting or regulating production of goods.

2. Vertical Integration

This is also called as process or industry integration. Under this method business units from the same industry but carrying on different processes or product come together to form a group to acquire control over all stages of production and distribution of goods.

It is a type of integration in which a firm combines with another firm that supplies raw materials to it or some components of its finished products. Vertical integration may be backward or forward

a. Backward Vertical Integration

Here the manufactuer join hands with supplier of raw materials having a tie up with a manufactuer. For example, a ready made garment unit can associate with cloth manufacturer to supply cloth at reasonable rates and of standard quality. Like-wise Bata Shoe Co. has association with raw leather suppliers.

b. Forward Integration

In order to have control over distribution, a manufacturer may integrate with retailers or open his own retail outlets to ensure control over distribution and to reduce dependence on distributors. Many reputed firms like Raymond’s Texthe, Bata etc. have tied up with retailers and also have their own chain of retail outlet all over the country.

3. Lateral or Allied Integration

It refers to the combination of firms from different industries, manufacturing all together different product, but are related to each other in some way. For example, suppliers of building materials can join hands together with a building contractor to supply its requirements for building construction. Lateral integration is of 2 types.

a. Convergent Lateral Integration

In this type, firms manufacturing or supplying raw material or finished product are tied up with a bigger firm to supply its requirements of raw material. Convergent integration benefits to all parties concerned because individual supplier is assured of fix order and the major firm gets raw material at concessional rates.

E.g. a building contractor need cement, sand, steel, electrical equipments, sanitary equipments and Architect's services to construct a building. He joins with various suppliers who are independent and not related to each other but they are related to each other through the final product.

b. Divergent Integration

This is exactly opposite to convergent combination. In this method, firms producing different product but using the same raw material join together. The combining unit can jointly place order for raw material, negotiate price, ask for discount and liberal payment terms with the suppliers. Divergent combinations is unique in the sense that users come together and bargain with the main supplier.

E.g. paper is used as raw material by many firms. Therefore, instead of placing order individually, users like newspapers and magazine publishers, book makers, join hand they can collectively bargain and ensure supply of paper at cheaper rates.

4. Divergent Integration

It is a combination of two firms, the main firm engaged in one line of production and the other in the supportive or auxiliary services required by the main firm. Jointly both the units provide required services. For example, a combination of car dealer with service station. Car dealer's main business is to sell cars and provide after sales service, repairs and maintenance. In absence of supportive service, car dealing has no value. Therefore, a car-dealer like to associate with service provider so the main service is complete.

5. Circular or Mixed Integration

It is a combination of firms with different industries and producing different products. The combining units are not related to each other in any way. For example, a combination of Cloth Manufacturing unit with the firm manufacturing electronic equipments. The object of such hybrid combination is to bring more business units under one management and control.

Advantages of Integration

a) It gives a firm better control over its raw materials, processes or finished products as well as marketing , depending upon the type and extent of integration.
b) It leads to economical operations.
c) It also helps in having efficient working.
d) It improves corporate image
e) It lowers the level of competition
f) It ensures better utilization of Resources
g) It help to spread the business risks

Limitations of integration

a) Any dislocation at any state in one unit may hamper the speed of production or quality of product.
b) A very high degree of coordination is required to keep the activity flow smooth. It is likely that snags may develop in the level of co-ordination.

10.4 DIVERSIFICATION

Meaning

Diversification means spreading investment over several enterprises or products, especially to reduce the risk. Here the manufacturer expands his operations to products and those areas which may or may not have any connection, direct and indirect, to the existing product or products. Nowadays competition has intensified tremendously, so relying on one product and one brand for survival and growth is very risky. So the companies nowadays prefer to diversify their operations. E.g. HLL has diversified into soaps, cosmetics, washing powder tea, salt, toothpaste etc. It is India's largest FMCG company. It has around 100 toothpaste etc.

It has around 100 products out of which 30 are doing exceedingly well. Therefore the risk gets diversified which facilitates survival.

Following are the Features of diversification

1. Variety of business

Diversification involves starting those activities or venturing into those areas which are totally different from the existing line of business. It leads to variety of activities undertaken by the organization e.g. a company manufacturing cement may diversify in into texthes, to petrochemicals etc. Reliance group is a classic example of a diversified company.

2. Internal or external

Diversification can take place internally or externally, internally by using its own resources. External diversification is through amalgamations, absorptions, joint ventures. Internal diversification is a smooth affair as internal people are involved. However external diversification involves takeovers, acquisitions which can be volathe.

3. Suitable for big companies

Diversification is suitable for big companies. Acquiring land, installing new machinery, finding new markets, appointing people etc. is quite costly affairs. So big companies like the Tatas, the Birlas, the Reliance etc . with huge financial and physical resources at their disposal find it convenient to diversify their operations. By diversifying, their resources are also used in optimum manner.

4. Suitable for dynamic environment

Environmental factors like economic, social, technological etc. are very dynamic. They keep on changing very fast, thereby creating a lot of opportunities and posing a lot of threats. Success would depend upon making most of the given opportunities. This would be possible only if the company has diversified its operations in order to make the most of the changes that have taken place in different sectors.

5. Preferred option after expansion

If the company desires to grow then generally it opts for expansion i.e. increase the production capacity of the same product or produce allied products as it is relatively easy. Only when the market reaches a saturation level making further expansion impossible, the company generally contemplates of diversification.

5. Cater to different markets

Diversification involves selling different products, which automatically involves different segments of the society e.g. HLL cosmetics is for young ladies, while its Kissan Jam is targeted at children. Thus not only the area of sale may be different but also diversified customers are approached.

6. Increase in activities

Diversification ultimately results in increase in the activities of the business unit. Production, distribution, promotion, after sales service etc. increases. The organization should contemplate of increasing the activities only if it has the resources : physical, financial and technical at its disposal.

Need for diversification of business

1. Spread risk

Here the company diversifies into different brands and different products. It is possible that brand fatigue and even product fatigue may enter the minds of the customers e.g. ink pens are hardly used nowadays as product fatigue has entered in the minds of most of consumers in case of ink pens. So those companies which did not diversify their operations has to close their business.

2. Accelerated growth

Every organization wants to have rapid growth. But the economy passes through boom and depression. Similarly during different times, different sectors grow rapidly. Nowadays information technology products are having rapid growth. Thus most of the companies like Tatas, Larsen & Toubro etc. have diversified their operations in the information technology technology sector.

3. Capture market

Every company is desirous of expanding its share in the market. There is intense competition in any sector. So it becomes very difficult to increase its market share. Samsung electronics has targeted the premium end of the market with the launch of the world's first multifunctional monitor.

4. Better utilization of resources

The resources of the company are put to the best use. Various products which have the potential to succeed in different markets are introduced e.f. API Polymers (India) Pvt. Ltd., the makers of action shoes, has launched new shoes called floaters for summer. The company claims that due to global warming and oppressive Indian summer, something cool and casual is needed.

5. Face competition effectively

Competition exists in any area as there are large number of producers in each product category. The only way to survive and grow is to overcome that competition. And one way is to diversify into new areas which were not catered before e.g. Tatas have Tata Tea, Titan Industries in watches, Tata engineering and locomotive etc.

6. Improves corporate image

The image of company which has diversified into different sectors is very positive especially if it has been successful in most of the areas e.g. Godrej ; Godrej cupboards, Godrej locks etc.

Types of diversification

Following are the various types by which an organization can diversify its operations :

1. Vertical diversification

Vertical diversification means involving all or some of the levels in an organizational hierarchy or stages in the production of a class of goods. Here the company either starts producing or acquiring the raw material required for its product or decides to market the product produced by it on its own. The former is a backward integration and the latter one is called forward integration. In other words the company intends to do everything right from acquiring the raw material, producing the product and distributing it to the final consumers on its own. If necessary the company may even acquire another company which is supplying the raw material.

E.g. Nicholas Piramal is today one of the largest pharmaceutical companies manufacturing and marketing bulk drugs and formulation. For a backward integration it acquired the basic research unit of Hoechst Marion Roussel (India) for Rs. 20 crores. Similarly it even went for forward diversification in 1997. It entered into strategic joint ventures with Ambalal Sarabhai and Reckitt and Colman. The agreement with Ambalal Sarabhai was to market Sarabhai health- care products.

2. Horizontal diversification

Here the two companies are at par i.e. they are manufacturing and marketing the same products to the same customers. So instead of competing with each other these firms come together either by way of joint venture or collaboration or merger e.g. Merger of TOMCO Ltd. with Hindustan Lever Ltd. is a good example of horizontal integration.

3. Lateral or Conglomerative diversification

Conglomerative means a group or corporation formed by the merging of separate and diverse companies. A company on its own may also diversify into different fields like oil, iron and steel, cars etc. or it may tie up with some other firm for diversifying into new area. In other words conglomerative diversification involves entering into those areas which have no relation with the existing line of business. For example, the Essel Group of companies was founded as a trading company. Over the years company has diversified into areas of packaging, exports, property development and recreation (Essel World). The latest addition to the company's diversified field is Zee Telefilms.

4. Concentric diversification

Concentric means having a common centre especially of a circle. Here the core business is in the centre and other businesses revolve around it, in a sense they are not directly related to it but are indirectly related e.g. Great Eastern Shipping Company (GE Shipping) has floated a joint venture company – United Helicharters – with Qatar General Petroleum Corporation and UB Air. The new company will charter helicopters and lease it to offshore operators in India.

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MODULE 11

INTRODUCTION TO CORPORATE LEVEL STRATEGIES – TURNAROUND, LIQUIDATION AND DISINVESTMENT

11.1 TURNAROUND
11.2 LIQUIDATION
11.3 DIVESTMENT

11.1 TURNAROUND

Meaning

Turnaround is a technique applied to loss making unit with a view to bring it back on profitable track. Turnaround simple means turning the enterprise from loss making to profit making, from the path of decline to the path of progress, from negative to positive action in the different areas like cash-flows, marketing, profit-making etc. Strategies adopted by the management to reverse the deteriorating trends of the performance of a business are termed as " Turnaround Strategy ". It is a type of strategy specifically developed by the management to improve operational efficiency and productivity with a view to increase overall profitability of business. Management has to adopt several trial and error techniques in order to reduce the negative impact of such forces which are considered detrimental to the growth of business.

The main objective of turnaround is to improve the performance of the business enterprise. Turnaround bring about a change in the trends of an undertaking from downwards to upwards, from negative to positive and from loss making to profit making enterprise. Turnaround involves taking an ' U ' turn to the declining fortunes of the company and making it viable again.

Turnaround means turning the loss making unit back into profitability. It is nothing but retrieving the business unit back to prosperity e.g Indian Bank posted a net profit of Rs. 33.22 crores in 2001-02. This seems creditable as it has come after six years of continuous loss. This was possible because the Bank's new focus on retail lending and on housing loans. Moreover they adhered to the restructuring plan which included VRS despite of misgivings that the additional expenses would cripple the bank.

Definition

According to Dictionary of Marketing (edited by P. Collin) " Turnaround means making the company profitable again."

Features of Turnaround

1. Objective

The strategy does not aim at selling or disposing of loss making unit but works to improve the performance of the unit by re-arranging the available resources.

2. Long Term Strategy

Turnaround is one type of long term strategy and does not aim at providing temporary relief or short cut method to company problems. It studies the problem in- depth and tries to solve it forever.

3. Scope of Turnaround

The scope of turnaround is confined to sick or loss making industrial units. It is a type of crisis management. Turnaround is not short cut or magical formula. It can not work on all sick units under all circumstances. It is effective in case of loss making units but having growth or future prospects.

4. Requires Cooperative effort

Turnaround strategy can be effective only when there is co-operation from all parties concerned. The parties involves :

1. Employees
2. Shareholders
3. Bank and FI's
4. Other concerned parties

5. Involves restructuring

Turnaround is possible only when the company decides to restructure its operations. It may include marketing restructuring whereby marketing of loss making products are stopped or when the outdated machinery is replaced i.e. technological restructuring and so on. These steps are necessary in order to stop the closure of the enterprise.

6. Internally or externally

Turnaround can be undertaken by company’s own experts or by outside consultants. Both have their advantages and limitations e.g. internal experts are aware of the company’s culture, resources, level of technology better, however they may be biased as their interest are involved. External experts may unbiased but their suggestions may not be practical and the sentiments of the employees may not be considered. So an organization must strike a proper balance between using internal and external experts.

7. Involves replanning

Turnaround necessitates replanning. It involves rearranging the structure to convert a loss making unit into profitable one. Since environmental factors are dynamic, it would make the company sick and unless resources are rearranged and replanned, turnaround is not possible.

8. Involves money

When product become obsolete, there is decline in its demand e.g. Pagers. Here in order to have a turnaround, technological restructuring, marketing restructuring etc. is necessary which may involve a lot of money. Thus turnaround is not possible for all companies, especially if they do not have extra resources at their disposal.

9. Permanent effect

Turnaround involves a permanent effect on the structure and operations of the company. This is because the company may close its unviable product out of the existing range of product or may change the technology from labour intensive to capital intensive thereby reducing the workers or even amalgamate with some other company thereby forming a totally new entity.

10. Optimum utilization of resources

The company which is suffering losses, is not is a position to make an optimum utilization of human, physical and financial resources. Turnaround involves restructuring and reorganizing these resources. It tries to focus the resources on profitable ventures and to discontinue the non-profitable ones.

Approaches of Turnaround

The following are the two main approaches of turnaround strategy

1. Surgical Approach
2. Human Approach

1. Surgical Approach – This approach is stricter in its nature. The new chief executive has to issues strict orders of change and keep strict control on all operations of the enterprise. If certain plants are uneconomic and showing constant losses should be closed down mercilessly. If some employees are required to be retrenched the chief executive has to do it without any hesitation. All operations and activities need to be watched till they show the sign of improvement i.e. turnaround. The fear is expected of its opposition from some subordinate personnel. But the chief executive should not yield to this type of pressure and continue with the approach. If the approach is given up in the middle it will bring disastrous result to the business enterprise.

2. Human Approach – This method is humanistic in its approach. The chief executive while implementing the turnaround programme in the enterprise has to soften and not to be strict unlike in the earlier approach. The chief executive must approach to the problems of the enterprise objectively, inviting opinions of every one working in the enterprise, which will be acceptable to all. This indeed is the democratic approach. The negotiations are made and differences are settled down amicably rather than removing the hard nuts. The idea behind this approach is to bring the enterprise out of difficulties with the help and cooperation of all employees. This approach is beneficial in the long run because when the interest of no one is harmed every one cooperates to
improve the situation of the enterprise.

11.2 LIQUIDATION

Meaning

Liquidation is the final decision or withdrawal of commercial activities of the firm forever. Liquidation of a company is the irretrievable closing down of the business of a company. Basically it refers to a proceeding by which a company is permanently dissolved. The assets of the company are then disposed off. The debts are paid off out of realized assets and the surplus if any is then distributed among the members in proportion of their holdings in the company.

Selling all of the company's assets, in parts, for their tangible worth is called liquidation . Liquidation is a recognition of defeat and consequently can be an emotionally difficult strategy. However, it may be better to cease operating than to continue losing large sums of money.

The decision to close down or liquidate a company is a painful one and taken after much deliberation, when it is simply not possible to carry on the company in the present state of affairs. It is considered as the measure of last resort because it leads to serious consequences such as loss of employment of workers and stoppage of future prospects of the firm. The owners and management has to take decision of closure of a business unit under extremely adverse situations. Winding up or closure of a company has to be in accordance with rules laid down in the companies Act, 1956.

Definition

According to Prof Gower " winding up of a company is a process whereby its life is ended and its property administered for the benefit of its creditors and members."

When liquidation may be an effective strategy ?

1. When an organization has pursued both a retrenchment strategy and a divestiture strategy and neither has been successful.
2. When an organization only alternative is bankruptcy ; liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organization's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.
3. When the stockholders of a firm can maximize their losses by selling the organization's assets.

Reasons for liquidation of a Business firm

1. Incompetence of Entrepreneur

Young entrepreneurs start business with high ambitions and incur high overhead costs. They usually borrow funds at high rate of interest and do not care much for optimizing the cost of production . From the standpoint of business management, the entrepreneur is incapable because he does not posses knowledge necessary to operate his own firm.

2. Lack of Proper Inventory Control

An important reason of failure and closure of business is due to lack of understanding or maintaining proper inventory control. Too large an inventory results in such common problem as owner's money being tied up or waste through spoilage or obsolescence.

3. Weak Competitive Position

Competition is very tough in our economy. Firms that cannot efficiently match competitors in such areas as services offered, process charged or quality of merchandise sold definitely will have difficulty in surviving.

4. Low Sale Values

Income of the firm is generated by sales, and without income, the result is obvious- collapse of the business. Many reasons contribute to a poor sale record. Some of the most commonly identified factors include a poor location, inferior products, ineffective advertising, prices out of line with competitors and poor service. Inadequate sales volume is the apparent cause for sickness.

5. Disaster

There are some circumstances over which the owner may have little or no control. Natural disasters, such as riots. earthquake or flood, may wipe out the small businessmen. Fire, labour problem, burglary and theft of merchandise by employees are further examples of the type of disasters that confront the small businessman.

Effect of liquidation

Liquidation affects shareholder, employees, consumers, government and society at large. The immediate effect of closure is one employees who lose their jobs, salary and other benefits. It creates unemployment and indirectly the family members of employees also suffer. Shareholders or investor's fund get blocked without appreciation in value, no bonus or dividend and there is possibility of investment turning bad debts.

The government in general and society is particular is also affected by liquidation. There is shortage of goods in the market, consumers have to pay higher price, government' revenues is

reduced, social unrest increases, national resources are wasted, financial institutions so fail to receive back loan amount and finally the economic development is affected.

11.3 DIVESTMENT

Meaning

This strategy involves dropping some of the products, markets or functions. The dropping of activities or businesses can be attained under through sale or liquidation. Selling a division or part of an organization is called divestment. It is often used to raise additional capital for further strategic acquisitions or investment. It can be a part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable, that require too much capital, or that do not fit well with the firm's other activities.

It can involve liquidation, sell-off to another party, or spinning off the business to the corporate stockholders as a separate entity with its own stock. All have the objective of bringing in cash or reducing cash outlay by one transaction. Normally, the business is in poor competitive position but may be viable with cash infusion at some level of risk beyond the corporate threshold.

Reasons for divestment

1. Obsolescence of products, which no longer brings good returns to the firm, and therefore, they can be divested
2. A business that has been acquired by the firm proves to a mismatch and cannot be integrated within the company
3. High competition in the market and the liability of the firm to cope up with the competition pressures.
4. Negative cash flows from a particular business create financial problem for the entire organization, thus creating a need to divest that business.
5. Technological up gradation is required for survival of the business, but the cost of up gradation is quite high, and the firm may not be in a position to invest in such technological up gradation.
6. A firm may find it difficult to manage growing business, and therefore it may divest non-core business to concentrate on core business

7. A firm may find a better alternative to invest, and as such it may divest a part of the business, in order to take advantage of the alternative business area.
8. Growing financial burden such as debt servicing may force the company to divest a part of the business so as to repay loans.

Approaches to divestment

A firm may choose to divest in two ways.

1. A particular business can be divested into a separate independent company and the parent company may or may not retain partial ownership.
2. A particular business may be sold outright to another firm.

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MODULE 12

INTRODUCTION TO CORPORATE LEVEL STRATEGIES –MERGERS, TAKEOVERS, JOINT VENTURES.

12.1 MERGER

12.2 TAKEOVER

12.3 JOINT VENTURES

12.1 MERGER

Meaning

In merger a firm may acquire another firm or two or more firms may combine together to improve their competitive strength or to gain control over additional facilities. It is a combination of two or more companies into one company, wherein only one company survives and the other company ceases to exist. The merger takes place for a consideration, which the acquiring company pays either in cash or by offering its share. E.g. the merger of Reliance Petroleum with Reliance Industries.

External growth or merger can be of two types :

b. under the first category, a firm merges with another firms in the same industry having similar or related products, using similar processes and distributing through similar channels. Such a merger creates problem of coordination between the merged units.

c. In the second type of merger known as conglomerate, firms merging together are engaged in altogether different lines of business and have little common in their products, processes and distribution channel.

Reason for mergers

1. To undertake diversification

This follows the need of a narrowly based business to reduce the risks by broadening its activities. To reduce the risks effectively, the acquired firm must not be subject to the same risk promoting factors as a parent firms even though its may operate in a different fields.

2. To secure scare sources of supply

Where any of the resources which the business needs are in short supply or subject to other difficulties, one solution for it is to acquire its own sources. By mergering the different resources available with two or more units can be pooled together.

3. To secure economies of scale

Increase in volume of often leads to decrease in operating costs, thereby enabling a larger capacity bank to survive. Merger is considered when the bank has low profitability and through merger bank can secure economies of scale.

4. To have better management

Where the business suffer from poor management and it does not appear possible to rectify this in the near future, the problem may be resolved by merging with good management team.

5. To improve the financial standing

When two firms join together, the strengths of both of them are added together and the market may put a higher valuation on such combination than on the constituent parts.

6. To achieve a monopoly position

The elimination of competition by absorption gives a firm a greater control over a market. The competition in the market can be reduced with the merger of firms engaged in the similar market.

7. Revival of Sick units

Merger can bring out a revival of sick units. The sick units can merged with strong companies, and therefore, the problem of industrial sickness can be avoided in case of certain units.

12.2 TAKEOVER

Meaning

It generally refers to buying another firm, either its assets or as an operating company. In takeover, one company gets control over the acquired company. Acquired company becomes a part of the acquiring company. Takeover involves a change in ownership and management of the acquired firm.

A takeover involves the acquisition or part of whole of the equity capital of another firm, which enables the acquirer to exercise effective control over the affairs of the taken over firm. With the help of take-over, a firm can expand its capacity or competence in the desired area of operations. It does not lead to dissolution of the firm whose shares have been acquired. The takeover can take place in three forms :

a. Negotiated takeover, where both the parties mutually settle the terms and conditions of the takeover.

b. Open market or hosthe takeover, where the acquiring firm buys shares of the other firm from the open market normally at a higher price than the marketing price.

c. Bail-out, where a profit making firm takes over a sick or weak firm so as to bail it out from financial crisis.

There are several reasons for takeover. The most obvious reasons for takeover are :

a. Quick growth
b. Diversification
c. Establishing oneself as industrialist
d. Reducing competition
e. Increasing the market share or even creating goodwill. Takeover have become commonplace in the Indian corporate world. Many foreign MNC's are taking over existing Indian firms so as to facilitate easy entry in the Indian market.

12.3 JOINT VENTURES

Meaning

Joint ventures are common in international business. In simple words, joint ventures is a temporary partnership between two or more companies to achieve certain objectives. It is an agreement entered into for a specific purpose or period. After the purpose is served, joint venture ceases to exist. It is a legal organization which takes the form of a short-term partnership in which the companies jointly undertake a project or an assignment for mutual benefit.

It has been observed that joint ventures are widely used by companies to gain entrance into foreign markets. Foreign companies form joint ventures with domestic companies already present in the markets the foreign companies would like to enter. This is because the domestic company is well versed with the conditions prevailing in the local market.

Definitions

According to J.G. Thomas ", Joint ventures are a special case of consolidation where two or more companies form a temporary partnership for a special purpose ".

A joint venture agreement can be defined as " an agreement where two or more firms hold equity capital in a venture over which has some degree or control."

Features of Joint Ventures

1. Comprehensive term

As compared to foreign collaborations, joint ventures are broad based. In a collaboration , an agreement is entered into for a specific purpose like transfer of technology, capital etc. On the other hand, in case of joint venture, the partnership is for a longer period of time. The term ' joint venture ' includes foreign collaborations.

2. Temporary partnership

Joint venture is a temporary partnership. Here two or more companies come together for achieving a specific objective.

3. Involvement of more than two companies

A joint venture is a form of business combination in which two companies come together for achieving a common objective. In some cases, more than two companies may be involved. E.g. Pepsi's Indian ventures includes Voltas and Punjab Agro Industry Corporation.

4.Legal Status

As mentioned earlier, in case of joint venture, two or more companies come together and establish a new business entity. However the firms may retain their independent legal status different from the new business entity.

5. Mutual benefit

Generally , a company from a developed company enter into a joint venture agreement with another firm from a developing country, since no country in the world is self-sufficient. The developed countries have lot of finance and also superior technology, but they face shortage of raw materials and labour. On the other hand developing nations have plenty of raw materials and cheap labour but not capital and technology. Through joint ventures, both the countries are benefited.

6. Government approvals

Foreign joint ventures are subject to international laws and laws within the foreign countries. Since two or more countries are involved in the joint ventures, government approvals of the concerned countries have to be obtained. Permission of the host country's government is essential for the operations of the joint venture.

Following are some of the examples of joint ventures

a. Joint venture between Suzuki Motors Corporation and Government of India to manufacture a small engine car specially for the Indian market.

b. Biltrite Corporation of USA and Shenzhan Petrochemicals of China established a shoe soling factory as a joint venture in China.

c. In 1983, Toyata set up its first manufacturing operations in USA as 50-50 joint ventures with General Motors

Merits of Joint Ventures

1. Transfer of capital and technology

Joint venture agreements are generally entered into between a company from a developed country and a company from a developing country for the inflow of capital and technology. They thus help to reduce technological gaps between these two types of countries.

2. Faster industrial growth

The inflow of foreign capital and technology boosts the industrial activities of the developing country. These , in turn, provide job opportunities, increase the income of the people, improve their standard of living and thereby help in the economic development of the country.

3. Transfer of expertise

No company possesses expertise in all the areas. Through joint ventures, it is possible to club skills like technical, human skills, marketing skills etc. This benefits all the parties in the joint venture.

4. Spreading of risks

Joint ventures spread risk among the partners. Each partner risks only its own contribution. Thus joint venture is advisable when market entry requires a large investment or when there is significant political or social instability in the target market.

5. Synergy

Synergy means increased effectiveness or achievement produced by combined action or co-operation. Joint ventures provide synergy due to combined efforts of varied parties

6. International market

Companies can use joint ventures to penetrate international markets that are otherwise beyond their capacity e.g. some governments require foreign companies to share ownership with local companies. This situation is common among governments of developing countries.

Forms / Types of Joint Venture

Joint venture can be entered into for a specific purpose or period to transfer technology, joint production or marketing of goods or even for management consultancy. Accordingly, the following are important kinds of joint venture

1. Technical Joint Venture

The concerned partners agree to provide technical assistance through procurement of equipments, personnel, training, technical know-how, patents, trade marks etc. to the local partner. Technical know-how can transferred through

a. By grant of license – under this type of agreement the licencee is allowed to use patents, trademarks design in return for royalty payment.

b. Transfer of Technical Know-how – It involves transfer of technical information relating to the use and application of technology. It also involves transfer of confidential information and support services by technical personnel for installation and maintenance of plant or operation.

2. Management Consultancy

Consultancy agreements are entered into in connection with :

a. Project report preparation

b. Preparation of Feasibility Report

c. Preparation of Financial and Marketing Feasibility of a product

d. Construction of plant and equipments.

3. Marketing Joint venture

Such joint venture are established to produce or import products from foreign partner and sell in the local marker or in any other third country.

4. Financial Joint Venture

The object of financial Joint Venture is to provide services and expertise relating to finance like – study of financial feasibility of a new company, raising of finance, equity participation, loans and borrowings.

Limitations of Joint Venture

The main limitations of Joint Ventures are as follows:

1. Possibility of unfair and unreasonable terms and conditions

There is every possibility that the terms and conditions laid down in the Joint venture agreement may not be fair and reasonable to both the partners particularly the weaker one.

2. Complicated and time-consuming procedure

The procedure to be followed in order to formulate joint venture agreements is complicated and very time consuming.

3. Possibility of conflicts among the partners

In Joint venture conflicts may arise among the partners regarding the implementation of the joint venture projects

4. Obstacle of Government Policy

The Government policy concerning foreign exchange and transfer of technology may become an obstacle to the joint venture agreements.

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<u>MODULE 13</u>

STRATEGY IMPLEMENTATION – ISSUES IN IMPLEMENTATION, PROJECT IMPLEMENTATION AND CONTROL PROCEDURES, RESOURCE ALLOCATION

13.1 ISSUES IN IMPLEMENTATION

13.2 ISSUES INVOLVED IN STRATEGY IMPLEMENTATION

13.3 STAGES IN IMPLEMENTING STRATEGY / ACTIVATING STRATEGY

13.4 PROJECT IMPLEMENTATION

13.5 PROCEDURAL IMPLEMENTATION

13.1 ISSUES IN IMPLEMENTATION

The strategic-management process does not end when the firm decides what strategy or strategies to pursue. There must be a translation of strategic thought into strategic action. This translation is much easier if managers and employees of the firm understand the business, feel a part of the company, and through involvement in strategy formulation activities have become committed to helping the organization succeed. Without understanding and commitment, strategy implementation efforts face major problems.

Implementation strategy affects an organization from top to bottom; it affects all the functional and divisional areas of business. Even the most technically perfect strategic plan will serve little purpose if it is not implemented. Many organizations tend to spend an inordinate amount of time money, and effort on developing the strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts ! Change comes through implementation and evaluation, not through plan. A technically imperfect plan that is, implemented well will achieve more than the perfect plan that never gets off the paper on which it is typed.

Concept of Strategy Implementation

Strategy formulation is not in itself sufficient for an organization. It is important to ensure that the strategy is implemented effectively, Strategy implementation is an important aspect of strategic management.

Strategic implementation is the sum total of all the activities and choices required for the execution of a strategic plan. It is the process by which strategies and policies are put into action through the development of programs, budgets and procedures.

Definition

Daniel McCarthy Robert Minichiello and Joseph Curran in their book ' Business Policy and Strategy ' have defined strategy implementation as:

“Strategy implementation may be said to consist of securing resources, organizing these resources and directing the use of these resources within and outside the organization.”

Nature of Strategy Implementation

Successful strategy formulation does not guarantee successful strategy implementation. It is always more difficult to do something (strategy implementation) than to say you are going to do it (strategy formulation) ! Although inextricably linked , strategy implementation is fundamentally different from strategy formulation. Strategy formulation and implementation can be contrasted in the following ways:

- Strategy formulation is positioning force s before the action
- Strategy implementation is managing forces during the action
- Strategy formulation focuses on effectiveness
- Strategy implementation forces on efficiency
- Strategy formulation is primarily an intellectual process
- Strategy implementation is primarily an operational process
- Strategy formulation requires good intuitive and analytical skills
- Strategy implementation requires special motivation and leadership skill
- Strategy formulation requires coordination among a few individuals
- Strategy implementation requires coordination among many individuals.

13.2 ISSUES INVOLVED IN STRATEGY IMPLEMENTATION

Strategy implementation involves several issues. Some of the important issues **are**

1. Annual Objectives

Establishing annual objectives is a decentralized activity that directly involves all managers in an organization. Active participation in establishing annual objectives can lead to acceptance and commitment. Annual objectives are essential for strategy implementation because they

(1) represent the basis for allocating resources; (2) are a primary mechanism for evaluating managers (3) are the major instrument for monitoring progress toward achieving long-term objectives; and (4) establish organizational, divisional and departmental priorities. Considerable time and effort should be devoted to ensuring that annual objectives are well conceived, consistent with long -term objective, and supportive of strategies to be implemented.

2. Policies

Changes in a firm's strategic direction do not occur automatically, On a day-to-day basis, policies are needed to make a strategy work. Policies, facilitate solving recurring problem and guide the implementation of strategy. Broadly defined, policy refers to specific guidelines, methods, procedures, rules, forms and administrative practices established to support and encourage work toward stated goals. Policies are instruments for strategy implementation. Policies set boundaries, constraints and limits on the kinds of administrative actions that can be taken to reward and sanction the behavior; they clarify what can and cannot be done in pursuit of an organization's objectives.

3. Resource allocation

Resource allocation is a central management activity that allows for strategy execution. In organization that do not use a strategic management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated accordingly to priorities established by annual objectives.

Effective resource allocation does not guarantee successful strategy implementation because programs. Personnel , controls and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a' resource allocation process

4. Managing conflict

Interdependency of objectives and competition for limited resources often leads to conflict. Conflict can be defined as a disagreement between two or more parties on one or more issues. Establishing annual objectives can lead to conflict because individuals have different expectations and perceptions, schedule create pressure, personalities are incompatible, and misunderstanding between line managers and staff managers occur. For Example , a

collection manager's objective of reducing bad debts by 50 percent in a given year may conflict with a divisional objective to increase sale by 20 percent. Conflict is unavoidable in organizations, so it is important that conflict be managed and resolved before it effects strategy implementation and organizational performance.

Various approaches for managing and resolving conflict can be classified into three categories avoidance, defusion, and confrontation. Avoidance includes such actions as ignoring the problem in hopes that the conflict will resolve itself or physically separating the conflicting individuals (or groups). Defusion can include playing down differences between conflicting parties while accentuating similarities and common interest, compromising so that there is neither a clear winner or loser. Confrontation is exemplified by exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view.

5. Matching structure with strategy

Change in strategy often require changes in the way an organization is structured for two major reasons. First structure largely dictates how objectives and policies will be established. For example, objectives and policies established under geographic organizational structure are couched in geographic terms. The structural format for developing objectives and policies can significantly impact all other strategy implementation activities and structures dictates how resources will be allocated. A more important concern is determining what types of structural changes are needed to implement new strategies and how these changes can best be accomplished.

6. Managing resistance to change

No organization or individual can escape change. But the thought of change raises anxieties because people feat of economic loss, inconvenience, uncertainty, and a break in normal social pattern. The strategic management process itself can impose major changes on individuals and processes.

Resistance to change can be considered the single greatest threat to successful strategy implementation. People often resist strategy implementation because they do not understand what is happening or why changes are taking place. In that case , employees may simply need accurate information. Successful strategy implementation hinges upon manager's ability to

develop an organizational climate conducive to change. Change must be viewed as an opportunity rather than as a threat by managers and employees.

7. Creating a Strategy-Supportive Culture

Strategists should strive to pressure, emphasize and build upon aspects of an existing culture that support proposed new strategies. Aspects of an existing culture that are antagonistic to a proposed strategy should be identified and changed, Substantial research indicates that new strategies are often market-driven and dictated by competitive forces. For this reason, changing a firm's culture to fit a new strategy is usually more effective than changing a strategy to fit an existing culture. Numerous techniques are available to alter an organization's culture, including recruitment, training, transfer, promotion, restructure of an organization's design, role modeling, and positive reinforcement.

8. Production / Operations Concerns

Production / operations capabilities, limitations, and policies can significantly enhance or inhibit the attainment of objectives. A major part of the strategy implementation process takes place at production site. Production -related decisions on plant size, plant location, product design, choice of equipment, kind of tooling, inventory control, quality control, cost control, use of standards, job specialization , employee training, equipment and resource utilization, shipping and packaging, and technological innovation can have a dramatic impact on the success or failure of strategy implementation efforts.

9. Human Resource Concerns

The job of human resource manager is changing rapidly as companies continue to downsize and reorganize. Strategic responsibilities of the human resource manager include assessing the staffing needs and cost for strategies proposed during strategy formulation and developing a staffing plan for effectively implementing strategies.

A well-designed strategic management system can fail if insufficient attention is given to the human resource dimension. Human resource problems that arise when business implement strategies can usually be traced to one of three causes : (1) disruption of social and political structures, (2) failure to match individual's aptitudes with implementing tasks, and (3) inadequate top management support for implementation activities.

The process of empowering managers and employees through their involvement in strategic management activities yields the greatest benefits when all organizational members understand clearly how they will benefit personally if the firm does well.

13.3 STAGES IN IMPLEMENTING STRATEGY / ACTIVATING STRATEGY

Activating strategy is a process of putting strategy into action. In actual implementation of strategy following steps are followed.

1. Institutionalization of strategy

This is the first step involved in activating the strategy. It involves two aspects

(a) **Communication of Strategy-** Once the strategy is formulated, it must be communicated to those people who would implement it. Strategy communication is a process of transferring the strategy information from the formulators to the implementers. The communication is normally in writing. The communication should include the purpose of the strategy, and the activities required to implement the strategy.

(b) **Securing acceptance of strategy** - It is not enough to communicate the strategy to the members of organizations, but it is equally important to secure their acceptance of the strategy, so that they implement the strategy effectively. Normally, a major problem in strategy acceptance is that the organizational members often resist a strategy, particularly when it requires special efforts on the part of those who are going to implement it. Therefore, it is advisable to prepare a preliminary draft of strategy, and it is circulated among all those who are expected to implement it. Management may ask for their suggestions, if required necessary modifications are made in the strategy and after that final strategy is prepared.

2. Formulation of Action plans and programmes - Once the strategy is institutionalized through its communication and acceptance, the management proceeds to formulate action plans and programmes.

(a) **Action Plans** - The management has to frame actions plans in respect of several activities required to implement a strategy. The action plan may be in respect of purchasing new machinery, appointing additional personnel, developing a new process, etc. The type of action

plans depends upon nature of strategy. While framing action plan, the manager must consider the following factors.

- The purpose of action plan
- The activities required to perform the action plan
- The person(s) who would be performing the activities
- The resources required to perform the various activities.

(b) **Programmes** - The manager must also decide about the programmes in respect of the strategy. A programme is a single use plan designed to accomplish a specific objective. It clearly indicates the steps to be taken, the resources to be used, and the time period within which the task is to be completed.

3. Translating General Objectives into Specific Objectives - The top management frames the general objectives. In order to make these objective operative, functional managers must set specific objectives within the framework of the general objectives. Most of the specific objectives are of short-term in nature, with a definite time period for their accomplishment. Translation of general objectives into specific objectives must fulfill two important criteria:

(a) The specific objectives must be realistic, achievable and time bound. The specific objectives must be set in such a way that the performance can be easily measured and evaluated. Setting generalized objectives does not lead to effective action. For example it has no meaning in stating objectives like to increase sales" but it should be " to increase sales by 10 % " which is more specific.

(b) The specific objective should contribute to the accomplishment of general objectives. So all the functional department like production, marketing, finance etc., should set such specific objectives which are in line with the general objectives of the organization. Further , every individual employee should have his own set of objectives in line with his departmental objectives.

4. Resource allocation - For successful implementation of strategy, there must be proper resource allocation to various units and activities. The resources can be broadly classified into 3 groups

- Financial resources
- Physical resources
- Human resources

The management need to answer several questions in resource allocation, such as

- What are the sources for obtaining resources ?
- What factors affect resource allocation ?
- What are the means for resource allocation ?
- What are the problems in resource allocation ?

Proper answer to the above questions will help to obtain the resources from the right sources, overcome the problem in resource allocation, and allocate the resources properly so that there can be effective implementation of strategy.

5. Procedural Requirements - An organization must follow various procedural requirements to implement the strategy. The various procedural requirements may include the following, if applicable

- Licensing requirements
- Import and export requirements
- Foreign exchange Management Act, 2000 requirements
- Monopolies and Restrictive Trade Practices Act, 1969.
- Labour legislations
- Securities and Exchange Board of India requirements
- Foreign Collaborations requirements etc.

6. Other activities - The implementing strategy requires other activities such as

- Creating or modifying a proper organizational structure.
- Developing or modifying leadership styles.
- Building a suitable organizational climate.

13.4 PROJECT IMPLEMENTATION

A project can be defined as a one-shot, time limited, goal directed, major undertaking requiring the commitment of varied skills and resources.

Project implementation passes through various phases such as

1. Conception phase -

The first phase of any project is the conceptual phase. This phase is an extension of the strategy formulation phase. In this case, project ideas are generated during the process of strategic alternatives and strategic choice, which may be implemented in future by the organization.

2. Project analysis phase -

The project ideas have to be arranged according to priority for the purpose of development. Before selecting a project for development, a preliminary project analysis have to made in respect of marketing, technical, financial and other relevant aspects. Such analysis is required to find out whether the project would appeal to the investors, banks and financial institutions.

After the preliminary project analysis, feasibility study of the project is conducted. Feasibility study consists of detailed analysis of the project covering areas like cost of the project, means of financing, marketing arrangements, etc. Feasibility study is conducted to find out whether a project is financially and technically sound, and profitable or not.

3. Planning phase –

The management must undertake detailed planning of the project. The detailed planning should cover different areas of the project such as production schedules, plant design and layout, technical arrangements, finance requirements, marketing arrangements, manpower requirements, and so on.

4. Organising Phase -

The management must organize for necessary resources such as manpower, finance, systems and procedures to implement the project.

The complete project has to be properly organized in a well structured manner so as to deals with man, machinery etc. So as to enable the successful implementation of the project

5. Implementation Phase –

During this phase, the management must undertake detailed engineering, order placement for equipments and material, etc., leading to the testing, trail and commissioning of the plant.

6. Operation Phase -

The final phase involves handing over the plant to the operating personnel for operation purpose. At this stage, the production starts as per the planned strategy.

13.5 PROCEDURAL IMPLEMENTATION

In India before implementing any new strategy the company must check whether the changes require any state or central government approval.

These government regulations affect strategy formulation and implementation in the company. Following are the various government regulations

- Licensing policy
- MRTP regulation
- FERA regulation
- Capital Issue Control regulation
- Import and Export regulation
- Foreign collaboration policy
- Incentive and facilities available

1. Licensing policy

The Industrial Policy Resolutions divide all industries into 3 categories

- The first category are those that are directly handled by the government exclusively
- The second category are those industries that are handled by the government along with the support of the private sector
- The third category are those industries that can be handled by the private sector exclusively

The Industries (Development and Regulation) Act, 1951 provides a licensing system of the development and also the regulation of the scheduled industries. Scheduled industries are those industries listed in the First Schedule of the Act.

An overview of Licensing of Technology

When technology is a firm's only source of competitive advantage, the firm must license its technology only under special circumstances. Royalty received through hardly compensate for loss of competitive advantage under following circumstances licensing of technology may be considered:

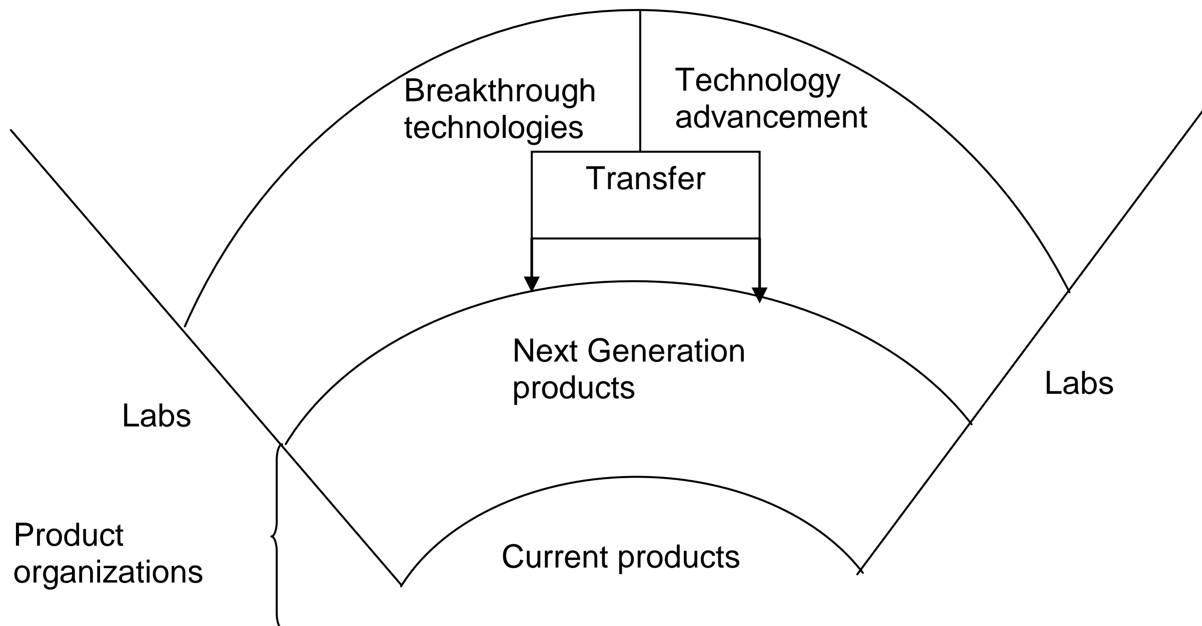
- Inability of the firm to exploit technology
- Exploit market normally not available
- Rapidly Standardizing the technology
- Poor Industry Standards
- Creating right Competitor
- Technology exchange

TECHNOLOGY EXCHANGE

In today's world, technology decides lot of things such as how we write letters, how we treat ourselves, how we entertain ourselves, how we educate ourselves and finally how we do business

	Technological Leadership	Technological Fellowership
Cost Advantage	▪ Pioneer the lowest cost product design ▪ Be the first firm down the learning curve ▪ Create low cost ways of performing value activities	▪ Lower the cost of the product or value activities by learning from the leader's experience ▪ Avoid **R&D** costs through imitation
Differentiation	▪ Pioneer a unique product that increases buyer value ▪ Innovate in other activities to increase buyer value	▪ Adapt the product or delivery system more closely to buyer needs by learning from the leader's experience

TECHNOLOGICAL LEADERSHIP & COMPETITIVE ADVANTAGE



2. MRTP Regulations

The Monopolies and Restrictive Trade Practices (MRTP) Act 1969 seeks to prevent monopolistic and restrictive trade practices conducted by a single company. This is done so as to prevent the concentration of the economic power.

The MRTP Act also covers mergers, amalgamations, and turnovers.

3. FERA Regulations

The Foreign Exchange Regulation Act (FERA) 1973 is with respect to the control of foreign companies on Indian companies. If a non-Indian residents equity holding in the company is 40 % and above, the prior permission of the Reserve Bank of India is required.

4. Capital Issue Control Regulation

The issue of capital by companies is regulated through Capital Issues Control Act, 1956 and the Securities Contracts Regulations Act, 1956 mainly to ensure that investments are made in priority areas and for the promotion of capital markets and also for the protection of the company's shareholders.

The Act will also be in force in case of mergers, amalgamation. Before the company issues any fresh shares whether public issue or right issue, even debentures, it has to be cleared by the Controller of Capital Issues (CCI) under the Department of Economies Affairs, Ministry of Finance.

The clearance from CCI is required before any strategy can be implemented.

5. Import and Export Regulation

Imports of Capital Machinery or even Raw Material is necessary for some companies in order to be effective in case of modernization, expansion.

Import substitution requires government clearance before the strategy is implemented. Before any strategy is implemented with respect to imports or exports the company should get the appropriate government sanctions under the Import and Export (Control) Act, 1947.

The main aim of the government is to see that the balance of payments is not adversely affected by such a transaction of import and export through import substitution.

6. Foreign Collaboration Regulation

In some cases the strategy in case of diversification etc. calls for a foreign collaboration. The government allows this upto a maximum limit of 51% in some areas on very selective basis. These foreign collaboration again require prior government approval and sanction.

7. Benefits from Incentives and Facilities

The government gives incentives, subsidies to the company for implementing certain strategies. By providing incentives the government does not play a regulatory or controlling but a promotional role.

Certain other specific measures which are undertaken by the government relate to backward areas incentive, development of small-scale industries and export promotion.

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MODULE 14

STRATEGY IMPLEMENTATION – RESOURCE ALLOCATION

14.1 RESOURCE ALLOCATION

14.2 PROBLEMS IN RESOURCE ALLOCATION

14.1 RESOURCE ALLOCATION

Resource allocation is an important activity in strategy implementation. Resource allocation requires procurement and commitment of financial, human and physical resources to the various activities required for the accomplishment of objectives. The success of the organization depends upon the quality and quantity of resources and their utilization.

Resource allocation is a central management activity that allows for strategy execution. In organization that do not use a strategic-management approach to decision making, resource allocation is often based on political or personal factors. Strategic management enables resources to be allocated accordingly to priorities established by annual objectives.

All organizations have at least 4 types of resources that can be used to achieve desired objectives: financial, physical, human and technological resources. Allocating resources to particular divisions and departments does not mean that strategies will be successfully implemented. A number of factors commonly prohibit effective resource allocation, including an overprotection of resources, too great an emphasis on short-run financial criteria, organizational politics, vague strategy targets, a reluctance to take risks, and a lack of sufficient knowledge.

The real value of any resource allocation program lies in the resulting accomplishment of an organization's objectives. Effective resource allocation does not guarantee successful strategy implementation because programs, personnel, controls, and commitment must breathe life into the resources provided. Strategic management itself is sometimes referred to as a resource allocation process

Steps involved in Resource Allocation

The following are the important steps involved in resource allocation

1. Determining the type and the amount of resources –

The first step involved in resource allocation is to determine the type and amount of resources required to implement the strategy.

A firm may require various types of resources such as human, financial, physical and informational or technological resources. At times, a firm may require only the financial resources, as human and informational resources are already available with the firm, and that the physical resources such as machinery or equipments can be purchased with the financial resources. A firm should also decide the amount of resources required. For example modernization strategy would require more resources that the integration strategy.

2. Determining the sources of resources -

The next step is to find out the sources of resources. The sources of resources depends upon the type of resources. The human resources can be obtained from both internal and external sources. For example mangers can be promoted from within the organization or can be selected from external sources for the purpose of strategy implementation. Financial resources can be obtained from internal or external sources. For example retained earnings can be used to finance strategy implementation or additional loan can be taken or capital can be issued to finance strategy implementation.

3. Mobilisation of resources -

After determining the amount and the type of resources, the next step is to make arrangement to obtain the resources. Necessary procedure is required to be followed to obtain the resources. For instance , if financial resources are to be obtained by way of issue of shares , the following steps have to be followed.

- Preparation of draft Prospectus
- Vetting of Prospectus
- Appointment of Intermediaries - Bankers Underwriters, Brokers, Advertising Agency etc.
- Filing of Prospectus with Registrar of Companies
- Printing and Dispatch of Prospectus and Application forms
- Filing of Initial Listing Application
- Establishing the liability of Underwriters
- Allotment of shares
- Listing of the Issue

4. Resource Allocation –

After obtaining the resources, the resources must be properly allocated for the purpose of strategy implementation. The required physical resources can be purchased with the help of financial resources. If required, additional human resources can be selected for the purpose of strategy implementation. In any case, there must be proper allocation of all the resources.

5. Utilization of Resources -

The allocated resources need to be utilized in respect of various activities. For example, the funds allocated for market development strategy need to be utilized for various activities in connection with market development activities such as marketing research, advertising, sales promotion, dealers incentives, etc. The funds must be utilized for productive activities, and care must be taken to see to it that the funds are not misused or poorly utlilized.

6. Monitoring the Resources Allocation -

The management should monitor the resource allocation to find out whether or not the allocated are properly utilized. The management should also find out whether the resources allocated are sufficient enough to undertake the various activities efficiently and effectively. If required, management may make necessary changes in resource allocation, i.e. , additional funds may be mobilized, if required or the resource allocation-mix can be modified depending upon the importance of activities.

Factors affecting Resource Allocation

There are several factors which affects resource allocation, they are as follow.

1. Objectives of the organization-

The aims and objectives of the organization affects resource allocation. An organization has various objectives to be accomplished- some are very important, some are least important to the organization. For example increasing market share is given more importance than other objectives. So accordingly, resources have to be allocated. Normally resources are allocated to accomplish important objectives.

2. The nature of strategies -

There are various types of strategies of a firm. Some strategies may require huge capital or some may require less capital. Some may require more human resources or some may require less human resources. Accordingly the strategies which requires more capital or more human

resources are allocated with more resources than other strategies. Therefore modernization strategy is allocated with more resources than product introduction strategy.

3. Availability of Resources –

The availability of funds affect resources allocation. When a firm has adequate funds or when a firm is in a position to obtain funds easily, then it can adequately allocate funds for various resources. But if the firm has a problem of obtaining additional funds, the certain activities may be dropped out or there may be distribution of resources according to the importance of activities.

4. Internal Politics –

Sometimes, internal politics in an organization can affect resource allocation. Some departmental heads are in a position to get more funds for their departments. This may be due to their power or influence they have over top management. For example, if HRD manager has good terms with the top management, his department may be allocated with more funds.

5. External factors -

There are various external factors which influence resource allocation for example, financial institutions, local community, shareholders, government policies and others etc. For example, the financial institutions , which have provided long term loans may restrict allocation of resources in form of dividend to shareholder, organizational expenditure etc. Some times due to government policies, firm may have to allocate to employees welfare fund, environment protection fund etc.

14.2 PROBLEMS IN RESOURCE ALLOCATION

There are several problems faced in resources allocation. Some problems can not be avoided. Some problems can be avoided with the efforts on the part of management.

1. Scarcity of Resources –

The major problem arises due to scarcity of resources. Due to scarcity of resources, it would be difficult for the management to obtain right type and right amount of resources. Some times due to scarcity, management may have to pay high price to obtain required resources.

2. Over-estimation of Resource need –

The resource allocation problem may arise due to over-estimation of resource needs. Normally each department may try to obtain maximum amount of resources. This may be to avoid shortage of resources in future. Higher the demand of resources from all the department makes it difficult to allocate resources properly. Sometimes department gets used to overestimating resource needs.

3. Organization's Past allocation of resources –

Some units may be allocated with more resources in the past as their activities were more important than other activities. Sometimes same allocation is followed in the present situations, even though now their activities are not so important. On the other hand other department's activities may be more important at present, but they do not get required amount of resources due to past allocation . So top management should consider relative importance of the activities and the allocate the resources.

4. Problem of internal politics –

Some manager may involve the internal politics. They may try to influence top management and may try to get more funds than other departments. As a result those departments who actually deserve more funds do not get required amount of resources.

5. Poor financial climate -

Due to financial climate, may investors do not invest in the shares issued by the company. So company finds it difficult to raise additional finance. This affects the resource allocation for strategy implementation. Sometimes company may have to go for additional loans from financial institutions at higher cost.

6. Conflicts of interest –

There may be problem of conflict of interest between management and various other parties for example, shareholders, trader unions, employees , government, society etc. For example trade union may insist to allocate resources to employee's welfare, management may like to allocate resources for modernization. This conflict can be solved with proper discussion between management and various parties and proper planning of resource allocation.

7. Problem of Resistance to Change -

Sometimes management may resist to change its own resource allocation strategy. For example there may be some unprofitable products in the company, but management may continue to allocate more resources to that unprofitable product than the other promising products of the company. So management should try to review market success of each product and try to allocate the resources.

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MODULE 15

CORPORATE ETHOS, CULTURE AND ETHICS, MANAGEMENT OF CHANGE.

15.1 CONCEPT OF CORPORATE CULTURE
15.2 PERSONAL VALUES AND BUSINESS ETHICS
15.3 IMPACT OF VALUES AND ETHICS ON CORPORATE STRATEGY
15.4 SOCIAL RESPONSIVENESS AND STRATEGIC MANAGEMENT

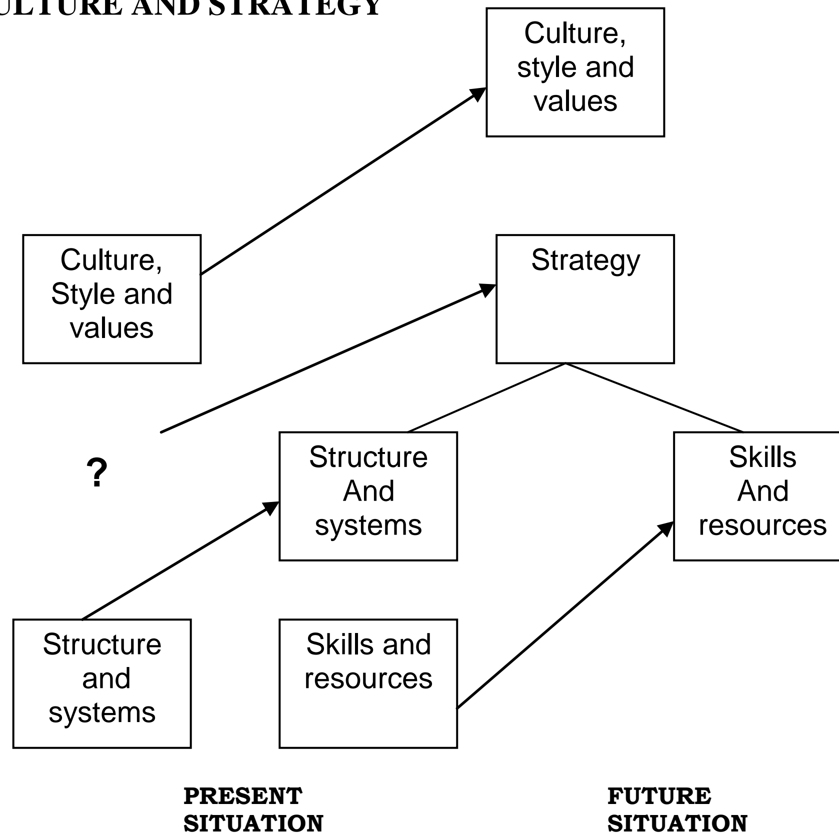
15.1 CONCEPT OF CORPORATE CULTURE

Corporate culture is the collection of beliefs, expectation and values learned and shared by an organization's members and transmitted from one generation of employees to another. The organization's culture generally reflects the values and beliefs of the founder(s) and the mission of the firm. It gives a sense of identity to the organization's members - This is who we are. This is what we stand for.

The main features of organizational culture are as follows:

- Organizational culture is a combination of social, cultural, physical, psychological, and other conditions within an organization.
- It influence the motivation, attitudes, behaviour and performance of the members of an organization.
- It gives a separate identity to the organization as compared to other organizations as each organization has its own set of values, beliefs, practices customs etc.
- The organizational culture evolves over a fairly long period of time.
- It can be relatively stable over a period of time. However, there can be changes in the organization culture, with a change in top management, or management's philosophy.
- It is invisible and abstract, although it is perceived and experienced by the the members of an organization.
- Organization culture can bring name and goodwill to the organization.
- It can provide opportunities and threats to its members.

CORPORATE CULTURE AND STRATEGY



15.2 PERSONAL VALUES AND BUSINESS ETHICS

The personal values are imbibed from parents, elders, and teachers. As an individual grows, values are adapted and refined in the light of new knowledge and experiences. In an organization, values are imparted by the founder or by a dominant personality - mostly the chief executive. Such values remain for fairly a long time, even when the founder or the dominant personality is not there in the organisation Ethics specify what is good or bad, right or wrong, proper or improper from social point of view. Business ethics relates to behaviour and actions of corporations relating to business.

According to **Robert Gurinner "Business ethics may be defined as those principles, practices, and philosophies that are concerned with moral judgments and good conduct as they are applicable to business situation."**

Features of Business Ethics

The following are some of the important features of business ethics:

- **Ethical Values**: Business ethics is concerned with morality in business. In today's world, business community forms a large part pf the society and its actions (like right or wrong, legal or illegal) are bound to have a direct impact on the well being and welfare of the

society. Business affects society in terms of what products it supplies. Therefore, it is necessary that community conduct its activities with self-check, and self-control keeping always in mind the interest of community at large.

- **Relative Term**: Ethics is a relative term i. e. the concept of morality and immorality differs from one individual to other or society. What is moral in one society may be immoral in other. For example, taking or giving bribe is considered as unethical in our society but may be a routine affair or just ignored by society in some other countries.
- **Interest of Society**: Business ethics implies that the business should do first good to the society and then to itself. Business is an important institution and has a social responsibility to protect the interest of all those groups like employees, shareholders, consumers who contribute to the success of business.
- **Business-Society Relationship**: Business ethics set the terms and standards to understand business society relationship. It indicates what society expects from business and what it thinks about business.
- **Provides Framework**: Like an individual, business is also bound by social rules and regulations. Business is expected to confine its activities within the limits of social, legal, cultural and economic environment.
- **Systematic Study**: Business ethics is a systematic study of business policies and actions that have an impact (positive and negative) on human beings and the society. For example, a company that cares for better natural environment will pursue those plans and policies that protects environment.
- **Universal Application**: Business ethics has universal application. It is applicable to all business units in all countries whether large or small. However, the degree of business ethics may vary from country to country.
- **Code of Conduct**: Business ethics, like code of conduct or professional ethics provides guidelines to regulate business activities on legal, moral, social and ethical principles. It prescribes what should and should not done for the welfare of the society.

Importance of business ethics and values

The need for business ethics is more felt in recent years than ever before. The following point outline the importance of business ethics

1. Survival of Business

Business need to follow ethical values for its own good and survival. A firm can have short-term and quick gains by resorting to unethical means and disregarding social welfare. However, such firms grow fast and are out of business faster. On the other hand, organizations doing business ethically have continued to survive and prosper for a long time.

2. Protection of Consumer Rights

The application of business ethics will help to confer and implement consumer rights. This will enhances the strength of individual consumer against powerful business community. Business ethics can be used to check malpractices like adulteration, unfair trade practices and to make the working of business consumer oriented.

3. Consideration of Society's Interest

Those firms, which follow business ethics in the society, would make every possible effort to produce goods and services not only in the interest of the consumers, but also in the interests of the society. These firms would look into not only consumer's well being, but also welfare of the society. Therefore, they would make every possible effort to produce eco-friendly products

4. Better relations with Members of the Society

Business ethics is needed to develop good relations between business and society. The relationship of business with society has various dimensions such as its relations with shareholders, employees, consumers, distributors, competitors and government. Ethics is needed to maintain good relations among the firms on one side and between the firm and the social groups on other side.

5. Mutual Benefit

Business ethics benefits the business firm as well as the society. The business firm that adopts business ethics get good name in the society. It may be able to increase confidence in the minds of the buyers who in turn would help to improve the sale of the firm.

The society can also gain due to ethical practices on the part of the business. For instance, the consumers can benefit by way of quality goods at right prices, the employees can get fair treatment, and so on.

15.3 IMPACT OF VALUES AND ETHICS ON CORPORATE STRATEGY

The corporate strategy is greatly affected by the values, ethics, and motives of the people who are involved in its formulation process. In formulating corporate strategy, managers can not isolate their feelings, and preferences from economic considerations. Normally, there is a tendency on the part of mangers to impose their preference and priorities in the process of strategy implementation.

Corporate strategy is affected by personnel values of the chief executive and of the key executives , right from the stage of setting objectives. For instance, a chief executive with high profit orientation would give priority to those areas which generate higher rate of return while setting objectives, whereas a chief executive with high social orientation would give greater importance to social factors or areas while setting objectives.

The personal values and perceptions of top executives are reflected in operational policies framed to execute the strategy. For instance, a participate leader would encourage his subordinate to take part in framing suitable policies required to implement the strategy, whereas a dominant autocratic leader would himself frame the policies and impose them on his subordinates to implement the strategy.

Reconciliation - the conflict of personal values and strategy

There is often a conflict between personal values and rational business strategy. For strategy to be effectively implemented in the organizations, there is a need for commitment and support on the part of top executives including the chief executives. Therefore, personal values and preferences of the top executives must be given considerations and a strategy based on rational considerations needs to be modified. Such a modification in the strategy would receive support from the top executives as far as its implementation is concerned, as they know that their values and preferences are in taken into account.

In any organization there is a need to reconcile between the rational economic strategy and the personal values and preferences of the key executives of the organization, and also the conflict among the key executives. The conflict can be resolved by making an attempt to analyse the values and preferences of different executives and then to apprise them of such analysis so that they be may fully aware of the prejudices and biases, which influence their behaviour. Such analysis may help the executives to do way with certain values and preferences, which are not conducive for the growth of the organization. For instance, in one the organizations, a new chief executive was appointed, who was born and brought in posh

environment, wanted rich interiors and exteriors of the company's head office, involving huge sum of money, was finally convinced by the finance director that such heavy spending would drain company's funds and that the company may face acute cash crunch.

Reconciliation of conflicts among individual values and preferences for the formulation and implementation of strategy needs imagination, and cooperative spirit on the part of executives. They must sort out their differences, and modify their values and preferences in the interest of the organization. One of the best alternatives is to appoint an external expert to frame sound economic strategy with the support of the top executives of the organization, and the top executives should not unduly influence upon the external expert of their personal values and preferences. However, it is to be noted that if personal values and preferences are vital to the interest of the organization, then such values must considered in framing and implementing the strategy of the organization.

15.4 SOCIAL RESPONSIVENESS AND STRATEGIC MANAGEMENT

Business is basically an economic activity, **but in modem world it cannot concentrate only** on profit maximization. It is a group effort, as there is participation, directly or indirectly, of the employees, customers, society, government, shareholders etc. Business can not function independently and depend on the society for supply of raw materials, capital, labour, and other requirements. Business is a part of society and has to follow and operate within the limits of the environment, and, rules and regulations prescribed by the society.

There is a need to have social responsiveness in strategic management. This is because greater social responsiveness means good business. Normally the top management takes the major decisions in respect of social responsibility. The decisions in respect of social responsibility are based on the personal values, views, opinions and business ethics of the top management. Having decided to adopt social responsibility , the top management should involve social responsiveness in all the phases of implementation and strategy evaluation will be affected by social responsiveness. The strategist must consider the social responsibility towards various group in strategic management.

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MODULE 16

STRATEGY IMPLEMENTATION – MANAGEMENT OF CHANGE

16.1 INTRODUCTION
16.2 ORGANIZATIONAL CHANGE
16.3 CAUSES OR FACTORS OF RESISTANCE TO CHANGE
16.4 MANAGING RESISTANCE TO CHANGE

16.1 INTRODUCTION

No organization or individual can escape change. But the thought of change raises anxieties because people fear economic loss, inconvenience, uncertainty, and a break in normal social patterns. Almost any change in structure, technology, people, or strategies has the potential to disrupt comfortable interaction patterns. For this reason, people resist change. The strategic management process itself can impose major changes on individuals and processes. Reorienting an organization to get people to think and act strategically is not an easy task.

16.2 ORGANIZATIONAL CHANGE

Organizational change is any alteration that occurs in the environment of organization. It means alternation is aim and objectives, strategies, procedures, technology, structural arrangement, job design, and people. It means changes in any aspects of organization. It may be small one or big one. It also includes restructuring, mergers, amalgamations, expansion, modernization, diversification etc. A change does bring about subsequent change in the organizational set up or management.

Any organization goes through two types of changes : the structural change and / or the behavioural change. In the structural change the whole organization goes through some or a drastic change in the whole structure. Here some new divisions or departments may be formed or some may be completely shut down or modified to some extent. Some may even be merged with others.

Behaviourable change is another type of change an organization can go through. This should be done so that the company can survive the external and internal impacts.

Resistance to change can be considered the single greatest threat to successful strategy implementation. Resistance in the form of sabotaging production machines, absenteeism, filing unfounded grievance, and an unwillingness to cooperate regularly occur in

organization. People often resist strategy implementation because they do not understand what is happening and why changes are taking place. In that case, employees may simply need accurate information. Successful strategy implementation hinges upon manager's ability to develop an organizational climate conducive to change. Changes must be viewed as an opportunity rather than as a threat by managers and employees.

Features of Organizational Change

1. Pervasive in nature

A change is one part of the organization and organization can not avoid it. It may affect other part of the organization also. Organizational activities can not be static in nature, there are bound to be changes in the organizational set up. All the departments and their activities are subject to change. Some parts may be largely affected than other parts. Some parts may have direct impact or some parts may have indirect impact. For example, if new machines are installed in the factory, then HRD department has to train its staff, Marketing department has to bring about necessary changes in its marketing appeal to match with the improved products etc.

2. New management set-up

Any change , big or small affects the organization's existing set-up. So Management has to bring about new management set up to incorporate the new changes. New changes can be just incorporated in the old and existing management activities. The set-up depends upon the degree of change and its overall impact on the management.

3. Continuous in nature

Organizational change is continuous in nature. It is not static. As long as , there is organization, changes are bound to occur. Some changes may be minor one or some may major ones but they are going happen, as in the world nothing is static, and organization is not exception for it.

4. Reactive and Planned

A change may be reactive or planned. Reactive change is unplanned and it takes place due to changes in the environment. For example, competitor may change its marketing strategies, similarly company has to make changes in its marketing strategies. This is reactive change.

Some change may be planned and proactive. These changes are outcome of deliberate planning on the part of organization

5. Change and Innovation

Change is different from innovation. All innovations are change but all changes are not innovations. Innovations takes place when an organization makes first use of idea to introduce the product, to develop new techniques, method or process etc. But change means any alterations or modifications in organization's existing set-up.

6. Several factors

An organizational change takes place due to several factors. These factors can be internal or external. The internal factors include management, workers, job design, strategies etc. External factors include competition, government, customers, suppliers, dealers etc.

Process of Management of Changes

A change does not occur immediately. It goes through different stages, they are as follows.

1. Identify need for a changes

The first step in the process of management of change is to identify the need for change in the organization. One should not introduce any change just for the sake of doing it. Any change should bring out desired change in the organization.

Many times a changes arises due to internal or external factors. External factors include technological development, change in competitors strategies, change in government policies, change in the customer's taste or preference etc.

Internal factors include fall in sales or profit, high cost of production, increase in labour turnover, high maintenance cost etc. These factors force the management to bring out necessary changes in the organizational set-up.

The management has to identify the need for change. It depends upon the gap between the actual results and the desired results. This gap can be identified by comparing the actual performance with the planned performance.

2. Decision on elements to be changed

After identifying the need for change, the next step is to decide on the elements of organization which requires change. It depends on the need for change. For example, if there

is fall in sales, then organization have to undertake a detailed study of the problem to find out causes of **such fall** in sales. The causes for fall in sales may be

- High Price
- Low Quality of the products
- Poor advertising campaign
- Defective marketing strategy
- Poor distribution strategy

After undertaking thorough study of the problem management should identify the element or factors which require change. For example, if fall in sales is due to poor pricing strategies, then management should bring out necessary changes in its pricing strategies.

3. Planning for change

After identifying the elements that require a change, the management should plan for change. Planning for a change would involve answering various questions, they are as follows –

Who should introduce a change ?

When to introduce a change ?

How to introduce a change ?

Normally the department concern and the top management is responsible to introduce a change. Secondly, there should be proper timing to introduce a change. Some change has to be introduced immediately or some changes are introduced in future considering the proper timing. Similarly management has to list out different activities to introduce a change. Management should not only list out the activities but also decide how they have to be undertaken.

4. Assessing change forces

The management should assess the impact of change on internal and external forces. For example, management has to find out how would the change affect the people within an organization ? Would they resist the change ? If yes, management has to create necessary environment to manage such resistance to change. This environment can be created by proper communication, discussion and involvement of people in introducing the change.

The management should find out impact of change on the external factors such competitors, government, customers, dealers, suppliers etc. If organization is going to change its pricing

strategy, then it must find out how would a change in price affect competitors, customers ? Whether customers would react positively or negatively ?

5. Introducing a change

After communicating the change to the organization people and securing their active support, management has to introduce the change. For introducing the change sometimes, management may have to keep old ideas, views, methods, activities aside because old ides or methods have failed to bring desired results. News ideas and practices are accepted and leamt by the employees and put into action.

6. Review

There must proper review to find out whether the change has been successful to bring desired results. Management should try to understand whether the introduction of change bring out positive effects in the company's performance. If not, management has to handle the situation, it should rethink the whole situation and should bring out new changes in the activities of the management.

Reasons for organizational change

There are various causes or reasons for organizational change, they are as follows

1. Technological and Organizational change

There is always development in existing technology. Hence technology is the most important factor responsible for organizational change. Development in technology bring out changes in production, communication and various management activities. To succeed in the market, an organization to up-grade itself with the developing technology.

2. Change in management philosophy

Sometimes management philosophy may change from traditional management philosophy to professional management philosophy. Subsequently change has to introduced in strategies, decision making process, communication, production activities etc. Change in philosophy of the management can have major impact on the organizational activities.

3. Management personnel

There may be change in management personnel. For example, the Chief Executive Officer or Departmental Head may be changed. As each person has its own perspective, the change in personnel may bring out changes in organizational structures, policies, aim and objectives etc.

4. Business cycle

Every business passes through different phases such introduction phase, growth phase, maturity phase and decline phase etc. Due to changes in business cycle, necessary changes has to be introduced. For example in decline phase, organization may concentrate only on profitable products and may drop unprofitable products, it may change its marketing strategy by reducing its promotional expenditure etc.

5. Environmental forces

There may be changes in the environmental forces such competitor's strategies, change in customers taste and preference, change in government policies etc. Any change in the environmental forces require a change in the business organization so as to adjust with the changing environmental forces. For example due to change in customer's taste and preference, company has to change its product quality, pricing strategy, marketing appeal etc.

6. Problem in the Organization

There may be problems in the organization. For example, the technology may be old and obsolete, employees may not be trained and expert, problem in organizational strategies etc. In order to survive in the market and to face the competition organization have to change its existing defective setup, otherwise organization may have closed down.

7. Growth and Expansion

When organization plan for its growth and expansion, it has to bring out necessary changes in the organizational activities. With the existing organizational set up it is not possible to achieve growth and expansion of the organization.

8. Entry in new business or new market

Sometimes organization may enter in new business or new market. For example, a company presenting dealing in consumer durables, may plan to enter in customer finance, company operating at national level may enter in international market. For such new business and new market company has to introduce changes in its policies, structures, strategies etc.

16.3 CAUSES OR FACTORS OF RESISTANCE TO CHANGE

In any organization, there is resistance to change. There are various chases for such resistance to change

1. Traditional Management philosophy

Traditional managers do not like to introduce changes in the organization. They are satisfied with present performance of the organization. They support their existing set up and do not think about organization's future prospects

2. Problem of Responsibility

Managers are held responsible for the results of changes. Every change in the business activities has some sort of risk. There is no guarantee that change would bring out positive effects, so managers do not want to take risk and do not want to take responsibility. Sometimes they are afraid of the failure arising out of introduction of change in the organization.

3. Shortage of Resources

Every organization need to adjust to changes in the external environment. For instance, if there are technological changes, which need to be introduced in the organizations for better performance, organizations may find it difficult to introduce the technological changes due to resource constraints. In other words, an organization may no have adequate funds and manpower to introduce the technological changes.

4. Stability of Systems

Organizations tend to develop certain systems, which bring benefits to the organization. The organization may be so used to the system that it may find it difficult to replace with new and better system, even though the new system may bring better results than the existing one. For instance, most educational institutes are comfortable with the present system of education, where the students are passive receivers of knowledge from the teachers, and as such emphasis would not be placed on interactive learning system, wherein the students plan an active role in the learning exercises.

5. Organizational Agreements

Some times, an organization may enter into agreements with another associations or organization, in respect of certain matters. For instance, an organization may enter into an agreement with its trade union, not to introduce changes that would reduce the size of workforce. As a result of such agreement, it would be difficult to introduce changes such as automation, which would results in the reduction of workforce.

6. Redundancy of Jobs

Employees may feel that a change can make their jobs redundant and as such they may lose their jobs, which in turn would affect their economic security. For instance, when computers were first introduced in between 1970s and 1990s in several organizations in India, employees including managers resisted the changes for the fear of losing jobs and consequently their economic security

7. Problem of Incentives

At times, a change would reduce incentives of employees such as over-time pay and as such they resist change. For instance, automation in the industry reduces the need for over-time of employees, and therefore, they may resist introduction of labour saving devices in the organization.

8. Inconvenience

Individuals may resist change, which is likely to cause inconvenience, make the life more difficult, reduce freedom of action or result in increased workload.

9. Fear of unknown

Individuals may resist change for the fear of unknown. For instance, a firm may introduce new technology, and an individual employee may resist such changes may be because of the fear of non exposure to new technology. He/she may feel that the new technology may be difficult to handle and as such he/she may avoid accepting the new technology.

10. Problem of Ego

Some individuals enjoy present status in the organization. They satisfy their ego needs with the present position or status in the organization. A change in the organization may affect their position or expose their weakness. As such, individuals may resist change in the organization.

16.4 MANAGING RESISTANCE TO CHANGE

Management has to manage resistance to change. It is real challenge to overcome resistance to change. Strategists can take a number of positive actions to minimize manager's and employees resistance to change. For example, individuals who will be affected by a change should be involved in the decision to make the change and in decisions about how to implement the change. Strategist should anticipate changes and develop and offer training and development workshops so that managers and employees can adapt to those changes. They also need to communicate the need for change effectively.

The following are the various ways to overcome resistance to change.

1. Participation and Involvement

The management should secure involvement of employees who would be affected by the change. This would involve explanation and then discussion on the proposed change. The management should try to find out reaction, opinions and suggestions of the employees in respect of the proposed change. It is generally observed that as the participation increases, resistance to change tends to decrease. Since the needs of the employees are considered , they feel secure in a changing situation.

2. Leadership

Managers should have strong leadership skills to influence the employees to willingly accept the changes in the organization and work for the accomplishment of the organizational goals. Managers must provide performance -related reasons for the change. It is generally believed that change is more likely to be successful, if the leader has high expectations of its success.

3. Shared Rewards

Management should promise sharing of rewards arising out of the proposed change. When employees are assured of rewards they would be willing to accept the implement the changes in the organization. Employees need to be provided both with monetary and non-monetary incentives. The management may introduce group rewards as well as individual rewards so as to implement the change effectively.

4. Employee Security

Existing employees must be provided with security. A guarantee of employee security would result in overcoming the resistance to change on the part of employees. Management should guarantee workers protection, seniority rights, and opportunities for promotion and other such benefits.

5. Education and communication

Management can introduce change in the organization through education and communication. Effective communication between management and employees is required for the successful implementation of change.

Management should educate the employees regarding the benefits of the proposed change. Education and communication can reduce misunderstanding and improve trust and confidence between the management and employees.

6. Training and Counselling

Management can introduce training programme so as to upgrade knowledge, skills and attitudes of the employees. Employees should be trained to become familiar with change, and it's working. At times, management may provide psychological counseling to develop a positive attitude towards change.

7. Union Consultations

Management should consult the worker's union in introducing the change in the organization. Union representatives should be involved before the change is introduced in the organization. Such involvement is required not only to avoid resistance but also secure willing cooperation and commitment of the workers towards the changes in the organization.

8. Group Dynamics

A change not only affects individuals members but also the groups in the organization. Therefore, the management should understand the impact of group dynamics. The management may find out the important and influencing members of the group, and through them may introduce the change in the organization. The influencing members of the group,

the so-called group representative can exert strong pressure on the group members to accept the change.

Organizational change should be viewed today as a continuous process rather than as a project or event. The most successful organization today continuously adapt to changes in the competitive environment, which themselves continue to change at an accelerating rate.

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MODULE 17

STRATEGIC EVALUATION – MONITORING AND CONTROL OF STRATEGIC FORMULATION AND IMPLEMENTATION

17.1 NATURE OF STRATEGY EVALUATION
17.2 IMPORTANCE OF STRATEGIC EVALUATION AND CONTROL
17.3 STRATEGIC EVALUATION AND CONTROL PROCESS
17.4 HIERARCHY OF CONTROL ACTIVITIES

17.1 NATURE OF STRATEGY EVALUATION

The strategic management process results in decisions that can have significant long-lasting consequences. Erroneous strategic decisions can inflict severe penalties and can exceedingly difficult, if not impossible, to reverse. Most strategists agree, and therefore, that strategy evaluation is vital for an organisation's well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. Strategy evaluation includes three basic activities :

1. Examining the underlying bases of a firm's strategy.
2. Comparing expected results with actual results
3. Taking corrective actions to ensure that performance conforms to plans.

Adequate and timely feedback is the cornerstone of effective strategy evaluation. Strategy evaluation can be no better than the information on which it operates. Too much pressure from top managers may result in lower managers contriving numbers they think will be satisfactory.

Strategy evaluation can be a complex and sensitive undertaking. Too much emphasis on evaluating strategies may be expensive and counterproductive. Strategy evaluation is essential to ensure that stated objectives are being achieved.

In many organizations, strategy evaluation is simply an appraisal of how well an organization has performed. Have the firm's assets increased ? Has there been an increase in profitability ? Have sales increased ? Some firms argue that their strategy must have been correct if the answers to these types of questions are affirmative. Well, the strategy or strategies may have been correct, but this type of reasoning can be misleading, because strategy evaluation must

have both long –run and short- run focus. Strategies often do not affect short-term operating results until it is too late to make needed changes.

It is impossible to demonstrate conclusively that a particular strategy is optimal or even to guarantee that it will work. One can, however, evaluate it for critical flaws.

Strategy evaluation is important because organizations face dynamic environments in which key external and internal factors often change quickly and dramatically. Success today is no guarantee of success tomorrow ! An organization should never be lulled into complacency with success. Countless firms have thrived one year only to struggle for survival the following year.

Strategy evaluation is becoming increasing difficult with the passage of time, for many reasons. Domestic and world economies were more stable in years past, product life cycles were longer, product development cycles were longer, technological advancement was slower, change occurred less frequently, there were fewer competitors, foreign companies were weak, and there were more regulated industries. Other reasons why strategy evaluation is more difficult today include the following trends :

- A dramatic increase in the environment’s complexity
- The increasing difficulty of predicting the future with accuracy
- The increasing number of variables
- The rapid rate of obsolescence of even the best plans
- The increase in the number of both domestic and world events affecting organizations
- The decreasing time span for which planning can be done with any degree of certainty.

Richard Rumelt offered four criteria that could be used to evaluate a strategy :

a. Consistency
b. Consonance
c. Feasibility
d. Advantage

1. Consistency

A strategy should not present inconsistent goals and policies. Organizational conflict and interdepartmental bickering are often symptoms of managerial disorder, but these problems

may also be a sign of strategic inconsistency. There are three guidelines to help determine if organizational problems are due to inconsistencies in strategy :

- If managerial problems continue despite changes in personnel and if they tend to be issue-based rather than people-based, then strategies may be inconsistent.
- If success for one organizational department means, or is interpreted to mean, failure for another department, then strategies may be inconsistent.
- If policy problems and issues continue to be brought to the top for resolution, then strategies may be inconsistent.

2. Consonance

Consonance refers to the need for strategists to examine sets of trends as well as individual trends in evaluating strategies. A strategy must represent an adaptive response to the external environment and to the critical changes occurring within it. One difficulty in matching a firm’s key internal and external factors in the formulation of strategy is that most trends are the result of interactions among other trends. For example, the daycare explosion came about as a combined result of many trends that included a rise in the average level of education, increased inflation, and an increase in women in the workforce. Although single economic or demographic trends might appear steady for many years, there are waves of change going on at the interaction level.

3. Feasibility

A strategy must neither overtax available resources not create unsolvable sub problems. The final broad test of strategy is its feasibility ; that is , can the strategy is attempted within the physical, human, and financial resources of the enterprises ? The financial resources of a business are the easiest to quantify and are normally the first limitation against which strategy is evaluated. It is sometimes forgotten, however, that innovative approaches to financing are often possible. Devices such as captive subsidiaries, sale – leaseback arrangements, and tying plant mortgages to long term contracts have been used effectively to help win key positions in suddenly expanding industries. A less quantifiable, but actually more rigid, limitation on strategic choice is that imposed by individuals and organizational capabilities. In evaluating a strategy, it is important to examine whether an organization has demonstrated in the past that it possess the abilities, competencies, skills, and talents needed to carry out a given strategy.

4. Advantage

A strategy must provide for the creation and/or maintenance of a competitive advantage in a selected area of activity. Competitive advantage normally are the result of superiority in one of three areas: resources , skills or position. The idea that the positioning of one's resources can enhance their combined effectiveness is familiar to military theorists, chess players, and diplomats. Position can also play a crucial role in an organization's strategy. Once gained, a good position is defensible – meaning that it is so costly to capture that rivals are deterred from full-scale attacks. Positional advantage tends to be self-sustaining as long as the key internal and environmental factors that underlie it remain stable. This is why entrenched firms can be almost impossible to unseat, even if their raw skill level are only average. The principle characteristic of good position is that it permits the firm to obtain advantage from policies that would not similarly benefit rivals without the same position. Therefore, in evaluating strategy, organizations should examine the nature of positional advantages associated with a given strategy.

17.2 IMPORTANCE OF STRATEGIC EVALUATION AND CONTROL

The purpose of strategic evaluation and control is to ensure that the objectives are accomplished For, this purpose strategic are formulated implemented, and then evaluated and if necessary control measures are taken. The need and importance of strategic evaluation and control is briefly stated follows.

1. **Facilitates coordination :** Strategic evaluation and control facilitates coordination among the various departments of the organisation. Whenever, there are any deviations the activities of the concerned departments are coordinated so as to take collective and corrective measures. The collectives efforts on the part of concerned departments enable to correct the deviations and to accomplish the objective.

2. **Facilitates optimum use of resources :** Evaluation and control enables optimum use of resources – physical, financial and human resources. The resources are properly allocated and utilized which in turn generates higher productivity and efficiency.

3. **Guide to operations :** Evaluation and control guides the actions of the individuals and departments in the organisation. Activities are undertaken in the right direction and as such the organisation would not be able to accomplish its objectives.

4. **Check on validity of strategic choice** : Evaluation and control helps the management to keep a check on the validity of the strategic choice. The process of evaluation and control would provides feedback on the relevance of the strategic choice made during the formulation stage. This is due to the efficacy of the strategic evaluation to determine the effectiveness of the strategy.

5. **Facilitates performance appraisal :** Evaluation and control facilitates employees' appraisal. The actual performance is measured in the light of the strategic planning. The managers measure the performance and provide necessary feedback to the employees. This facilitates them to improve their performance.

6. **Motivates employees :** Employees are aware that their performance is reviewed periodically. Therefore, they put in their best possible efforts to improve their performance. The employees are motivated as those employees who show better performance are normally rewarded.

7. **Fixes responsibility :** Evaluation and control fixes responsibility on the managers. It is the duty of the managers to correct the deviations, when the actual performance is not taking place as per the targets. Managers cannot ignore their responsibility for evaluation and control.

8. **Creates inputs for future strategic planning. :** Strategic evaluation and control provides a good amount of information and experience to managers, which can be utilized in future strategic planning. Therefore, future strategic planning can be better than before.

17.3 STRATEGIC EVALUATION AND CONTROL PROCESS

Evaluation of strategy is that phase of the strategic management process in which managers try to assure that the strategic choice is properly implemented and is meeting the objectives of the enterprises. The strategy evaluation involves the following steps

1. Determine what to measure

Top managers as well as operational managers need to specify what implementation processes and results will be monitored and evaluated. The processes and results must be capable of being measured in a reasonably objective and consistent manner. The focus should be on the most significant elements in a process – the ones that account for the highest proportion of expense or the greatest number of problems.

2. Setting of Standards

The strategists need to establish performance targets, standards and tolerance limits for the objectives, strategy, and implementation plans. The standards can be established in terms of quantity, quality , cost and time. Standard need to be definite and they must be acceptable to employees. One cannot just fix high targets and low targets or standards to be avoided.

3. Measuring actual performance

The next step is to measure the actual performance. For this purpose, the manager may ask for performance reports from the employees. The actual performance can be measured both in quantitative terms as well as qualitative terms. The actual performance also need to be measured in terms of time and the cost factor.

4. Comparing actual performance with Standards

The actual performance need to be compared with the standards. There must be objective comparison of the actual performance against the predetermined targets or standards. Such comparison is required to find out deviations, if any.

5. Finding out Deviations

After comparison, the managers may notice the deviations. For instance if the actual sales are only 9000 units as compare to standards targets of 10,000 units of sales, then deviations are to the extent of 1000 units of sales.

If actual performance results are within the desired tolerance range, the measurement process stops here.

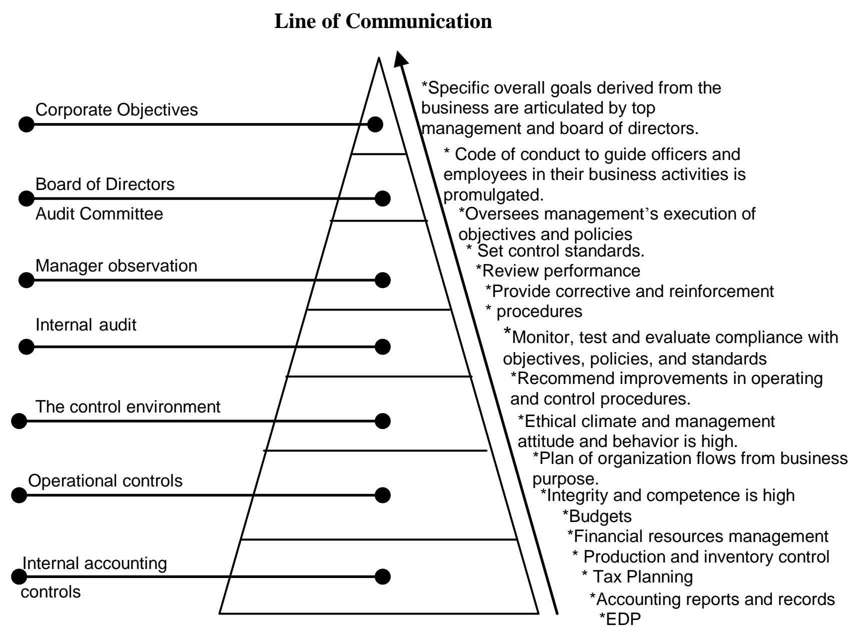
6. Analyzing deviations

The deviations may be reported to the higher authorities. The higher authorities analyze the cause of deviations. For this purpose, the higher authorities may hold necessary discussion with the functional staff. The causes of deviations should be identified.

7. Taking corrective Actions

If actual results fall outside the desired tolerance range, corrective action must be taken to correct the deviation. Some times there may be need for re-setting goals or objectives or re-framing plans, policies and standards. The corrective steps must be taken at the right time so as to accomplish the objectives.

17.4 HIERARCHY OF CONTROL ACTIVITIES



SOURCE: Adapted from A.E. Mackay, "Management Control in a Changing Environment."

MODULE 18

TECHNIQUES OF EVALUATION AND CONTROL – STRATEGIC CONTROL AND OPERATIONAL CONTROL, BUDGETARY CONTROL

18.1 STRATEGIC CONTROL AND OPERATIONAL CONTROL
18.2 TECHNIQUES OF EVALUATION AND CONTROL
18.3 BUDGETARY CONTROL

18.1 STRATEGIC CONTROL AND OPERATIONAL CONTROL

From time to time , companies need to undertake a critical review of their overall marketing goals to effectiveness. In this world, there is rapid obsolescence of objectives, policies , strategies and programmes. Each company should therefore periodically reassess its strategic approach to the market place (within and outside the organization)

Strategic control takes into account the changing assumptions that determine the strategy by continuously evaluating the strategy during the process of implementation and it also takes the required corrective action as and when needed. Thus strategic control is like an alarm long before the calamity can happen.

Operational control is the process of ensuring that specific tasks are carried out effectively and efficiently. The operational control aims at evaluating the performance of the organization. Most of the control system in organization are operational in nature. Some examples of operational control are : Budgetary control, Quality control, Inventory control, Production Control, Cost control etc.

Operational control are programmed or decided in advance. They are self-regulatory in nature. They are impersonal in nature. Techniques, tools, procedures are used as means of control. Considerations of environmental influences and adapting accordingly play little role in operational control system.

Strategic Control	Operational Control
1. Aim The main aim of strategic control is continuously questioning of the basic direction of strategy. Its aim is find out whether or not strategy is being implemented properly	The main aim of operational control is allocation and use of organizational resources

2. Environment It is concerned with internal as well as external environmental factors.	It considers only the internal environment.
3. Techniques used The main techniques involved are environmental scanning, information gathering, questioning and review.	The main techniques involved are budgets, Schedules, inventory control and MBO.
4. Time period The strategic control considers long-term impact of strategy on the organization.	The operational control is only for short period say maximum for 1 year.
5. Exercise control The strategic control is exercised only by top management	The operational control is exercised by top management through the middle level management and lower level management.
6. Database The database for strategic control is both historical and future oriented	The database for operational control is mostly historical in nature.
7. Main concern The main concern of strategic control is pushing the company in the correct future direction.	The operational control is concerned with the actions as it is based on plans, standards and procedures.
8. Flexibility The strategic control is flexible in nature, depending upon the situation.	Operational control lacks flexibility as those whose implement operational control have to strictly follow the structured pattern of control.

18.2 TECHNIQUES OF EVALUATION AND CONTROL

There are several techniques of evaluation and control. There are certain techniques, which are meant for strategic control, and some other techniques meant for operational control.

A. Evaluation techniques for Strategic Control

Strategic control takes into account the changing assumptions that determine the strategy by continuously evaluating the strategy during the process of implementation and it also takes the required corrective action as and when needed. Thus strategic control is like an alarm

long before the calamity can happen. It is undertaken to find out whether or not the strategy is implemented properly.

1. Premise Control

Strategies are based on certain premises, on certain assumptions with respect to the organization as well as the environment. Any change in either of them affect the strategy itself to a very large extent. For this reason one must keep watch and control over these premises /assumptions. Premise control is required to identify the main assumptions on which the strategy is based and keep a close watch on them, to see if there is any change in the assumptions and if these changes are making an impact on the strategy to be adopted. The corporate planning staff are kept responsible for the supervision and control of the premises, they are thus required to regularly check the validity of the premises constantly.

2. Implementation control

Only strategy implementation gives result to plans, projects and programmes being set up. The strategist has to lay down the resources to be allocated all every stage. Implementation control deals with the evaluation whether the plans, projects and programmes one leading the organization towards its predetermined goal. This is done through identification and close monitoring of each plan.

3. Strategic Surveillance

Strategic surveillance is done to oversee the organization as a whole. It sees whether any event either within or outside the company threatens the strategies course of action in any way.

4. Special alert control

In case of emergencies the company needs to take quick and correct decision in order to save the strategy in operation. Special alert control can be exercised through the formulation of contingency strategies by giving the job immediately to the crisis management teams who is capable and experienced in handling such emergencies e.g. unfortunate floods , share prices crash or real estate prices crash etc.

5. Strategic leap control

Today modern industry is highly competitive, volathe and unstable. Companies are required to make strategies leaps so that they can make significant changes. Strategic lead control can

assist companies by helping to define the new strategic requirements and to cope with emerging environmental realities. There are four different techniques used in ensuring strategic leap control in the organization.

a. Strategic issue management

It is aimed at identifying one or more strategic issues and assessing their impact on the organization. A strategic issue is a forthcoming development either inside or outside of the organization which is likely to have an impact on ability of the company to meet its objectives. By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plans to shift strategies whenever needed.

b. Systems modeling

Computer based models simulate the essential features of the company and its environment. Through systems modeling organizations may exercise pre-action control by assessing the impact of the environment on the company by adopting a specific strategy.

c. Strategic field analysis

It is a method of examining the nature and extent of synergies that exist or are lacking between the components of a company. Whenever synergies exist, the strategists can assess the ability of the company to take the advantage. Alternatively, the strategists evaluate the company's ability to generate synergic where they do not exist.

d. Scenarios

These are different perceptions about the likely environment a firm would face in the future.

6. Responsibility centres

Central centres can be established to monitor specific functions, projects or divisions. Responsibility centres are used to isolate a unit so that it can be evaluated separately from the rest of the corporation. Each responsibility centre therefore has its own budget and is evaluated on its use of budgeted resources. A responsibility centre is headed by the manager responsible for the centres performance. They are of various types

a. Standard cost centres

Primarily used in manufacturing facilities, standard costs are computed for each operation on the basis of historical data. In evaluation of the centre's performance, its total standard costs are multiplied by the units produced ; the result is expected cost of production, which then compared to the actual cost of production.

b. Revenue Centres

Production in terms of units or rupee sales, is measured without consideration of resource costs (e.g. salaries). The centre is thus judged in terms of effectiveness rather than efficiency. The effectiveness of a sales region is determined by the comparison of its actual sales to its projected years sales.

c. Expense centres

Resources are measured in rupees without consideration of service or product costs. Thus, budgets will have been prepared for ' engineered' expenses (those costs that can be calculated) and for ' discretionary' expenses (those costs that can only be estimated).

d. Profit centres

Performance is measured in terms of the difference between revenues (which measure production) and expenditures (which measure resources). A profit centre is typically established whenever an organizational unit has control over both resources and its products or services.

e. Investment centres

Investment centres is measured in terms of the differences between its resources and its services or products. Investment centres can also be measured in terms of its contribution to shareholder value.

B. Operational Control

Operational control is the process of ensuring that specific tasks are carried out effectively and efficiently. The operational control aims at evaluating the performance of the organization. Most of the control system in organization are operational in nature.

1. Internal Analysis

The internal analysis deals with the strengths and weakness of the firm. It involves following techniques.

a. Value chain analysis

It places emphasis on inter-related activities performed in a sequence for production and marketing of a product or service. It divided the total task of a firm into identifiable activities, which can then be evaluated for judging their effectiveness.

b. Quantitative analysis

It considers the financial and non-financial quantitative parameters such as physical units or volume for the purpose of judging effectiveness. The quantitative analysis techniques are widely used for evaluation , as they are easy to administer. Some of quantitative techniques are – ratio analysis, market ranking, advertising recall rate etc.

c. Qualitative analysis

They support the quantitative analysis by including those factors, which are not measurable in terms of numbers. Some of the qualitative techniques are – market surveys, experimentation and observation etc.

2. Comprehensive Analysis

This analysis adopts a total approach of judging the performance of a firm and it does not focus on a specific area or function.. It includes following techniques

a. Key factor rating

In this case, the key areas of the organization are identified and then the performance in such areas is evaluated.

b. Balanced scoreboard

In this techniques, the four key performance measures are identified – customer perspective, internal business perspective, innovation and learning perspective and the financial perspective. This techniques adopts a balanced approach to evaluate performance of the organization as a whole as a wide range of parameters are considered.

c. Network techniques

In this normally PERT (Programme Evaluation Review Technique) and CPM (Critical Path Method) are used for the purpose of planning and scheduling activities. This techniques focus on the critical path or the sequence of events, which requires the maximum possible time, so that the critical path can be properly monitored for the purpose of completion of the project or activities in time.

d. Management by Objectives (MBO)

It involves subordinate managers in planning and controlling activities. In this case the superior and subordinate managers jointly decide common goals, and jointly frame plans. The subordinate then implements the plan, and finally the performance of the plan is jointly reviewed by the superior and subordinate managers.

3. Memorandum of Understanding (MOU)

Memorandum of Understanding is an agreement between a public enterprise and the Government where clearly specify their commitments and responsibilities.

4. Budgetary control

It is used to indicate the appraisal of performance by a comparison of the actual with the budget and corrective action for the same. Here budgets are used as an instrument of control.

5. Zero-based Budgeting

Here annual budgets, revaluation of plans, projects and programmes decide whether any change in resource allocation is required to achieve the company's goals.

18.3 BUDGETARY CONTROL

Budgetary control is an important tool in the hands of management. Budgetary control is the establishment of budget relating to the responsibility of executives in a business and the continuous comparison of actual with budgeted results to secure by individual action. Budgetary control is not a type of costing but is extensively used in all types of industries

And business establishments as a system of control through responsible persons such as executives departmental heads and foreman. Budgetary control system is an integral part of the management control.

Merits of budgetary control:

- ✓ **Brings economy in working :** It brings efficiency and economy in the working of the business enterprises.
- ✓ **Buck-passing avoided** : It establishes divisional and departmental responsibility. It thus prevents buck- passing when the budget figures are not met.
- ✓ **Establishes co-ordination** : It co-ordinates the various divisions of a business namely, the production, marketing, financial and administrative divisions. It force executives to think as a group. This result in smoother operation of the entire plant.
- ✓ **Guards against undue optimism** :It guards against undue optimism leading to over expansion because the targets are fixed by the executives after careful thought.
- ✓ **Acts as a safety signal :** It acts as a safety signal for the management. It shows when to proceed cautiously and when manufacturing or merchandising expansion can be safety undertaken. It serves as an automatic check on the judgment of the executives as losses are revealed in time which is a caution to the management to stop wastage.
- ✓ **Decrease in production costs :** Seasonal variations on production can be reduced by developing new fill in products. This result in decreasing the cost of production by increasing volume of output.
- ✓ **Adoption of standard costing principles :** The use of budget figures as measures of operating performance and financial position the adoption of the standard costing principles.
- ✓ **Optimum mix :** It helps managements in obtaining the most profitable combination of different factors of production. This results in a more economical use of capital.
- ✓ **Favors with credit agencies :** Managements who have developed a well ordered budget plan and who operate accordingly, receive greater favors from Credit Agencies.
- ✓ **Optimum capitalization :** It is the only means of predetermining when and to what extent financing will be necessary avoiding the possibility of both over and under-capitalisation.

Limitations of budgetary control:

- ✓ Budgetary control starts with the formulation of budgets which are mere estimates. Therefore, the adequacy or otherwise of Budgetary Control system to a very large extent depends upon the adequacy or accuracy with which estimates are made.
- ✓ Budgetary are meant to deal with business conditions which are constantly changing. Therefore, budgets estimates lose much of their usefulness under changing conditions because of their rigidity. It is necessary that budgetary control system should be kept adequately flexible.
- ✓ The system of budgetary control is based on quantitative data and represent only an impersonal appraisal to the conduct of business activity unless it is supported by proper management personal administration.
- ✓ It has often been found that in practice the organizations of budgetary system become top heavy and therefore, costly specially from one point of view of small concern.
- ✓ Budgets and budgetary control have given rise to a very unhealthy tendency to be regarded as the solvent of all business problems. This has resulted in a very Luke worm humane effort to deal with such problems and ultimately result in failure of budgetary control system.
- ✓ It is a part of human that all controls are resented to Budgetary control which places restrictions on the authority of executive is also resented by the employees.

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MODULE 19

TECHNIQUES OF EVALUATION AND CONTROL – PERT / CPM, VARIANCE ANALYSIS, MEASURING ORGANIZATIONAL PERFORMANCE, TAKING CORRECTIVE ACTION

19.1 ROLE OF PERT AND CPM IN STRATEGIC MANAGEMENT
19.2 VARIANCE ANALYSIS
19.3 MEASURING ORGANIZATIONAL PERFORMANCE

19.1 ROLE OF PERT AND CPM IN STRATEGIC MANAGEMENT

The techniques of PERT and CPM were developed in USA during the late 1950s in order to plan and control activities. These are two widely used networking techniques.

PERT- **Programme Evaluation Review Technique** was developed by the Special Projects Office of the U.S. Navy, was first formally applied to the planning and control of the Polaris Weapon System in 1958. This technique worked well in expediting the successful completion of that programme.

PERT helps the management to answer the following questions, when they face with huge projects :

1. When will project be completed ?
2. When will each individual part of the project start and finish ?
3. Of the many parts in a project, which ones must be finished on time to avoid delaying the project ?
4. Can resources be shifted to critical parts of the project from the non-critical parts without affecting the overall completion time of the project ?
5. Among the hundreds of the parts of the project, where should the management concentrate its efforts at a given time ?

CPM- **Critical Path Method** was developed by Du Pont Company for the purpose of scheduling.

CPM is concerned with the reconciliation enumerates the relationship between applying more men or other resources to shorten the duration of a given project and the increased cost of these resources.
Both the PERT and CPM techniques are based on the same principles. The only difference is that-

- CPM is based on a single estimate of time required for the completion of activities. The CPM technique is used for projects like construction and maintenance projects.

- PERT is based on expected completion time, computed from three estimates of time- the optimistic time the pessimistic time and the most likely time. The PERT technique can be used for more complicated projects like engineering and tolling projects.

- PERT is used when time is important and there is not much concern for cost and CPM is used when resource allocation is to be optimized and overall cost has to be minimized.

PERT and CPM breaks down projects into events and activities and then carefully follows them. It is time event network analysis system in which the various events in a programme or projects are identified with a planned time established for each event. These events are placed in a network showing the relationship of each event to the other events.

PERT and CPM techniques can be used for planning, scheduling and executing large projects which involves a number of interrelated activities. PERT and CPM help to plan and control both time and cost of the projects. The following are the steps involved in PERT and CPM :

- At first the estimated time for each and every activity is determined. In case of PERT three estimates of time – optimistic, pessimistic and the likely time are determined. These estimates are often included in PERT because it is difficult in many engineering and development projects, to estimate time accurately in case of certain complex activities.

- The next step is to calculate the critical path, that is, the sequence of events which takes the longest time. Identifying the critical path at the start of the programme or projects helps to monitor the particular sequence of activities on this path so as to ensure that the total project gets completed as per the schedule.

Major Advantages:

- PERT and CPM help managers to plan, as it is difficult to make a time-event analysis without planning. The subordinate manager must also plan for the event for which he is responsible.

- These techniques focus on the critical path or the sequence of events, which requires the maximum possible time, so that the critical path can be properly monitored so that the project completes as per the schedule.

Characteristics of an effective evaluation and control system

- Strategy evaluation activities must be economical ; too much information can be just as bad as too little information. Control should involve only the minimum amount of information needed to give a reliable picture of events. Too many controls create confusion.

- Strategic evaluation activities should be meaningful, they should relate to a firm's objectives. Controls should monitor only meaningful activities and results, regarding of measurement difficulty.

- Controls should be timely so that corrective action can be taken before it is too late.

- Strategy evaluation should be designed to provide a true picture of what is happening . For example, in a severe economic downturn, productivity and profitability ratios may drop alarmingly, although employees and managers are actually working harder. Strategy evaluation should portray this type of situation fairly.

- The strategy evaluation process should not dominate decisions, it should foster mutual understanding, trust, and common sense. No department should fail to cooperate with another in evaluating strategies.

- Strategy evaluations should be simple, not to cumbersome and not too restrictive. Complex strategy evaluation systems often confuse people and accomplish little. The test of an effective evaluation system is its usefulness, not its complexity.

- Long term as well as short term controls should be used.

- Emphasis the reward of meeting or exceeding standards rather than punishment for failing to meet standards.

There is no one ideal strategy evaluation system. The unique characteristics of an organization, including its size, management style, purpose, problems and strengths , can determine a strategy evaluation and control system's final design.

19.2 VARIANCE ANALYSIS

Variance analysis refers to finding out deviations in respect of actual performance as compared to the standards or set targets. It is one of the important steps in the control process. The variances are the difference between the standard performance and the actual performance. Where variances recorded are unfavourable, the concerned head is held responsible for it, and he is asked to take corrective action. Purchase Manager is sounded for adverse Material Price Variance and similarly for Material Usage Variance, the Production Manager is asked for a control of use of materials.

Material Price Variances

Difference between standard price and the actual price of the material is the Material Price Variance. This variance arises due to various factors, such as :

- Change in market price
- Uneconomical size of purchase order
- Not availing of discount facilities
- Payment of more/less freight, cartage charges etc.

- Transit loss, if borne by the purchaser.
- Changes in duties and taxes etc.

Material Price Variances are the direct responsibility of the Purchase Department. Certain situations may arise when material price variance is made uncontrollable, as prices depend on the factors of demand and supply in the market. In such a cases, the Purchaser department or other personnel is not accountable for the variance.

Material Usage Variance

Difference between standard quantity of material and actual quantity used is the Material Usage Variance. This variance arises due to

- Inefficient use of materials
- Use of substitutes
- Higher/ less waster of material
- Changes in designs or specifications of product
- Defective equipments and tools
- Use of inferior materials
- Change in composition of material mixture

19.3 MEASURING ORGANIZATIONAL PERFORMANCE

1. Finding out Deviations : In order to find out deviations, managements must measure actual performance. The actual performance can be measured by collecting revenant data, observation, and accordingly, performance reports are prepared.

The performance reports must be supported by facts, figures, charts and tables, wherever relevant. The reports may be prepared –

1 Section / Unit Wise
2 Activity Wise
3 Product / Service Wise
4 Period Wise

The actual performance is then compared against the planned targets. By comparing, the manager can find out the shortfalls or deviations.

2. Identifying Causes of deviations

When the deviation between standard and actual performance is beyond the limit, management must take an analysis of the causes of such deviations. for instance, there may be shortfall in sales. This may be due to following reasons

- Poor product quality
- Higher price charged
- Ineffective advertising
- Problem in distribution of product
- Better marketing efforts of competitors

3. Communication of Deviations and taking corrective measures

Measurement of performance, finding out deviations, and analysis of causes of deviations must be informed to the person concerned who can take the corrective action. Such communication is provided in the form of report indicating standard, actual performance, deviations, and the cause of deviations. The purpose of sending such information to the person concerned is that the person who is responsible for the work can be in a better position to improve the performance by his own action. A summary of report may be also be provided to the superior of that person concerned so that the superior can provide necessary guidance and direction to improve the performance. The report may also be sent to executives who frame the plans, and to the staff people who would provide necessary advice for corrective action.

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MODULE 20

GLOBAL ISSUES IN STRATEGIC MANAGEMENT – THE GLOBAL CHALLENGES, STRATEGIES FOR COMPETING IN GLOBAL MARKETS, LOCAL MARKETS AND CULTURAL VARIATIONS.

20.1 INTRODUCTION
20.2 IMPACT OF GLOBALIZATION
20.3 IMPACT OF ELECTRONIC COMMERCE
20.4 GLOBAL CHALLENGES IN STRATEGY IMPLEMENTATION
20.5 STAGES OF INTERNATIONAL DEVELOPMENT
20.6 CENTRALIZATION VERSUS DECENTRALIZATION

20.1 INTRODUCTION

Globalization is the process of linking a nation's economy with the global economy. The policy initiated by the Government of India in the form of structural reforms through liberalization, privatization and globalization will enable the country to become an active participant in the global market. The business community particularly the large business houses concerned with exporting, how to understand the message of globalization in the right perspective.

Definitions of Globalization:

1. Rhodes (1996) "Globalization is the functional integration of national economies within the circuits of industrial and financial capital".
2. Walters (1995) "Globalization as a social process in which the constraints of geography on social and cultural arrangements precede and in which people become increasingly aware that they are".
3. McGrew and Lewis "Globalization as a set of processes which embrace most of the globe or which operate world wide; the concept therefore has a special cannotation……….. On the other hand it also implies an intensification in the levels of interaction, interconnectedness or interdependence between the state and societies which constitute the world community".

20.2 IMPACT OF GLOBALIZATION

Today, everything has changed. Globalization, the internationalization of markets and corporations, has changed the way modern corporations do business. To reach the economies of scale necessary to achieve the low costs, and thus the low prices, needed to be competitive, companies are now thinking of a global (worldwide) market instead of a national market. Nike and Reebok, for example, manufacture their athletic shoes in various countries throughout Asia for sale on every continent. Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structures in which product units are interwoven with country or regional units. International assignments are now considered key for anyone interested in reaching top management.

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position the company for long-term competitive advantage. For example, Maytag Corporation purchased Hoover not so much for its vacuum cleaner business, but for its European laundry, cooking, and refrigeration business., Maytag's management realized that a company without a manufacturing presence in the European Union (EU) would be at a competitive disadvantage in the changing major home appliance industry. See the Global Issue feature to learn how regional trade associations are changing how international business is conducted. Similar international considerations have led to the strategic alliance between Air India and Lufthansa and to the merger between Daimler-Benz and Chrysler Corporation.

20.3 IMPACT OF ELECTRONIC COMMERCE

Electronic commerce refers to the use of the Internet to conduct business transactions. A 1999 survey conducted by Booz-Allen & Hamilton and the Economist Intelligence Unit of more than 525 top executives from a wide range of industries revealed that the Internet is reshaping the global marketplace and that it will continue to do so for many years. More than.90% of the executives believed that the Internet would transform or have a major impact on their corporate strategy within two years. According to Matthew Barrett, Chairman and CEO of the Bank of Montreal, "We are only standing at the threshold of a New World. It is as if we had just invented printing or the steam engine. Not only is the Internet changing the way customers, suppliers, and companies interact, it is changing the way companies work internally. In just the few years since its introduction, it has profoundly affected the basis of

competition in many industries. Instead of the traditional focus on product features and costs, the Internet is shifting the basis for competition to a more strategic level in which the traditional value chain of an industry is drastically altered. A 1999 report by AMR Research indicated that industry leaders are in the process of moving 60 to 100% of their business to business (B2B) transactions to the Internet. The net B213 marketplace includes (a) Trading Exchange Platforms like VerticalNet and i2 Technologies's TradeMatrix, which support trading communities in multiple markets; (b) Industry Sponsored Exchanges, such as the one being built by major automakers; and (c) Net Market Makers, like e-Steel, NECX, and BuildPoint, which focus on a specific industry's value chain or business processes to mediate multiple transactions among businesses. The Garner Group predicts that the worldwide B2B market will grow from $145 billion in 1999 to $7.29 trillion in 2004, at which time it will represent 7% of the total global sales transactions.

The above mentioned survey of top executives identified the following seven trends, due at least in part, to the rise of the Internet:

1. The Internet is forcing companies to transform themselves. The concept of electronically networking customers, suppliers, and partners is now a reality.
2. New channels are changing market access and branding, causing the disintermediation (breaking down) of traditional distribution channels. By working directly with the customers, companies are able to avoid the usual distributors, thus forming closer relationships with the end users, improving service, and reducing costs.
3. The balance of power is shifting to the consumer. Now having unlimited access to information on the Internet, customers are much more demanding than their "nonwired" predecessors.
4. Competition is changing. New technology- driven firms plus older traditional competitors are exploiting the Internet to become more innovative and efficient.
5. The pace of business is increasing drastically. Planning horizons, information needs, and customer/supplier expectations are reflecting the immediacy of the Internet. Because of this turbulent environment, time is compressed into "dog years" in which one year feels like seven years.
6. The Internet is pushing corporations out of their traditional boundaries. The traditional separation between suppliers, manufacturers, and customers is becoming blurred with the development and expansion of extranets, in which cooperating firms have access to

each other's internal operating plans and processes. For example, Bharat Petroleum Corporation Limited (BPCL), the Indian PSU oil major has networked with satellite unlinking through KU band. The technology can be further used to network the retail outlets for better market response and monitoring. Various interesting alternative uses of this technology are feasible which are being studied and would be deployed suitably.

7. Knowledge is becoming a key asset and a source of competitive advantage. For example, physical assets accounted for 62.8% of the total market value of U.S. manufacturing firms in 1980 but only 37.9% in 1991. The remainder of the market value is composed of intangible assets, primarily intellectual capital.

20.4 GLOBAL CHALLENGES IN STRATEGY IMPLEMENTATION

An international company is one that engages in any combination of activities, from exporting/ importing to full-scale manufacturing, in foreign countries. The multinational corporation (MNC), in contrast, is a highly developed international company with a deep involvement throughout the world, plus a worldwide perspective in its management and decision making. For a Multinational corporation to be considered global, it must manage its worldwide operations as if they were totally interconnected. This approach works best when the industry has moved from being multi domestic (each country's industry is essentially separate from the same industry in other countries; an example is retailing) to global (each country is a part of one worldwide industry; an example is consumer electronics).

Strategic alliances, such as joint ventures and licensing agreements, between a multinational company (MNC) and a local partner in a host country are becoming increasingly popular as a means by which a corporation can gain entry into other countries, especially less developed countries. The key to the successful implementation of these strategies is the selection of the local partner. Each party needs to assess not only the strategic fit of each company's project strategy, but also the fit of each company's respective resources. A successful joint venture may require as much as two years of prior contacts between both parties.

The design of an organization's structure is strongly affected by the company's stage of development in international activities and the types of industries in which the company is involved. The issue of centralization versus decentralization becomes especially important for a multinational corporation operating in both multi domestic and global industries.

Regional Trade Associations replace National Trade Barriers

Previously known as the Common Market and the European Community, the **European Union (EU) is the** most significant trade association in the world. The goal of the EU is the complete economic integration of its 15 member countries-Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom-so that goods made in one part of Western Europe can move freely without ever stopping for a customs inspection. One currency, the euro, is being used throughout the region as members integrate their monetary systems. The steady elimination of barriers to free trade is providing the impetus for a series of mergers, acquisitions, and joint ventures among business corporations. The requirement of at least 60% local content to avoid tariffs has forced many American and Asian companies to abandon exporting in favor of a strong local presence in Europe. The EU has agreed to expand its membership to include the Czech Republic, Hungary, Estonia, Poland, Malta, Cyprus, and Slovenia by 2004; Latvia, Lithuania, and Slovakia by 2006; and Bulgaria and Romania by 2010. Turkey is being considered for admission in 2011.

Canada, the United States, and Mexico are affiliated economically under the **North American Free Trade Agreement (NAPTA).** The goal of NAFTA is improved trade among the three member countries rather than complete economic integration. Launched in 1994, the agreement requires all three members to remove all tariffs among themselves over 15 years, but they are allowed to have their own tariff arrangements with nonmember countries. Cars and trucks must have 62.5% North American content to qualify for duty-free status. Transportation restrictions and other regulations are being significantly reduced. Some Asian and European corporations are locating operations in one of the countries to obtain access to the entire North American region. Vicente Fox, President of Mexico, is proposing that NATTA become more like the European Union in that both people and goods would have un-limited access across borders from Mexico to Canada. In addition, there have been some discussions of extending NAFTA southward to include Chile, but thus far nothing formal has been proposed.

South American countries are also working to harmonize their trading relationships with each other and to form trade associations. The establishment of the **Mercosur (Mercosul** in Portuguese) free-trade area among Argentina, Brazil, Uruguay, and Paraguay means that a manufacturing presence within these countries is becoming essential to avoid tariffs for nonmember countries. Claiming to be NAFTAs southern counterpart, Mercosur has extended

free-trade agreements to Bolivia and Venezuela. With Chile and Argentina cooperating to build a tunnel through the Andes to connect both countries, it is likely that Chile may soon form some economic relationship with Mercosur.

Asia has yet no comparable regional trade association to match the potential economic power of either NAFTA or the EU. Japan, South Korea, China, and India generally operate as independent economic powers. Nevertheless, the **Association of South East Asian Nations (ASEAN)-composed** of Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietriam-is attempting to link its members into a borderless economic zone. Increasingly referred to as ASEAN+3, it is already including China, Japan, and South Korea in its annual summit meetings. The ASEAN nations are negotiating the linkage of the ASEAN Free Trade Area (AFTA) with the existing FTA of Australia and New Zealand. With the EU extending eastward and NAFTA extending southward to someday connect with Mercosur, pressure is already building on the independent Asian nations to soon form an expanded version of ASEAN.

20.5 STAGES OF INTERNATIONAL DEVELOPMENT

Corporations operating internationally tend to evolve through five common stages, both in their relationships with widely dispersed geographic Markets and in the manner in which they structure their operations and programs. These stages of international development are:

- Stage I (Domestic Company): The primarily domestic company exports some of its products through local dealers and distributors in the foreign countries. The impact on the organization's structure is minimal because an export department at corporate headquarters handles everything.
- Stage 2 (Domestic Company with Export Division): Success in Stage I leads the company to establish its own sales company with offices in other countries to eliminate the middlemen and to better control marketing. Because exports have now become more important, the company establishes an export division to oversee foreign sales offices.
- Stage 3 (Primarily Domestic Company with International Division): Success in earlier stages leads the company to establish manufacturing facilities in addition to sales and service offices in key countries. The company now adds an international division with responsibilities for most of the business functions conducted in other countries.

- Stage 4 (Multinational Corporation with Multidomestic Emphasis): Now a full-fledged multinational corporation, the company increases its investments in other countries. The company establishes a local operating division or company in the host country, such as HLL of Unilevers, to better serve the market. The product line is expanded, and local manufacturing capacity is established. Managerial functions (product development, finance, marketing, and so on) are organized locally. Over time, the parent company acquires other related businesses, broadening the base of the local operating division. As the subsidiary in the host country successfully develops a strong regional presence, it achieves greater autonomy and self-sufficiency. The operations in each country are, nevertheless, managed separately as if each is a domestic company.
- Stage 5 (Multinational Corporation with Global Emphasis): The most successful multinational corporations move into a fifth stage in which they have worldwide personnel, R&D, and financing strategies. Typically operating in a global industry, the MNC denationalizes its operations and plans product design, manufacturing, and marketing around worldwide considerations. Global considerations now dominate organizational design. The global MNC structures itself in a matrix form around some combination of geographic areas, product lines, and functions. All managers are now responsible for dealing with international as well as domestic issues.

Research provides some support for the stages of international development concept, but it does not necessarily support the preceding sequence of stages. For example, a company may initiate production and sales in multiple countries without having gone through the steps of exporting or having local sales subsidiaries. In addition, any one corporation can be at different stages simultaneously with different products in different markets at different levels. Firms may also leapfrog across stages to a global emphasis. Developments in information technology are changing the way business is being done internationally. See the Global Issue feature to see how FedEx is using its expertise in information technology to help customers sidestep the building of a costly logistical infrastructure to take advantage of global markets. Nevertheless the stages concept provides a useful way to illustrate some of the structural changes corporations undergo when they increase their involvement in international activities.

20.6 CENTRALIZATION VERSUS DECENTRALIZATION

A basic dilemma a multinational corporation faces is how to organize authority centrally so that it operates as a vast interlocking system that achieves synergy, and at the same time decentralize authority so that local managers can make the decisions necessary to meet the demands of the local market or host government.3'To deal with this problem, MNCs tend to structure themselves either along product groups or geographic areas. They may even combine both in a matrix structure-the design chosen by 3M Corporation and Asea Brown Boveri (ABB), among others.31 One side of 3M's matrix represents the company's product divisions; the other side includes the company's international country and regional subsidiaries.

The **PRODUCT-GROUP STRUCTURE** of American Cyanamid enables the company to introduce and manage a similar line of products around the world. This enables the corporation to centralize decision making along product lines and to reduce costs. The geographic-area structure of Nestl6, in contrast, allows the company to tailor products to regional differences and to achieve regional coordination. This decentralizes decision making to the local subsidiaries. As industries move from being multidomestic to more globally integrated, multinational corporations are increasingly switching from the geographic-area to the product-group structure. Texaco, Inc., for example, changed to a product-group structure by consolidating its international, U.S., and new business opportunities under each line of business at its White Plains, New York, headquarters. According to Chairman Peter Bijur, "By placing groups which will perform similar work in the same location, they will be able to share information, ideas, and resources more readily-and move critical information throughout the organization.

Simultaneous pressures for decentralization to be locally responsive and centralization to be maximally efficient are causing interesting structural adjustments in most large corporations. Companies are attempting to decentralize those operations that are culturally oriented and closest to the customers -manufacturing, marketing, and human resources. At the same time, the companies are consolidating less visible internal functions, such as research and development, finance, and information systems, where there can be significant economies of scale.

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MODULE 21

EXPORT STRATEGIES, LICENCE STRATEGIES, FRANCHISING STRATEGIES.

21.1 EXPORT - DEFINED
21.2 STRATEGIES TO GLOBAL ENTRY
21.3 EXPORT STRATEGIES
21.4 LICENSING STRATEGIES
21.5 FRANCHISING
21.6 JOINT VENTURES

21.1 EXPORT - DEFINED

Hess and Cateora defined, “Export Marketing is the performance of business activities that direct the flow of company’s goods and services to the consumers or users in more than one nation”.

B.S. Rathor defined, “Export Marketing includes the management of marketing activities for products which cross the national boundaries of a country”.

Issues concerning Export Business

Export marketing is a very complex and time-consuming process as it is subject to rules and regulations of both exporting as well as importing country. At the same time, there are other problems such as long distance, currency fluctuations and high degree of competition.

(a) *Long Distance :-* International trade is spread over the world and therefore, goods are to be transported over a considerable distance. During transportation goods are exposed to risk and uncertainties of transportation and perils of sea. Again delay is caused due to lengthy customs formalities.
   However, risk during transportation can be insured by taking suitable marine insurance policies.

(b) *High Risks and Uncertainties :-* International trade is subject to political as well as commercial risks. Political risks arise due to the political actions of the government(s). *For example,* war and internal aggression. Commercial risks arise due to insolvency of buyer or buyer's failure to accept goods.

However, these risks can be insured by taking suitable policies from the Export Credit and Guarantee Corporation of India (ECGC).

(c) Customs Formalities :- Customs formalities are different in different countries. Again, these formalities are very lengthy, time consuming and complicated. Sometimes, these formalities act as barriers to the free flow of trade between countries of the world.

In order to solve the difficulties created by customs formalities, an exporter can obtain assistance of the Clearing and Forwarding (C&F) agents.

(d) *Trade Barriers :-* Trade barriers are the artificial restrictions on the free movement of goods from one country to other. These barriers are of two types, viz., tariff and non-tariff. Tariff barriers are in the form of taxes and customs duties. Non-tariff barriers are in the form of quotas and licences.

However, efforts are being made by the World Trade Organisation (WTO) to eliminate and simplify trade barriers.

(e) *Threefaced Competition :-* An exporter faces competition from three angles :-

- Exporters from his own country.
- Exporters from other countries.
- Local suppliers in importing country.

However, an exporter can face intense competition by continuously upgrading the quality of product, innovations and inventions and reducing cost of production.

(f) *Payment Difficulties :-* Different countries have different currencies and conversion rates. These rates are subject to fluctuations. Thus, an exporter may suffer a loss if there is a change in the exchange rate after entering into a contract with a foreign buyer.

Losses on account of fluctuations in the exchange rates can be eliminated by entering into forward contracts.

(g) *Documentation Formalities :-* There are a number of documents to be filed with various authorities while exporting goods. *For example,* in India, an exporter is required to prepare and file as many as 25 documents of which 16 are commercial and 9 are regulatory.

However, the Aligned Documentation System (ADS) has simplified the export documentation procedure to a great extent.

(h) *Diverse Languages, Customs and Traditions :-* Languages, customs and traditions are very sensitive issues and must be taken into consideration while exporting goods to foreign countries.
An exporter should try to get first hand information about such issues before exporting goods.

21.2 STRATEGIES TO GLOBAL ENTRY

There are five main modes of entering a foreign market: 1) exporting, 2) licensing, 3) franchising, 4) entering into a joint venture with-a host country company, and 5) setting up a wholly owned subsidiary in the host country. Each entry mode has its advantages and disadvantages, and companies must weigh these carefully when deciding which mode to use.

Market Entry Strategy (Export Marketing)

There are various strategies of entering an international market. Each of these strategies has certain advantages and disadvantages. A strategy, appropriate for one market, may not be suitable for another market with a different business environment. Therefore, an exporter should select an appropriate strategy keeping in mind internal and external factors.

A brief account of the different strategies is given below

(a) *Exporting :-* Exporting is the most traditional way of internationalisation. it is attractive when excess capacity exists or when the cost of production in the home country is substantially lower than in the foreign markets. There are, broadly, two ways of exporting:

- *Direct Exporting :-* Whereby the producer himself undertakes the responsibility of exporting.
- *Indirect Exporting :-* Whereby the producer utilises the services of international marketing middlemen or co-operative organisations for exporting.

b) *Licensing :-* Under international licensing, a firm in one country (the licensor) permits a firm in another country (the licensee) to use its assets such as patents, trademarks,

copyrights, technology, technical know-how, marketing skills or some other specific skills. The monetary benefit to the licensor is the royalty or fees, which the licensee pays.

c) Franchising :- Franchising is a form of licensing in which a parent company (the franchiser) Permits another independent entity (the franchisee) the -right to do business in a prescribed manner. This right can take the form of selling the franchiser's products, using its name, production and marketing techniques, or general business approach.

(d) Contract Manufacturing :- Under contract manufacturing, a company contracts with firms in foreign countries to manufacture or assemble the products while retaining the responsibility of marketing the product. This is a common practice in the internationals business.

(e) Management Contracting :- Under management contracting, a company contracts with firms in foreign countries to supply management know-how. Such technical knowledge is generally supplied by the technically advanced countries to the technically backward countries.

(f) Fully Owned Manufacturing Facilities :- MNCs **and TNCs generally** establish fully owned manufacturing facilities in foreign countries using local raw material, labour and other resources. Due to globalisation and efforts made by the WTO, the number of such MNCs and TNCs is increasing.

(g) Counter Trade :- Counter trade is a form of international trade in which import of goods is paid for by export of goods, instead of money payments. Counter trade takes several **forms, such** as, bar-ter, buy-back, compensation deal and counter purchase.

(h) Turnkey Contracts : In case of turnkey contracts, a foreign company plans and constructs a project and hands it over to the government or a domestic private company for execution. Such practice is common in oil, steel, cement and fertilizer sectors.

(i) *Third Country* Location :- When trade relations between nations is restricted due to the political reasons or the like, firms located in these coun,tries may trade with each other

from third country base. For example, Taiwanese entrepreneurs found it easy to enter the People's Republic of China through bases in Hong Kong.

(j) Joint Ventures :- Joint venture is a very common strategy of entering the foreign market. In the widest sense, joint venture may take any of the following forms: -

- Sharing of ownership and management in an enterprise.
- Licensing agreements.
- Contract manufacturing.
- Management contracts.

21.3 EXPORT STRATEGIES

Many manufacturing companies begin their quest for global expansion as exporters and then switch to other modes. Exporting has two distinct advantages. First, it avoids the costs of establishing manufacturing facilities in the host country, which are often quite substantial. Second, by manufacturing the product in a centralised location and then exporting it to foreign markets, the company may be able to realise substantial economies of scale from its worldwide sales. For instance, many Indian companies in the floriculture business export their entire production to Europe to take advantage of the lower cost of production and the favourable climatic conditions in the country.

On the contrary, there are a number of negative aspects to exporting. First, exporting from the company's home base may not be appropriate if there are low-cost manufacturing locations abroad. A second drawback is that high transport costs can make exporting uneconomical, particularly for bulk products. One way of overcoming this problem is to manufacture bulk products locally. This strategy allows a company to realise economies from large-scale production and at the same time minimise transport costs. Thus, many multinational companies manufacture their products from a base in a region and serve several countries in that regional base. Third, tariff barriers can make exporting uneconomical. In fact the threat of tariff barriers by a country may sometimes force a company to set up manufacturing facilities in that country. Finally, the practice of delegating marketing activities to a local agent among companies that are just beginning to export also poses risks since there is no guarantee that the agent will act in the company's best interest. Moreover, many foreign agents also deal with the products of competitors leading to divided loyalties. Therefore, company would

perform better if it manages marketing on its own. One way to do it is to set up a wholly owned subsidiary in the host country to handle marketing locally. This can lead to huge cost advantages arising from manufacturing the product in a single location and controlling the marketing activities in the host country.

21.4 LICENSING STRATEGIES

Under international licensing, a firm in one country (the Licensor) permits a firm in another country (the Licensee) to use its assets such as patents, trademarks, copyrights, technology, technical know-how, marketing skills or some other specific skills. The monetary benefit to the licensor is the royalty or fees, which the licensee pays.

Licensing is an arrangement by which a foreign licensee buys the rights to produce a company's product in the licensee's country for a negotiated fee. The licensee then invests major share of the capital required to commence the operations. The advantage of this arrangement is that the company need not bear the development costs and risks associated with launching foreign operations. Hence, licensing is a very attractive choice for companies that can not invest capital to develop overseas operations or for companies unwilling to take the risk of committing substantial financial resources in unfamiliar or politically volathe foreign environment. In high technology areas it is quite common for companies to provide know-how through licensing arrangements. For instance, Ranbaxy Laboratories Ltd. is seeking partners for out-licensing its urology, respiratory and anti-infectives technologies.

Drawbacks of Licensing as a mode of entry into global markets

Licensing as a mode of entry into global arena has three serious drawbacks.

1) Companies do not reap the benefits of cost economies and location economies since licensees typically set up their own manufacturing facilities. And in cases where these economies are important, licensing may is not the best mode to go overseas.

2) In a global marketplace it is necessary to coordinate all the operations across all the countries in order to use the profits earned in one country to support competitive attack in another. Licensing severely restricts a company's ability to do this. A licensee will not let a multinational company to take its profits to support competitive moves of the company in other countries.

3) Risk associated with licensing and sharing technological know-how with foreign companies. Technological know how provides a formidable competitive advantage for many technology based companies and licensing its technology can quickly erode its competitive advantage.

21.5 FRANCHISING

Franchising is a strategy employed mainly by service companies. The advantages of franchising are similar to those of licensing. The franchiser does not bear the development costs and risks of commencing the operations in a foreign market on its own since the franchisee typically assumes those costs and risks. Thus, a service company can build up a global presence quickly and at a low cost, using a franchising strategy. The disadvantages, however, are less prominent than in the case of licensing. Since franchising is a strategy used by service companies, a franchiser need not coordinate manufacturing activities in order to realise experience curve effects and location advantages. McDonald Restaurants have entered India through the franchising and so is Kentucky Fried Chicken of US.

A major disadvantage of franchising is the lack of quality control. A basic notion of franchising arrangements is that the company's brand name conveys a message of quality to the consumers. The geographic distance from the franchisees and the large number of franchisees make it difficult for the franchiser to maintain quality and hence quality problems generally persevere. To overcome this handicap, companies set up a subsidiary, which is wholly owned or a joint venture with a foreign partner in each country and region in which they plan to operate. Closeness and the limited number of independent franchisees to be monitored reduce the problem of quality control. This type of arrangement is well accepted in franchising.

21.6 JOINT VENTURES

Joint Venture is also called as joint deal or consortium. In joint venture, two companies form two countries come together and conduct some new business activity for mutual benefit. Joint ventures is a popular method of entering into the global market. Besides sharing ownership and control, companies may share technology or other specialized inputs. Two or more

companies each can provide specialized technology to one project, in a situation where no one company, has access to all of the technologies required for a project.

Indian Joint Ventures Abroad:

A noteworthy feature of international market in recent times has been the emergence of the Third World Multinationals. India has taken a big leap in foreign trade through joint ventures and collaborations. The first Indian Joint Venture was established in 1959 when the Birlas established a textile mill in Ethopia. In 1962 Jaya Engineering Works set up a sewing machine and electric fan assembly unit in Sri Lanka. The success stories of these entrepreneurs encouraged other Indian business to set up their units abroad either through Joint Ventures or in collaborations with foreign companies. Today many Indian companies have successfully launched several projects abroad in service, trade and manufacturing sectors. Most successful among them are Kirloskars, Birlas, Singhanias, Tatas, L&T, Hirachand and Walchand, Apte Group, Propack Ltd. etc. Today there are 524 Joint Ventures abroad out of which 177 are in operating stage and 347 under implementation.

Joint ventures have a number of advantages, the first one being the benefit a company can derive from a local partner's knowledge of a host country's business ecosystem. .Second, a company might gain by sharing high costs and risks associated with opening of a new market with a local partner. Finally, political considerations in some countries make joint ventures the only practical way of entering those markets.

Despite these advantages, joint ventures are difficult to establish and run because of two reasons. First, as in the case of licensing, a company risks losing control over its technology to its venture partner. To minimize this risk, the dominant company can seek a majority ownership stake in the joint venture to exercise greater control over its technology provided the foreign partner is willing to accept a minority ownership. The second disadvantage is that a joint venture does not give a company the tight control over its subsidiaries needed to realise experience curve effects or location advantages or to engage in coordinated global attacks against its rivals.

Wholly Owned Subsidiary

A wholly owned subsidiary offers three advantages. First, when a company's competitive advantage is based on its technological superiority, a wholly owned subsidiary makes sense,

since it reduces the company's risk of losing control over this critical aspect. For this reason, many high-tech companies prefer wholly owned subsidiaries to joint ventures or licensing arrangements. Second, a wholly owned subsidiary gives a company the kind of tight control over operations required for global coordination to take profits from one country to support competitive strategy in another. Finally, a wholly owned subsidiary may be the best choice if a company has to realise location advantages and experience-curve effects. The entry of a number of South Korean companies such as LG, Samsung, Hyundai into India by setting up subsidiaries without a local partner are examples of wholly owned subsidiaries.

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MODULE 22

MULTI COUNTRY ORGANIZATION GLOBAL STRATEGIES, GUIDANCE FOR SUCCESS AS A GLOBAL COMPETITOR

22.1 INTRODUCTION
22.2 FEATURES OF MULTI COUNTRY ORGANIZATION
22.3 NEED FOR GLOBAL EXPANSION
22.4 SOME USEFUL TIPS TO GLOBAL COMPETITORS

22.1 INTRODUCTION

Different strategies that the multi country organizations adopt when they expand outside their domestic market place and start to compete on a global scale. One alternative available for companies is to follow the same strategy worldwide, which is referred to as a global strategy. Selling the same product the same way in every nation (standardisation) allows a company to realise substantial cost savings from greater economies of scale. These cost savings can then be passed on to consumers in the form of lower prices, enabling firms to gain market share from competitors. However, to succeed in a new marketplace, it may have to customise its product offering to cater to the tastes and preferences of local consumers. While this may help, the shorter production runs associated with such a strategy sometimes raise the costs of competing and lower a firm's profit margins.

The decision to standardise or customise is a classic dilemma that confronts global companies. In this unit, we consider the different strategies that companies use to compete in the global marketplace and discuss the advantages and disadvantages of each. In this unit we also examine the different approaches that companies employ to enter foreign markets-including exporting, licensing, setting up a joint venture, and setting up a wholly owned ubsidiary. The unit ends with a discussion of the benefits and costs of entering into strategic alliances with global competitors.

22.2 FEATURES OF MULTI COUNTRY ORGANIZATION

(a) *Large Scale Operations* Price is an important factor that determines the success of an exporter in the highly competitive international market. Large-scale operations, full

utilisation of installed capacity and transactions in bulk reduce overall cost of production and thereby price of the product.

(b) *Dominance of MNCs / TNCs from Developed Countries* :-The international trade is dominated by MNCs and TNCs originating from developed countries especially from USA, Japan and European countries. These companies have huge financial and physical resources and operate throughout the world.

Trade Barriers :- Trade barriers are the artificial restrictions on the free movement of goods from one country to other. These barriers are of two types, viz., tariff and non-tariff. Tariff barriers are in the form of taxes and customs duties. Non-tariff barriers are in the form of quotas and licences.

(d) *Trading Blocs :-* Trading blocs are the associations of countries situated in a particular region whereby they come on to a common understanding regarding rules and regulations to be followed while exporting and importing goods among them. *For example,* European Union (EU).

(e) *International Marketing Research* :-The needs and requirements of individuals differ from region to region. Therefore, an effective marketing research technique should be applied in order to understand the needs and requirements of consumers in different parts of the world.

(f) *Importance of Advanced Technology :-* Technology plays an important, role in building competitive strength. MNCs originating from countries like USA, Japan and Germany dominate the world trade due to continuous research, innovations and inventions.

(g) Foreign Exchange Regulations :- Different countries have different currencies and conversion rates. These rates are subject to fluctuation. Therefore, each country has a separate set of rules for collection of expor-t proceeds and payment for imports. For example, In India, all foreign currency transactions are regulated by the Foreign Exchange Regulation Act, 1973 (FERA).

(h) Three faced Competition :- International market is **highly competitive.** An exporter faces competition from three angles

- Exporters from his own country.
- Exporters from other countries.
- Local suppliers in importing country.

(i) International Organisations :- International trade is subject to the rules and regulations framed by the international orgarrisations such as the World Trade Organisation (WTO)

and the United Nations Conference on Trade and Development (UNCTAD). These organisations have been formed in order to promote world trade by removing unnecessary trade barriers and help underdeveloped countries to develop their export potentials.

International Business Strategy

Political Risk

a. Non-convertibility of currency preventing repatriation of profits.
b. Nationalization and inadequate compensation.
c. Domestic political violence.
d. Terrorism.

Country Risk

a. Economic conditions.
b. Financial markets, legal procedures, Govt's annual budget etc.
c. Breach of contract by the Govt.

Micro Analysis Variables

1. Position of the industry – contribution of the industry to the national income.
2. Relation between key domestic industries and the Govt.
3. Legal formalities relating to the product.
4. Environmental protection laws.
5. Controls on ownership.
6. Foreign Direct Investment Policy / Technology Transfer Policy
7. Health & Safety Standards.

Suggestions:

1. International agencies insure companies against political and country risk.
2. Multilateral Investment Guarantee Agency (MIGA), a subsidiary of World Bank and Private Insurers like Loyds of London provide insurance to companies world wide against such risks.

22.3 NEED FOR GLOBAL EXPANSION

Expanding globally allows companies to increase their profitability which is not possible to purely domestic enterprises. Companies that operate internationally can: i) earn a greater return from their unique competencies; ii) realise location advantages by dispersing different value creation activities to those locations where they can be performed most efficiently; and iii) come down the experience curve faster than the competitors, thereby offering more competitive products to the consumers.

UNIQUE COMPETENCIES

Unique competencies are defined as "unique strengths that allow a company to achieve superior efficiency, quality, innovation, or customer responsiveness." Such strengths are typified by product offerings that other companies find difficult to match or imitate. Thus, unique competencies are vital for a company's competitive advantage. They enable a company to lower costs and also differentiate its product offerings. Companies with valuable distinctive competencies can often realise huge returns by applying those competencies and the products they produce to foreign markets, where indigenous competitors lack similar competencies and products.

LOCATION ADVANTAGES

Location advantages are those that occur from performing a value creation activity in the most advantageous location for that activity- in whichever part of the world that might be (transportation costs and trade barriers permitting). Locating a value creation activity in the most favourable location for that activity can have one of two effects. It can: i) lower the costs of value creation, helping the company achieve a low-cost position or ii) enable a company to differentiate its product offering and charge a premium price. A company that realises location economies by dispersing each of its value creation activities to its optimal location should have a competitive advantage over a company that concentrates all its activities at a single location. It should be better able to differentiate its product offering and lower its cost structure than its single-location competitor. The basic assumption is that by dispersing its manufacturing and design activities, a firm will be able to establish a competitive advantage for itself in the global marketplace.

EXPERIENCE CURVE

Experience curve refers to the systematic decrease in production costs that occur over the life of a product. Learning effects and economies of scale lie behind the experience curve and moving down that curve allows a company to lower the costs. A company that moves down the experience curve more quickly will have a cost advantage over its competitors. Most of the sources of experience-based cost economies are generally found at the plant level. Dispersing the fixed costs of building productive capacity over a large output reduces the cost of producing a product. Hence the answer to riding down the experience curve as rapidly as possible is to increase the accumulated volume produced by a plant as quickly as possible. Global markets are larger than domestic markets and, therefore, companies that serve a global market from a single location are likely to build up accumulated volume faster than companies that focus primarily on serving their home market or on serving multiple markets from multiple production locations.

RESPONSIVENESS TO LOCAL NEEDS

Pressures for local responsiveness crop up due to differences in consumers' tastes and preferences, differences in infrastructure, differences in distribution channels, and the demands of the host government. Consumers' tastes and preferences differ significantly between countries due to historic or cultural reasons. Hence, the product and marketing messages have to be customised to appeal to the tastes and preferences of local consumers in such cases. This typically requires entrusting the production and marketing decisions to local subsidiaries. Pressures for local responsiveness also crop up due to differences in infrastructure and/or traditional practices among countries, creating a need to customise products suitably. This may again require the delegation of manufacturing and production functions to local subsidiaries.

Differences in distribution channels among countries may require adopting different strategies. This may necessitate the delegation of marketing functions to national subsidiaries. Finally, economic and political demands imposed by host governments may necessitate a degree of local responsiveness. Generally, threats of protectionism, economic nationalism, and local content rules all dictate that international businesses manufacture locally. Pressures for local responsiveness restrict a firm from realizing full benefits from experience-curve effects and location advantages. In addition, pressures for local responsiveness imply that it

may not be possible to transfer from one nation to another the skills and products associated with a company's distinctive competencies.

22.4 SOME USEFUL TIPS TO GLOBAL COMPETITORS

General Agreement on Tariff and Trade (GATT) - Background

The Great Depression of 1929 -made nations of the world to realise that the wide gap between the economic theory and practice in determination of internal trade policy was the major cause of worldwide economic disaster. Once again the need was felt of reviving the Classical Theory of Trade by adhering to free trade policy.

The Brettonwoods Conference of 1944, which recommended the establishment of International Monetary Fund (IMF) and the World Bank, had also recommended the establishment of an International Trade Organisation (ITO). Although, the IMF and the World Bank were established in 1946, the proposal for ITO did not materialise. Instead, the General Agreement on Tariff and Trade (GATT), a less ambitious institution, was formed in 1948.

The primary objective of GATT is to expand international trade by liberalising trade so as to bring about all-round economic prosperity. The preamble of the GATT mentions the following as its important objectives

(a) Raising the standard of living.

(b) Ensuring full employment and a large and steadily growing volume of real incorne and effective demand.

(c) Better utilisation of the resources of the world.

(d) Expansion of production of goods and services and international trade.

World Trade Organisation (WTO) - Objectives

TheUruguay Round negotiations concluded on 15th April 1994 at Marrakech, Morocco. According to the Marrakech declaration - the results of the Uruguay Round would strengthen the world economy and would lead to more trade, in vestment, employment and income growth throughout the world. In order to implement the final act of Uruguay Round agreement of GATT, the World Trade Organisation (WTO) was established on Ist January 1995 with the following objectives :-

(a) To raise the standards of living.

(b) To ensure full employment and a large and steadily growing volume of real income and effective demand.

(c) To expand production of goods and services and international trade.

(d) To allow for the optimal use of the world's resources in accordance **with the** objective of sustainable development.

(e) To protect and preserve the environment.

(f) To ensure that developing countries secure a share in the growth in international trade commensurate with the needs of their economic development.

(g) To effect substantial reduction in tariffs and other barriers to trade and to t the discriminatory treatment in international trade relations and;

(h) To develop an integrated, more viable and durable multilateral trading system.

WTO – Functions

The main functions of the wTO as set out in Article III are:

(a) To facilitate the implementation, administration and operation of the Multilateral Trade Agreement and the Plurilateral Trade Agreements.

(b) To secure implementation of the significant tariff cuts and also reduction of non-tariff measures agreed in the trade negotiations.

(c) To provide for Dispute Settlement Mechanism in order to adjudicate the trade disputes which could not be solved through bilateral talks between the member countries.

(d) To co-operate with other international institutions like the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies to achieve greater coherence in global economic policy making.

(e) To act as a watchdog of international trade.

(f) To act as a management consultant for the promotion of international trade.

The GATT Negotiation Rounds

So far, eight **rounds of negotiations are over.** Each-round took several years.

(a) The Geneva Round, 1947.

(b) The Annecy Round, 1949.

(c) The Torquay Round, 1950-51.

(d) The Geneva Round 1956.

(e) The Dillon Round 1960-61.

(f) The Kennedy Round, 1964-67.

(g) The Tokyo Round, 1973-79.

(h) The Uruguay Round, 1986-1993.

The first six rounds of Multilateral Trade Negotiations were concentrated almost exclusively on reducing tariffs.

The VIIth Round, the Tokyo Round, tackled non-tariff barriers also.

The VIIIth Round, the Uruguay Round, tackled trade in services, Trade Related Aspects of Intellectual Property Rights (TRIPS) and Trade Related Investment Measures (TRIMS).

WTO - The Uruguay Round

The VIIIth and the latest round of Multilateral Trade Negotiations is known as Uruguay Round because it was held in Pantadel Este in Uruguay in September 1986. Because of the complexities of the issues involved and conflict of interests among the participating countries, the Uruguay Round could not be concluded in December 1990 as it was originally scheduled. This round concluded in 1993.

The major highlights of the Uruguay Round are: -

(a) Expansion in the Sphere of Activities :-The traditional concerns of the GATT were limited to international trade in goods. The Uruguay Round, however, went much beyond goods to services, technology, investment and information.

(b) Liberalisation of Trade in Agriculture and Texthe Goods :-These were the highly protected sectors in developed as well as developing countries. Farmers were patronised in various ways such as import of subsidised inputs and export subsidies. Similarly, trade in texthes was restricted by the Multi-fibre Agreement (MFA). The Uruguay Round successfully brought about liberalisation of both these sectors by dismantling the MFA and reducting import barriers on agricultural goods.

(c) Patents :- One of major areas of objection in India is about TRIPS agreement. The TRIPS agreement includes seven areas of intellectual property rights namely copyright, trademark, trade secrets, industrial designs, geographical appellations, integrated circuits and patents. It is important to note that of these seven areas, it is only in the area of patents that India's present policy laws and regulations are not in conformity with TRIPS agreement.

(d) Farmer’s Interest :- Contrary to the wrong propaganda in India, leading to farmers' agitation, the Uruguay Round agreement regarding patenting of seeds does not prevent farmers from retaining seeds for their own use or exchange of seeds. However, it should be noted that liberalisation of agriculture by developed nations would benefit developing

countries more as there is no reciprocity on the part of developing countries to liberalise agricultural sector in their countries.

(e) Subsidies :- Export subsidies to farmers to be cut by 13.3% in developing countries and by 20% in developed countries over a period of 6 years. Again direct subsidies to be cut by 36% over the same period. All these are applicable provided the value of subsidies is more than 10% of the value of output. Agriculture subsidies in India are much below 10% of the total value of *output* and therefore, India remains unaffected by these provisions.

(f) Tariff Cut :- While developing countries have to cut tariffs by 24% over the period of next 10 years, the developed countries are committed to effect tariff cut by 36% over a period of 6 years. In industrial countries, tariffs would be totally eliminated in several sectors like steel, pharmaceutical, wood and wood products, etc.

(g) Trade in Services :- Developing countries were very apprehensive about the proposal to liberalise trade in services. However, the difference of opinion between the U.S. and European Community (EC) on this issue left the service sector largely unaffected.

(h) Establishment of the WTO :- One of the ma or achievements of the Uruguay round is the making of rules and regulations more transparent which has made unilateral actions more difficult. The results of Uruguay round a, o to be implemented by the newly set up WTO, which has replaced the GATT.

WTO - Most Favoured Nations (MFN) Clause

Non-discrimination is one of the most important principles, of the WTO. The principle of non- discrimination requires that no member country shall discriminate between the members of WTO in the conduct of international trade. This principle is known as the Most Favoured Nations (MFN) Clause.

According to this Clause, a member nation of the WTO must give the same most favourable treatment with respect to tariffs and related matters to other members, which it gives to any other member country. This non-discriminatory treatment ensures that any tariff reduction or other trade concession is automatically extended to all contracting parties of the WTO. *For example,* if theUSA gives a preferential treatment to Pakistan in respect of tariff reduction then the USA must give the same preferential treatment of tariff reduction to all the members of WTO.

However, there are some exceptions to the MFN principle :-

(a) *Grandfather Clause :-* Article 1 (2) permits contracting parties to continue with the preferences received or granted under different arrangements, which were in existence prior to the formation of the GATI'. But it prohibits any change in the margin of preferences granted or received. *For example,* the United States preferences to Philippines fall under this category, as also Common Wealth Preferences (CWP).

(b) *Customs Union and Free Trade Areas :-* Article XXIV provides for the formation of Customs Union and Free Trade Areas. As per this clause, nations of the world are allowed for form Customs Union and Free Trade Zones. *For example*, member countries of the European Union are allowed to freely import and export not only goods and services but also factors of production such as capital and labour between them.

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MODULE 23

APPLYING THE STRATEGIC MANAGEMENT PROCESS THROUGH CASE STUDY METHOD – THE CASE PREPARATION PROCESS, ANALYZING CASES, REPORTING RECOMMENDATIONS.

23.1 WHAT IS A CASE ?
23.2 OBJECTIVES OF CASE METHOD
23.3 ANALYTICAL TOOLS
23.4 CASE STUDY OF KEMTRIT INDUSTRIES

23.1 WHAT IS A CASE ?

A case is written description of an organisation (or any of its parts) covering all or some of its aspects for a certain period of time. It sets forth the events and organisational circumstances surrounding a particular managerial situation. Most cases contain information about the organisation's history, its internal operations and its external environment. Though there is no standard order of presentation, many cases include information about the industry, the competitive conditions, the products and markets, the physical facilities, the work climate, the skills and personality of,managers, the organisational structure, together with the financial and quantitative data relating to production, marketing, personnel, and so forth. Cases may relate to profit seeking government or public service organisations.

Despite its known deficiencies, the case method is widely used by universities and professional institutes throughout the world, especially for imparting knowledge and developing skills in the area of corporate strategy or strategic management.

A good case places students in a realistic situation where they can practise making decisions. Though a case may contain plenty of information, in some cases running into several pages, there is no such thing as a truly complete case. Students often say (or complain) that they have too little information in the case. While this may be true, it should be, appreciated that, many a time, managers in the real world too have information which can hardly be described as sufficient. In fact, a manager has far less opportunity for study and interaction with others as a student has. The managers cannot afford to delay making decisions until they are satisfied with the quality and quantity of available information. Such a time perhaps may never arrive.

Like a real world manager, a student of corporate strategy must make a decision, making best use of whatever information is available and making assumptions about whatever is unknown or is not available.

23.2 OBJECTIVES OF CASE METHOD

The objectives of the case method are to:

- **help you to acquire the skills of putting text book** knowledge **about management into practice.** Managers succeed not so much because of what they know but because of what they do.
- get you out of the habit of being a receiver of facts, concepts and techniques and get into the habit of diagnosing problems, analysing and evaluating alternatives, and formulating workable plans of action.
- **train you** to work out answers and solutions for yourselves, as opposed to relying upon the authoritative **crutch of the teacher/counsellor or a text** book.
- provide you exposure to a range of organisations and managerial situations (which might take a life time to experience personally), thus offering you a basis for comparison in your working as a career manager.

Reading books, articles and listening to lectures alone cannot develop managerial skills. For most managerial problems, readymade answers do not exist, or perhaps cannot exist. Each situation is different, requiring its own diagnosis and evaluation before action can be initiated. Case studies allow *learning by doing* to occur. They stimulate the reality of a managerial situation and a manager's job. In a sense, cases are laboratory materials and offer a reasonable substitute for actual experience by bringing a variety of management problems and opportunities into the class room.

Students often ask their teacher/counsellor, "What is the right answer/solution?" If the discussion in the class concludes without clear answers or a clear consensus on what actually happened or what should/ought to be done, some students feel frustrated. While in some cases it would be possible for you and the counsellor to develop a consensus, in other cases it may perhaps not be possible. As in real world, hard answers to cases do not exist. Therefore, issues are discussed and various alternatives and approaches are evaluated. Usually, a good argument can be made for more than one course of action. The important thing for students to

understand in case analysis is that it is the exercise of *identifying, diagnosing,* and *recommending* that counts rather than discovering the "right answer". The essence of case analysis is to become skilled in the process of designing workable action plans through evaluation of the prevailing circumstances.

If case method rests on the principle of learning by doing, it all depends on you as to how much gain you can derive by making your own analysis and reaching your own decisions, and then participating in the class room in a collective analysis and discussion of the issues. Since a case assignment emphasises student participation, it is obvious that the effectiveness of the class discussion depends upon each student having *studied the case before hand. A case assignment therefore requires conscientious preparation before* class. You cannot expect to get much out of hearing the class discuss a case with which you are unfamiliar or not fully prepared for.

The pedagogical objective of case method is very much different from the usual teaching **ii, the class room** Instead of the professor/instructor/counsellor, it is the students who do most of the talking. The counsellor/instructor's role is to solicit student participation and guide the discussion. The counsellor might begin by restating the questions given at the end of each case or he might even propose or frame some new questions, like: What is the organisation's strategy? What are the strategic issues and problems confronting the company? What is your assessment of the company's. situation? Is the industry an attractive one to bc. in? Is management doing a good job? Are the organisation's objectives and strategies compatible with its skills and resources?

The students **are expected to engage in discussion with each other, with the counsellor listening** to them patiently and providing direction/guidance as and when required so that the whole, discussion remains on the track. It is the students who carry the main burden of analysing the situation and then presenting and defending their analysis in the counselling sessions.

You should therefore not expect. your counsellor to say: "Here is how to do it", "Here is the right answer", etc. Although you should do your own independent work and thinking, you should not hesitate to discuss the case with other students.

BENEFITS

The case method offers students an opportunity to communicate and convince their fellow students and their counsellors of the correctness of their viewpoints. This is analogous to the situation where a manager must persuade others to accomplish organisational purposes. The case analysis and discussion help the students in developing analytical, communication and interpersonal skills which are vital for success in management. The method also provides some opportunity to the students to relate their viewpoints with those of the others. While defending his own viewpoint, a student has also to develop an appreciation for the viewpoints held by others. Table-1.1 lists the management skills which are improved by case analysis.

Action Skills Reinforced by Cases

1. *Think clearly in complex ambiguous situations.* Successful experiences with cases give students the practice and confidence necessary for clear intensive thinking in ambiguous situ4fions where no one right answer exists. Since problems in management and administration are full of these situations. The skills are valuable to acquire.

2. *Devise reasonable, consistent, creative action plans.* **Most cases require the student** to detail a course of future action.

3. *Apply quantitative tools:* The management of modem organization demands the use of such quantitative tools and theory as net present value, ratio analysis, and decision tree analysis. Active employment of these techniques in actual situations requires more knowledge than one typically gains by introductory theory and problems. Cases give the student practice in using quantitative tools in these realistic situations.

4. *Recognize the significance of information.* Theories and observations of modern management have shown that managers sift through large masses of information, both formal reports and informal channels (the "grapevine"). The manager's task of defining problems and their solutions demands. the ability to classify information.

5. *Determine vital missing information.* Successful decision makers must know where and be able to determine when to seek more information. Cases give the student practice in

solving problems with the information at hand in the case. In researching standard industry sources, and in identifying the missing information that is vital to the formulation of an action plan.

6. *Communicate orally in groups.* Both the in-class discussions of cases and small group discussions preceding class are an integral part of learning by cases. The ability to listen carefully to others, to articulate one's views, and to rapidly incorporate the views of others into one's position are all important skills for managers.

7. *Write clear, forceful, convincing reports.* **Managers and** their staffs have to express themselves in writing. The best way to improve one's writing skills is to write; hence, the usefulness of the case report.

8. *Guide students' careers.* Many students would benefit from a greater awareness of the day-to-day tasks and responsibilities of managers. The wide variety of actual situations described in cases gives students valuable knowledge about the functions of many job positions.

9. *Apply personal values to organizational decisions.* Modem industrial society forces managers to make decigions which trade among business profits, government expenses, and the welfare of individuals and the public. This area of ethics and social responsibility is important and problematic in a professional education. The 'process of stating and defending positions in case discussions sharpens a student's awareness and maturity in the subjective area of value and moral judgements.

23.3 ANALYTICAL TOOLS

There are a number of tools which have been found to be useful, both academically and professionally. These tools have been discussed in the various units of MS-11 (Corporate Policies and Practices). Among the more **important ones** are:

- SWOT Analysis

- Ratio Analysis
- Portfolio Analysis
- Checklist (Strategic audit)

SWOT Analysis

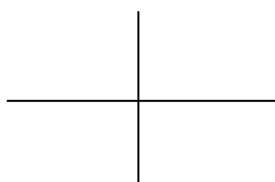
The first thing that an analyst should do in SWOT (strengths, weaknesses, opportunities and threats) analysis is to define the business of the organisation and identify the key factors for success, The student must evaluate the strengths and weaknesses in terms of the skills, resources and competencies of the persons within the company in the light of the key factors. The analyst then should see whether the internal capabilities match with the demands of the key factors so that the company will be able to exploit the opportunities and fight off the threats.

The SWOT analysis stands at the core of the strategic management.

Threats And weaknesses are relative rather than absolute. Opportunities seldom simply arise. Many a time they exist in the environment and only need to be identified. For'example, it is expected that a market might emerge in **the foreseeable future for the** low-cost home computers at least in the metropolises of India. A computer company which has the ingenuity and energy to make and market such an item will have the opportunity to become the dominant home computer maker for several years. Opportunity thus requires potential new initiatives. While most opportunities have to be sought, in some cases they have even to be created. R&D allows opportunities to be created. The main focus of the corporate strategist should be to identify additional opportunities, selecting the ones that are most promising and capitalising on them.

Like opportunities, threats also exist or emerge as a result of new developments, expected or unexpected. Threats become less severe if they are recognised and guarded against.

SWOT analysis is a useful aid for generating alternatives. When it is carried out for the whole organisation it can become quite complex. To simplify the process, you may find it useful to list strengths and weaknesses, opportunities and threats in the following format (and separately for the functional areas of production, marketing, finance and personnel):



Strengths *Weaknesses*

Opportunities *Threats*

As an analyst, you might find it difficult to neatly classify much of what is of **strategic importance into the above** four categories. This is also true of the real world.

Ratio Analysis

Financial ratios are widely **used for analysing and** interpreting situations of strategic importance. The financial ratio analysis somehow gives the impression that only an economic view of business is being taken. Undoubtedly, human and social considerations are equally important. While ratio analysis is a valuable tool in revealing potential problems, it should not be used alone. Ratio analysis is just one of the many tools the strategic analyst has available in his kitty for evaluating corporate performance.

One must relate the ratios to relevant bases, standards, norms, or benchmarks. The four bases which can be used are:

- Rules of thumb
- Historical data of the company
- Historical data of similar company(ies)
- Industry norms

23.4 CASE STUDY OF KEMTRIT INDUSTRIES

KEMTRIT INDUSTRIES was established by four friends Mr. Mukesh, Mr. Rakesh, Mr. Raj & Mr. Uhdav. It began its operations in Mumbai in 1985. By end 1987, the two questions facing the management of the Kemtrit Industries (KI) were : will we be able to work together as partners? If yes, then what should be our growth strategy?

Initially two business activities were identified : domestic marketing of chemicals and manufacturing of industrial gloves for exports. It began its operations in **Mumbai 1986.** The initial trial orders for exports, were subcontracted to some local manufacturers. Within three

months, however, the company bought manufacturing facilities for industrial leather gloves for Rs. 5 lakh. It also became distributor for Calcium Carbonate, a by-product of a leading paper manufacturing plant of east India. By 1986 Kemtrit Industries achieved a sales turnover of Rs. 200 lakh. But, the sales declined to Rs. 90 lakh in the first nine months of *1987.*

One of the promoters Kemtrit Industries Mr. Mukesh the managing director of Metrit Corporation (M.C), a medium sized chemical distribution firm with an annual turnover of around Rs.15 crore. Metrit Corporation had acquired the exclusive rights of exporting the gloves of K.I.

The sudden decline of sales in 1987 affected the morals of other promoters, namely the other three, who were not associated with Metrit Corporation. Kemtrit Industries vulnerability and survival became the major issues. The business relationship of Metrit Corporation and Kemtrit Industries came under heavy suspicion. At this point of time, an outside management consultant was hired to suggest ways and means to restore promoters' confidence and suggest a long term plan for the prosperity of Kemtrit Industries.

Kemtrit Industries: The State of Affairs in 1987

In 1987, the activities of Kemtrit Industries included manufacturing of industrial leather gloves and marketing of calcium carbonate. The leather gloves were exported by Metrit Corporation (MC) and Kemtrit Industries was not permitted to market gloves on their own, neither in India nor aboard. Both the products lines were the brain child of Mukesh, the managing director of Metrit Corporation. In his drive to promote professional a company, he associated with his three friends – Rakesh, Raj and Udhav. Rakesh (an engineer cum MBA), Raj (a Chartered Accountant) and Udhav (an ex-captain of the Indian Army). He was hopeful that the background of his friends would not only provide an image of a professional company, but would also help in creating a professional work culture from day one.

All the four partners had excellent rapport and very old social ties. Formation of Kemtrit Industries was seen as a reinforcement of their past relationship. But within two years, the poor performance of Kemtrit Industries surfaced the differences in their view points for managing Kemtrit Industries. At the root, was the relationship between Kemtrit Industries and Metrit Corporation. The three **partners** Rakesh, Raj & Udhav felt that Kemtrit Industries has

always been considered as, a group of outsiders by the executives of Metrit Corporation. It was their feeling that only Mukesh was genuinely interested in the welfare of Kemtrit Industries. In their own assessment, Mukesh, by virtue of the business relationships, was under the influence of people who were not interested in the growth and prosperity of Kemtrit Industries. The fear was that one day this may affect Kemtrit Industries adversely. It was their feeling that in spite of no business relationship, Kemtrit Industries was seen as a charitable organisation of MC and was being forced to perform many activities of no direct interest to Kemtrit Industries. When a family member of Mukesh (who was Mukesh's business associate in Metrit Corporation) wanted to see the monthly reports of Kemtrit Industries, the partners felt encroachment in Kemtrit Industries affairs by the outsiders.

Unfavourable terms of sharing the profits between Metrit Corporation and Kemtrit Industries, misperception on the part of the Metrit Corporation's executives that partners of Kemtrit Industries do not believe in being part of the Metrit Corporation family, also created an environment of suspicion and mistrust. In short, the business relationship and distortions in perceptions had become major demotivators, preventing the three partners to contribute their best.

In spite of the differences with Metrit Corporation, all the three partners were unanimous in their opinion towards Mukesh. He was indispensable. Kemtrit Industries without an active involvement of Mukesh was not acceptable to them either.

Mukesh was **of the view that** there were both "pluses" and "negatives" in Kemtrit Industries relationship with Metrit Corporation some negative points were:

- lack of ego gratification of other partners
- at times, it may cramp the working style of others, as it has to conform to the work culture of Metrit Corporation

Kemtrit Industries growth plans may have to be sacrificed in the larger interest of Metrit Corporation. For examples Kemtrit Industries would never be allowed to manufacture sodium dichromate; a chemical needed in leather tanning as Metrit Corporation was thinking of setting, up 4 similar manufacturing facility, The partners of Kemtrit Industries had to accept

this and Metrit Corporation had already decided to be in the business of chrome chemicals, even though, it was not in the leather business.

On the positive side, according to Mukesh, were the benefits of a larger organisationai base, easy and timely availability of finances, risk minimisation as Kemtrit Industries could always lean on Metrit Corporation, and reaping of benefits through Metrit Corporation 's goodwill in the market place.

Mukesh felt that instead of questioning, the partners of Kemtrit Industries could play a major role in the growth of Metrit Corporation. A healthy and larger Metrit Corporation was in their own interest. Working for Metrit Corporation 's growth could provide them with challenges and excitement of creating a professional organisation.

Besides the tricky issue of the 'partnership', the performance of Kemtrit Industries was disturbing. The company was facing working capital shortages. The shortage prevented the achievement of the sales targets of Rs.300 lakh for the year 1987. The company had borrowed nearly Rs. 25 lakh, out of the total **requirement of Rs.** 30 lakh, at a very high interest rate of 20% per annum. On the other hand, the company had failed to utilise its full limits granted by the bank. The three partners were of the view that the present tie up with Metrit Corporation has deprived them or availing the limits against hypothecation of the finished goods. Kemtrit Industries could not apply for this facility as Metrit Corporation had obtained the same for the gloves. This, however, allowed Metrit Corporation to borrow money against the finished leather gloves. This money, however, was never paid in time, Metrit Corporation. according to the partners was at the root of the working funds crises.

The growth alternatives and the aspirations

In spite of low morals and motivation, the partners were keen for the growth of Kemtrit Industries. Considerable thought and energy were being spent in clarifying their growth objectives and plans. Their keenness was obvious from the fact that except for Mukesh, the other three were completely dependent on Kemtrit Industries. A good performance of Kemtrit Industries was a must for their welfare.

Each partner had some views on the 'growth'. To Mukesh, growth signified different things for different activities. To him, 'corporate growth' meant growth in corporation's capital base, sales turnover, scales of operations and in allied activities. His preference was for one large company with divisionalised set-up. He knew that this growth pattern was not the best from the viewpoint of the 'tax savings', but it was almost a necessity if Kemtrit Industries wanted to become A well-known professional organisation. At personal level, Raj was keen to widen his experience, enhance his social status and increase and stabilise his income.

To Udhav, a sales turnover of Rs.5 crore, with a net profit af1elt tax of Rs. 25 lakh per annum by end of 1990, was a minimum must. He was keen to diversify and even out the fluctuations due to the vicissitudes of the market place, especially in case of Calcium Carbonate. The pattern of ownership, -i.e-., Single Organisation, was not his major worry. He did not mind many small organisations to achieve the profit objectives for a comfortable living of the partners.

First, Rakesh was keen to resolve the basic issue: whose growth ? Kemtrit Industries or Metrit Corporation’s ? He was keen to separate the growth patterns which Mukesh may have for Metrit Corporation from those which may be more appropriate for Kemtrit Industries. He did not want Kemtrit Industries to be constrained by the plans of Metrit Corporation. He desired a sales turnover of Rs. 8 crore by 1995 by expanding the gloves business and by diversifying into similar lines like lime and lime stones. Raj had good experience in lime and lime stone quarrying and marketing.

Mukesh's concept of growth was through sharing of prosperity by creating many small companies like Kemtrit Industries. He felt that ***there is*** an upper limit to ***one's*** desire of earning for self-consumption. He wanted Kemtrit Industries to become a mother unit, similar to Metrit Corporation, promoting many other smaller units. It was his view that the Indian tax structure would never permit any individual to become wealthy through honest means and afford a comfortable living. The only honest option is to have substantial fringe benefits. These in turn could come from many smaller organisations, rather than one large organisation. This growth pattern, according to Mukesh, was also in tune with the socio-political environment, which favoured the development of small scale sector. Mukesh believed that growth could not be achieved by spreading the limited resources too thin.

Priozitisation: existing knowledge and experience and potentiality of the existing business should be taken into account before entering into new areas. He also believed that a close control is needed by partners in managing the business. He, however, felt that in partnership, the concept of control through majority shareholding is not valid. He in his own words was cherishing a dream of "Concentrate-Bang-Become Big" route for Raj, Udhav and Rakesh. He, however, felt that the attitude of extra possessiveness for Kemtrit Industries by the three partners may prevent them to become big. He desired a sales turnover of Rs. 10 crore by 1992 through the gloves and 'trading' business.

Realising that the situation in Kemtrit Industries needed immediate strategic re-corrections, a management consultant was appointed to suggest a comprehensive plan to put Kemtrit Industries on smooth rails for its long term survival and prosperity. In order to suggest a meaningful corporate plan, the consultant conducted a 'SWOT" Analysis.

THE SWOT ANALYSIS OF THE CONSULTANT

Kemtrit Industries **as I see it and as I would like to see it**

In its two and half years of operations, Kemtrit Industries seems to have achieved a great deal. Starting with an equity of Rs. 5 lakh, its turnover of Rs. 200 lakh in 1986, is a performance par excellence. However, it appears that much more can be achieved with the kind of resources which Kemtrit Industries has. Based on personal interviews with the partners, my own SWOT (Strength, Weakness, Opportunities and Threats) analysis as well as my comments are as under:

Strengths

- A very competent team of four professionals.
- The very name Kemtrit Industries signifies the impersonality attached to any single individual's name or family. Scope, thus, exists to work for the company rather- than to glorify the name of a family.
- A manufacturing base for leather gloves and physical facilities in terms of office space, equipment and machinery (thought old).
- Good contacts of partners with business world.
- **Self generated export business and hence first hand knowledge of the foreign buyers and** the markets.

- A very close and harmonious social relationship between partners indicative of a similar social status of all the partners.
- Each partner capable of managing the business of its own and each one of them very strong in some specific areas. Thus a positive synergistic effect possible for the entire group.
- Presence of both domestic and export markets in Kemtrit Industries market mix enables knowledge of both the markets.
- Availability of a pool of experience and information through its association with Metrit Corporation.
- Product line, at least the one associated with leather has a tremendous growth potential, both in international and domestic markets. (The task force on leather has set a target of Rs.100 crore for leather by the end of 1992 as against Rs. 662 crore for 1986-87 for exports.)
- Capacity to raise more funds, both in emergency as well as in normal circumstances i.e., during expansion or diversification.
- Honesty and boldness amongst partners to criticism and accept criticism.

Weakness

1. Kemtrit Industries size: To **my mind this appears to be a major weakness in case** of Kemtrit Industries. Unlike other small scale organisations, where only one entrepreneur manages the show, Kemtrit Industries has three working entrepreneurs. It cannot remain as a small scale organisation. It has to grow big and utilise fully the entrepreneurial talents available to it. The present size is not optimum and this is leading to under utilisation of the time of the directors. The whole working of Kemtrit Industries has to be reorganized to utilise the 'human resources' available to Kemtrit Industries.

2. Kemtrit Industries Product Portfolio: Though so far Kemtrit Industries has been able to generate sales of RS. 200 lakh from only two lines, but the lines have very narrow product-market scope and could prove vulnerable in the long term. A balanced portfolio could be one which would enable Kemtrit Industries to generate sufficient funds to achieve its growth and the present objectives. Lack of 'systems' appears to be another weakness of Kemtrit Industries. Today, whatever

Threats

For Gloves

- Raw material subject to constant price rises.
- Demand for gloves may rise or fall without any explicable trends.
- Poor and erratic. availability of raw material (leather).
- Changing government policies and export restrictions (quotas) by 'importing' countries.
- Buyers may change their loyalty towards India.
- Product substitution possible through other kinds of **leather.**
- Constant labour trouble on Indian scene.
- Only high volume can sustain the business as profitability is very low.

Calcium Carbonate

- Risk is high or low as it is a function of the whims of the Principal.
- Being a by-product, the principal does not seem to pay proper attention to its marketing. This is affecting Kemtrit Industries performance.
- Irregular supplies of the material.
- Only one grade available as compared to many grades of competitors.

Opportunities for Kemtrit Industries

- Since it has both entrepreneurial and physical resources, Kemtrit Industries can both expand and diversify in any line related to gloves or Calcium Carbonate.
- For leather goods, tremendous opportunities exist in both domestic and international markets.
- In case regular supplies are available for Calcium Carbonate, Kemtrit Industries can generate much needed surpluses. Assuming a net profit of 6%, Kemtrit Industries can each year generate nearly Rs.3 lakh as surplus on a sale of Rs.50 lakh. The main problem was the fluctuating market conditions, affecting the price and hence the profitability.
- It can enter into trading of another line of the Principal i.e., papers. Kemtrit Industries would need to develop some strengths at least in terms of market knowledge and marketing practices of trade etc.
- Since Kemtrit Industries has a knowledge of Calcium Carbonate and since today its operations are constrained because of only one grade, Kemtrit Industries should explore

the possibility of adding few more lines for the same customers or add few more varieties of Calcium Carbonate of other Principals.

- Utilising the present channels and contracts Kemtrit Industries can also try to add some more profitable leather goods line, which can be marketed. Shoe uppers, leather garments and finished leather have been claimed to take away the major position of leather exports. It may be worth exploring to add these lines in future.
- Scope also exist for backward integration in leather business.
- Opportunities also exist in utilising government money and expertise to expand the leather business. Kemtrit Industries should explore these possibilities to avail these facilities. This, however, may not be possible until Kemtrit Industries cams a status of exporter. How this can be achieved needs to be discussed. Kemtrit Industries and Mehta should jointly re-examine their relationship for mutual advantage of both the organisations.
- Kemtrit Industries can also explore entry into areas whereby competence and time of its partners can be better utilised. Thus, trading in lime and limestone, providing consultancy in managing and marketing of the produce of small scale sector etc., can easily be undertaken by Kemtrit Industries without investing much.

Summing Up

Having spent sufficient time, both the directors and the consultant were keen to make Kemtrit Industries an example of an excellent professional company promoted by four friends. They could not accept a situation which may degenerate into casting personal aspersions at each other. According to them, survival of the company was a precondition for their unity.

Questions

1. Identify the reasons, which precipitated the crises in Kemtrit Industries.
2. What would be you recommendations for the growth of Kemtrit Industries?
3. Comment upon the exercise which the consultant has conducted for Kemtrit Industries. Do you really think that such exercises are helpful ?
4. What useful generalisations can be made from the experience of Kemtrit Industries Enterprises?

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