Business Policy and Strategic Management

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Sukul Lomash dedicates
this book to his wife Veena
and his mother

Preface

Planning, implementing and executing strategies are core management functions. The need for comprehensively understanding and effectively managing multifaceted activities of business has made practising managers develop skills in strategic management. The effective working of strategic management processes enables managers to deal with factors affecting the growth and profitability of a company and optimally position it in the competitive environment.

The old rules of business have become obsolete, and there is a paradigm shift in approaches to business. Strategies for adaptability and agility have become important to companies due to entry of foreign competition and continuing changes in economic polices. Companies have to now strategically think and manage their business.

This book is a culmination of ten years of teaching experience of the authors and integrates uptodate work of strategic management theorists, practitioners and researchers. The book would be useful to the undergraduate and postgraduate students of business management of all Indian universities.

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Authors

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CHAPTER

1

Business Planning and Strategic Management

The evolution of business policy can be traced to the roots of use of planning techniques employed by managers. Planning as such is an elusive subject and we can hardly say that there would exist an effective unique way to plan in a given business situation. Planning is, in fact, a very complex social activity that cannot be either empirically or quantitatively structured with great accuracy, using the existing techniques. The central theme of planning is to organise an activity or business in a disciplined way and to evolve guidelines for an organisation to achieve a better position. In order to meet this objective, an effective planning system has to focus on two relevant dimensions, viz. being aware and responding to external environment and searching for new ways to effectively deploy internal resources to gain a competitive edge. Thus, planning is the core capacity developed by firms to adapt themselves to the environmental changes, whether they are internal to the company or external to the company. The internal response of the companies to the need for adaptability is not passive to external environmental movements, but is an active, decisive, creative and vigorous search for conditions that can secure a profitable niche for a company in a given hostile environment. Lack of awareness to changes in economy, competitive, social, and technological environment can become fatal for companies and they may eventually perish. A vigilant attitude by companies towards external factors is a major driving force behind the capabilities of companies to survive in the predatory competitive markets.

The response of companies to the external environment reflects in the form of clearly defined action programs, with clearly defined objectives. The action programs may be short term or long term. These action programs define the totality of actions that an organisation would like to take for facing competition, and hence, planning is viewed as the most valuable technique to coordinate the efforts of all the departments of an organisation. Various departments of an organisation, viz. manufacturing, sales, marketing, design, research and development, personnel, finance and accounts coordinate

and develop responsive systems to new challenges that an organisation faces. The planning process should also consider the needs of the individual talents and capabilities of members of an organisation and cater to their personal aspirations and at the same time orient focus on the corporate values, traditions and organisational culture.

STAGES OF PLANNING

The five major stages of evolution of planning can be enumerated as follows.

i. Budgeting and Financial Control
ii. Long Range planning
iii. Business Strategic Planning
iv. Corporate Strategic Planning
v. Strategic Management

These will be discussed in detail at a later stage in this chapter.

EVOLUTION OF ORGANISATIONS AND INDIAN BUSINESS SCENARIO

For over two hundred years, companies have been founded and built around Adam Smith's principle that industrial work should be fragmented and broken down into its simplest and most basic tasks. This has led to shaping of structure, management, and performance of business organisations all over the world during the nineteenth and twentieth centuries. The division of work was not only applied to production function but also to management function. The evolutionary steps taken about one hundred and fifty years ago by Henry Ford and Alfred Sloan paved the path for systems that are still in vogue in various organisations. Alfred Sloan in General Motors created smaller and decentralised divisions that managers could effectively control. The executive did not require expertise in various areas viz, engineering, manufacturing, marketing and personnel, but they were financial experts. The final evolution in the management of organisations took place during the end of World War II and in the 1960s due to enormous economic expansion in our country. The managers underwent elaborate planning exercises and determined the business in which they wanted to be, how much capital was to be deployed in each unit, and what kind of returns they expected from these businesses to be delivered. The controllers, planners, and auditors acted as eyes and ears of management to evaluate performance of various businesses. These organisational models which were thus developed, spread to the entire world.

During the period between 1950s and 1960s, giant public sector companies were born in India. The major operational concern of a company executive was capacity expansion. The demands of goods were high and supplies were scarce. In case a company built too little of productive capacity or built it quite late, it could lose the market share due to its inability to produce and meet the demand's of customer's in terms of quantity. Quantity of goods was the prime concern of companies.

To avoid such a situation, companies developed systems for budgeting, planning, and controlling. The standard pyramidical organisation came into existence and whenever people were needed to produce more, they were added in the lower-most level. This structuring of organisation also suited for control and planning as the work was fragmented and supervisors could ensure performance consistent with the needs of the plan and control was better over the total situation. Budgets were approved and followed department-wise and progress of work monitored as per budgeted figures. Training was simple as tasks were simple and hence no one required rigorous training.

With the advent of new office technology, white collar jobs were also further fragmented into small repetitive tasks that could be automated or mechanized. The number of tasks required to produce a product grew and became complicated, and managing these tasks became even more complicated. The companies had to pay a high price for maintaining a large number of people in the middle level of giant organisations and reaped meagre benefits of controlling simple and repetitive tasks. The growing number of people in middle level created more distance between senior management and the end user of the product. The end users, had no say and companies did not heed for them. Product features other than the requirement of products were not considered. The people queued at the gates of companies, distributors, dealers to get a product and they happily accepted whatever they got. In case of government undertakings, in India, the products in some cases were even sold below the cost price due to political and social reasons that led them into rough weathers. These companies operated in protected economic environment with assured markets, however, the financial aspects were grossly overlooked.

The business scenario in the country has slowly undergone profound transformations as the socio-political environment of the country has experienced drastic changes. We are presently living through a period of growing technological, political, economic, and social changes.

The rapid advance in information technology, electronics, communication and so on, have changed the lifestyles of people (Refer Exhibit 1.1). The focus has now changed from production to marketing. The continuous increase in competition and slowed down economic growth has again raised productivity, quality, and cost at the level of primary managerial concerns. The changes in the business world today are too many and too often due to rapid changes in various forces that drive a business. The trends in business today are also rapidly undergoing changes.

In decades to come, the changes are expected to be more fierce in the business world due to changed rules of business that are evolving due to changes in environment, society, technology, politics, economic situations, population, etc. There has been increased internationalization of business, increased scarcity of raw materials and natural resources. The changes in business situations today are more complex and affect a wider cross-section.

Exhibit 1.1 Indian Software Industry

About 158 out of fortune 500 companies have either their own software setup or have tie-ups with Indian software companies. The software being sourced from India is now not on data processing alone but also on programming.

One of the key reasons for the fortune 500 companies turning to India is the amount of learnability that Indians have. The companies get a programmer at low cost with an ability to program in at least three languages, which does not decrease with age.

Source: *Economic Times,* Nov. 24. 1998.

Today, the trends are far more flexible and adaptable organisations that can survive the onslaught of predatory competition and meet raised expectations of customers for quality, cost, delivery and service. Flexibility and adaptability have become necessary condition for survival and growth.

The increasing integration of markets, foreign exchange, technology, economic policies, and globalisation of issues (Refer Exhibit 1.2) has made it necessary for companies to evolve their own strategies that will enable them to survive the effects of new and fast changes. Indian business houses have realised that they will have to change their ways of doing business and adopt certain new strategies to effectively managing the risks emerging out of a highly volatile business scenario. Inflexibility, non-responsiveness, near total absence of customer focus, bureaucratic paralysis, lack of innovation, high overheads, and the legacies of Indian business system will have to be thrown away if companies have to survive.

Exhibit 1.2 Caste War Taking a Turn

The real war, which has been taking place in the century is the caste war. There are primarily red, yellow, white and black races on this globe. The red have been eliminated. The whites don't allow blacks and yellows, to meet who form a significant part of the population. The Asian nations that were neither thought to be as basket cases by West (India and China in particular) will soon be world players by virtue of the sheer size of their population. India and China have a history of producing hard-working entrepreneurs who will dominate the business world. The two countries share many similarities, including their approach to economics and it is likely that they would further converge. The differences in India between plane and hill regions, north and south and those in China between coastal regions (such as Guangdong) and deep interior may further

cause tremors but despite these enormous tensions the transformations would be peaceful.

Source: David Mercer, *Future Revolution,* Orion Business Books, 1998.

Today, we are finding that in one industrial holding company, there are producers of airplanes, chemicals, furniture, shoes, printing works, textiles etc. The strategic alliances, conglomerations, integrations, etc., have become very common in today's business world (Refer Exhibits 1.3 and 1.4). The liberalisation, besides many other things, has exposed the domestic market to continuous marketing pressures of transnational corporations (Refer Exhibit 1.5). It would be inevitable that there would be more mergers and sellouts on commercial and financial grounds.

Exhibit 1.3 Siemens Buys AEL Capacitor

Siemen's Matsushita Components (SMC), which is the Components Division of Siemen's Ltd. has bought capacitor unit for US $ 5.6 millions in its efforts to make India an export base for global sales. SMC has bought the Nasik-based AC capacitor unit of Asian - Electronics Ltd (AEL).

Source: *Economic Times,* Nov. 24, 1998.

Exhibit 1.4 Take Over of Nicco Unit

The government of West Bengal has invited Samsung Electronics of South Korea for taking over the ailing television company Webel Nicco's facilities. This decision has been taken by Bidyut Ganguly, State Industry Minister, due to poor financial health of the company. The company's condition deteriorated due to stoppage of placement of orders by Phillips.

Source: *Economic Times*, March 2, 1999.

Exhibit 1.5 IA No More a Domestic Airline

The chairman and managing director of IA, Anil Baijal said that IA was no longer a domestic airline. It aims to penetrate the international market in which it has already carved a niche for itself. The IA has developed a number of markets in the Gulf region and is actively looking at south-east Asian markets like Hongkong, Kuala Lumpur- and Bangkok. One of the priorities is also to channelise international air traffic from Uttar Pradesh to international destinations. An IA

traffic survey team is exploring the possibility of Philippines as a foreign destination.

Source: *Economic Times*, March 2, 1999.

It has become increasingly difficult for organisations to make decisions about their future in this complex and fast changing business environment.

VALUE OF STRATEGIC MANAGEMENT

The complex and sophisticated business environment discussed above has created an urgent the need for strategic management for organisations. To deal effectively with the challenges of environment, including competitors, when profits are at stake; suppliers, when resources are becoming even more scarce; government agencies when adherence to growing number of regulations has become imperative and customers, who have more and more expectations from products in the form of quality, service, cost, and delivery to their satisfaction. Companies are designing strategic management processes to adequately account for all these variables.

The strategic management processes facilitate to optimally position a firm in a given competitive environment. The positioning of the companies in an environment that is charged with competition is quite accurately done using strategic management process, as it permits more realistic and accurate assessment of anticipated environmental changes and gear the organisations for being proactive to predatory competition (Refer Exhibit 1.6). The strategic management process also ensures preparedness of companies for reacting to unexpected internal or external pressures and sustain them.

Exhibit 1.6 High-tech Deal in Engineering Construction Company

V.O. Swamy and Company Ltd. (VDS), which is in the field of international trading and engineering construction has signed a MOU with US based Innovative Design Development Inc. (IDD). The 50:50 joint venture, IDDINDIUM is set to offer design, development modeling, analysis, conversion, for companies in India and abroad using high-tech software tools like ANSYS, Mathematics and math CAD.

Source: *Economic Times*, March 2, 1999.

DEFINITION OF STRATEGIC MANAGEMENT

The strategic management or strategic planning encompasses long-range plans, new venture management, planning, programming, budgeting, business policy, etc. with

greater emphasis on environmental scanning and forecasting and taking into account external and internal factors in formulating and implementing the plans.

The word strategy is derived from the Greek word "strategia" that was evolved during 400 BC. The word strategia meant science of guiding and directing military forces.

Today, strategic management is understood as a process of formulating objectives of an organisation and developing methods to achieve them. It is a process of designing a path and selecting one path, after due evaluation of various alternatives for reaching a goal. The objective can be in the form of a mission statement or may be clearly defined in the form of postulates. Strategic management is a science of choosing the alternatives from the designed and available courses. The managers have to decide on a process that will be most suitable to their conditions and that would enable them to achieve a desired position for their organisation.

The strategic management can be defined as follows:

Strategic management is the process of systematically analyzing various opportunities and threats vis-a-vis organisational strengths and weaknesses, formulating, and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organisation.

It has been defined by Lloyd L. Byars as—Strategic management is concerned with making decisions about an organisations' future direction and implementing those decisions.

Alfred D.Chandler (1962) made a detailed analysis of various inter-relationships among environment, strategy, and organisation structure in 70 manufacturing firms in the US and defined strategy as, 'The determination of the basic long term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals'. It is pertinent to note here that Alfred D. Chandler has made reference to three basic aspects of strategic process;

i. Determination of basic long-term goals,

ii. Adoption of course of actions to achieve these goals, and

iii. Allocation of necessary resources for carrying out these goals.

Kenneth Andrews (1965) outlines business strategy definition as a method of describing the future position of a company, its objectives, purposes, goals, policies, and plans that may be required for guiding the company from its existing position to where it desires to be.

Andrews defines strategy as, 'The pattern of objectives for achieving these 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) in his book *Corporate Strategy* has defined strategy as, 'The common thread among the organisations' activities and product markets that defines the essential nature of business that an organisation was or plans to be in future.

'Professor William F. Glueck (1972) defines strategy as, 'A unified, comprehensive, and integrated plan, designed to assure that the basic objectives of the enterprise are achieved.'

Thus, we find that Strategic Management is a set of rules aimed at taking decisions for sustenance and growth of an organisation in a given environment.

The strategy covers the following aspects.

i. Exploring and determining the vision of the company in the form of a vision statement.
ii. Developing a mission statement of the company that should include statement of methodology for achieving the objectives, purposes, and the philosophy of the organisation adequately reflected in the vision statement.
iii. Defining the company profile that includes the internal culture, strengths and capabilities of an organisation.
iv. Critical study of external environmental factors, threats, opportunities etc.
v. Finding out ways by which a company profile can be matched with its environment to be able to accomplish mission statement.
vi Deciding on the most desirable courses of actions for accomplishing the mission of an organisation.
vii. Selecting a set of long-term objectives and also the corresponding strategies to be adopted in line with vision statement.
viii. Evolving short-term and annual objectives and defining the corresponding strategies that would be compatible with the mission and vision statements.
ix. Implementing the chosen strategies in a planned way based on budgets and allocation of resource, outlining the action programs and tasks.
x. Installation of a continuous compatible review system to create a controlling mechanism and also generate data for selecting future course of action.

EVOLUTION OF STRATEGIC PLANNING THINKING

The essence of planning is to organise in a disciplined manner, the tasks of an organisation that it has to perform and issues that it has to address and to maintain operational efficiency in an existing business. Thus, we see that planning is a complex process and cannot be simply structured empirically or by using quantitative techniques alone. An effective planning system has to primarily deal with some important dimensions, viz. being proactive to the changes in environment, responding to the changes in environment and deploying all the internal resources to improve the survival of a company in a highly competitive environment. To be knowledgeable about the external environment, which may be hostile or conducive, is very important for companies. Companies who sleep over the changes in environment may eventually perish.

The strategic thinking is a technique that enables firms to adapt to environmental changes. This awareness of being adaptive to the external environment is an active process with high creativity and tough decisions for profitability of the company and can be compared with the adaptive process of living beings with their environment.

The response of a company, when strategic thinking is internalised, transforms into various actions that the company has to take for enhancing the existing and long-term position of the company in a competitive environment. The action plans include totality of programs for major areas, hence it involves all the people of the organisation. The planning process must dovetail all the departments viz. marketing, sales, engineering, manufacturing, research and development, quality assurance, technology, finance etc. All functional departments of the organisation must respond to the challenges of the planning process. It should also be responsive to the individual talents and abilities of the departments, and people of the organisation and should take into account the organisational culture that is very vital for the planning process to succeed.

Planning for the day does not apply to the present organisation. The environment and the complex business situations have made it mandatory for organisations to plan for the future. Refer Exhibit 1.7 that compares strategic planning, thinking with opportunistic planning.

Exhibit 1.7 Nature of Formal and Opportunistic Planning

	Formal	**Opportunistic**
Purpose	Proactive in Nature and Seeks to Adopt as Per External Environment, Depending on Effectiveness and Efficiency Internal to Organisation	This Permits Flexibility for Quick Response to Unplanned Activities Based on Existing Capabilities of The Organisation
Scope	For Corporation	Concentrated at SBU* Level
Time	Systematic Planning which is Chronological and Datewise	Responsive to Emergencies, Opportunities and Threats
Factors	Formal Strategic Planning and Highly Structured	Opportunistic Planning

*strategic Business Unit

Various firms have different planning capabilities and the degree of planning competence must match with the degree of complexity of business. Based on the planning needs of the organisations, the planning stages can be enumerated as follows:

Budgeting and Financial Control

These are early manifestations of management systems and emerged about five decades ago in companies to manage multitudes of activities in which they involved themselves.

Budgeting is projection of revenues and costs for a one-year period. There is a master budget for a firm that covers all the activities that are important for the firm for its healthy development. A typical budget may consist of sales, production, inventory, direct materials, manufacturing overheads, expenses, administrative expenses etc. (Refer Exhibit 1.8).

Exhibit 1.8 Typical List of Various Budgets in a Company

- Income and Expense Budget
- Administrative Expense Budget
- Sales Budget
- Procurement Budget
- Manufacturing Budget
- Direct Labour Budget
- Direct Materials Budget
- Stock Materials Budget
- Overhead Budget
- Sundry Expense Budget
- Cash Flow Budget
- Capital Expenditure Budget

The productivity figures are estimated based on previous performances tabulated from historical data. The data of competitors is obtained from the financial reports of the firms that is published and distributed to the share holders. There has been many years of experience of various companies in their field and the technique has evolved after a lot of refinements in its present form. The technique has now evolved and matured for responding to management of cash, operational efficiency, cost reductions etc. It helps to decentralise the accountability for various functional groups at different levels.

With the advent of computers and information technology, the process of budgeting and financial control has become highly sophisticated. It is now highly structured and aims at the most efficient use of financial resources for meeting overall objectives. The sophisticated structuring resulted in defining the profit centers and

responsible managers are posted to exercise their powers to meet profit targets. Other centers can be expense center, revenue center, investment center etc.

Companies usually make use of key variables, for example, growth, assets, and financial ratios in sales, orders, cost of sales, R&D expenditures etc. Some other companies may use some other variables for the purpose.

Organisations that are entirely dependent on budgeting and financial control measurements for their planning system are vulnerable to fall into myopic return-on-investment traps. They may be bothered about only immediate returns without really concentrating on the strategic growth of the organisation.

The risk is short-term high profitability at the expense of long-term development of the firm. Many organisations have realised their inadvertent weakening of the base by avoiding necessary expenditures that are essential for long-term standing of the firm. They preferred, in exchange, hefty quick return on investments.

The companies have realised over years that the return on investment figures should emerge from the strategic direction selected by companies, rather than these becoming ultimate goals themselves. The strategic commitments should be interwoven with needs of financial performance in short and long term. It should be clearly understood that a good financial performance is the result of the resources and development of technological aspects rather than only manipulating the return on investment index. One should work for the index rather than on the index itself. Hence, today's approach is that of strategic planning.

Companies are concentrating on second generation planning. The method lies in ensuring quality of strategy articulation. The top management, directors, and corporate planners have active role to play in strategic management.

Emergence of Long-Range Planning

A lot of progress towards comprehensive planning was done with introduction of long-range planning (LRP) in 1950's. The system of LRP consists of defining organisation-wide efforts to define various objectives, programs, budgets etc. over a span of time, usually a few years. Refer Exhibit 1.9 for process of formulation of a five-year plan, and Exhibit 1.10 for process of formulation of one-year plan.

The basic idea of long-range planning is to make an effort towards projecting the environmental trends over a period of time and thus establish stretched objectives and set guide lines for the people of an organisation to achieve them. The LRP was born in response to the extraordinary boom that occurred during the post World War II period. The growth of demand of goods was unprecedented and it was not enough for companies to rely on the one-year projection of requirements. The organisation of capacity expansions and arranging for corresponding financial resources became quite difficult for companies, when long-range planning was found to give managers a wider horizon for doing business.

Exhibit 1.9 Five-year Plan Formulation Flow-diagram

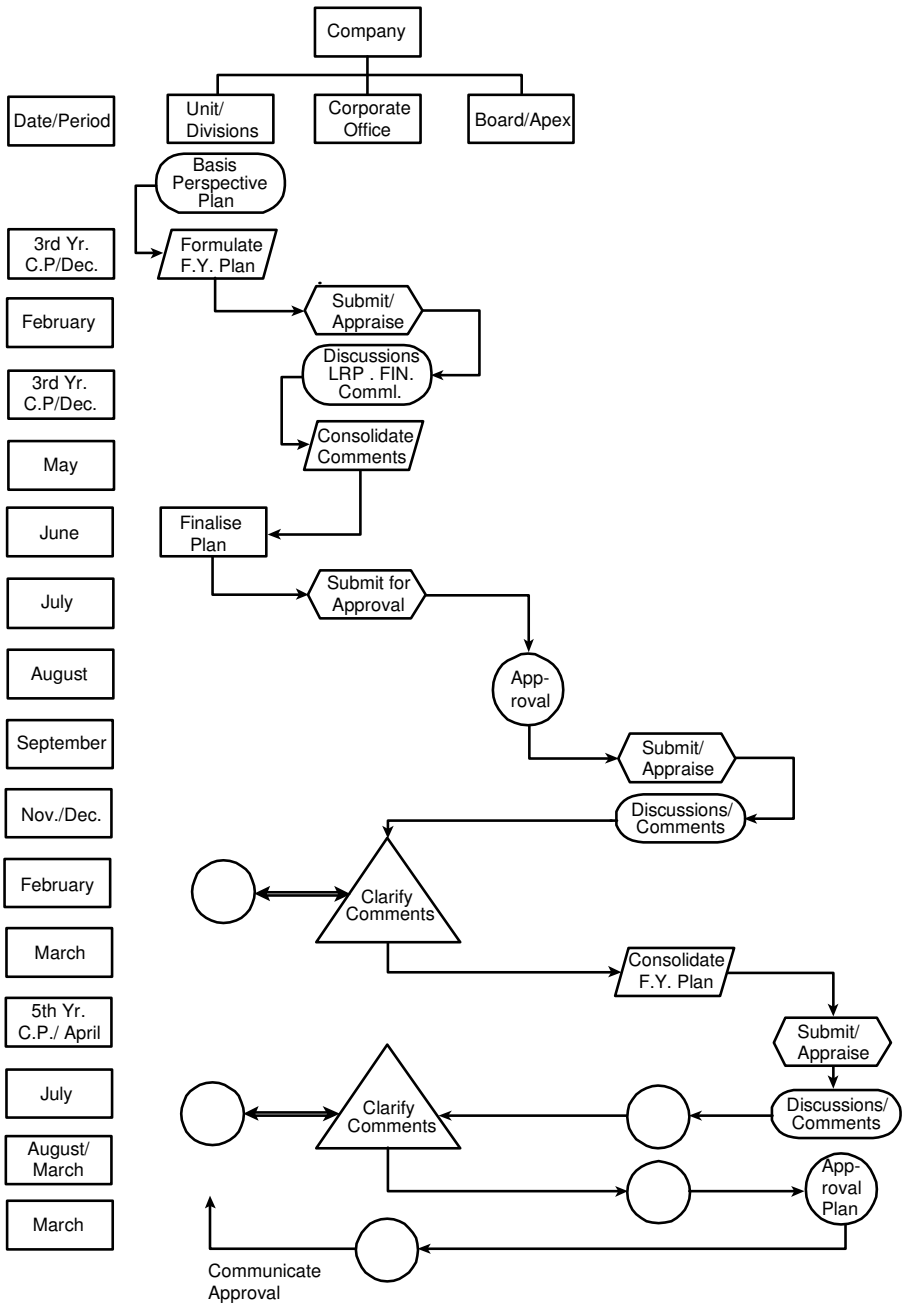
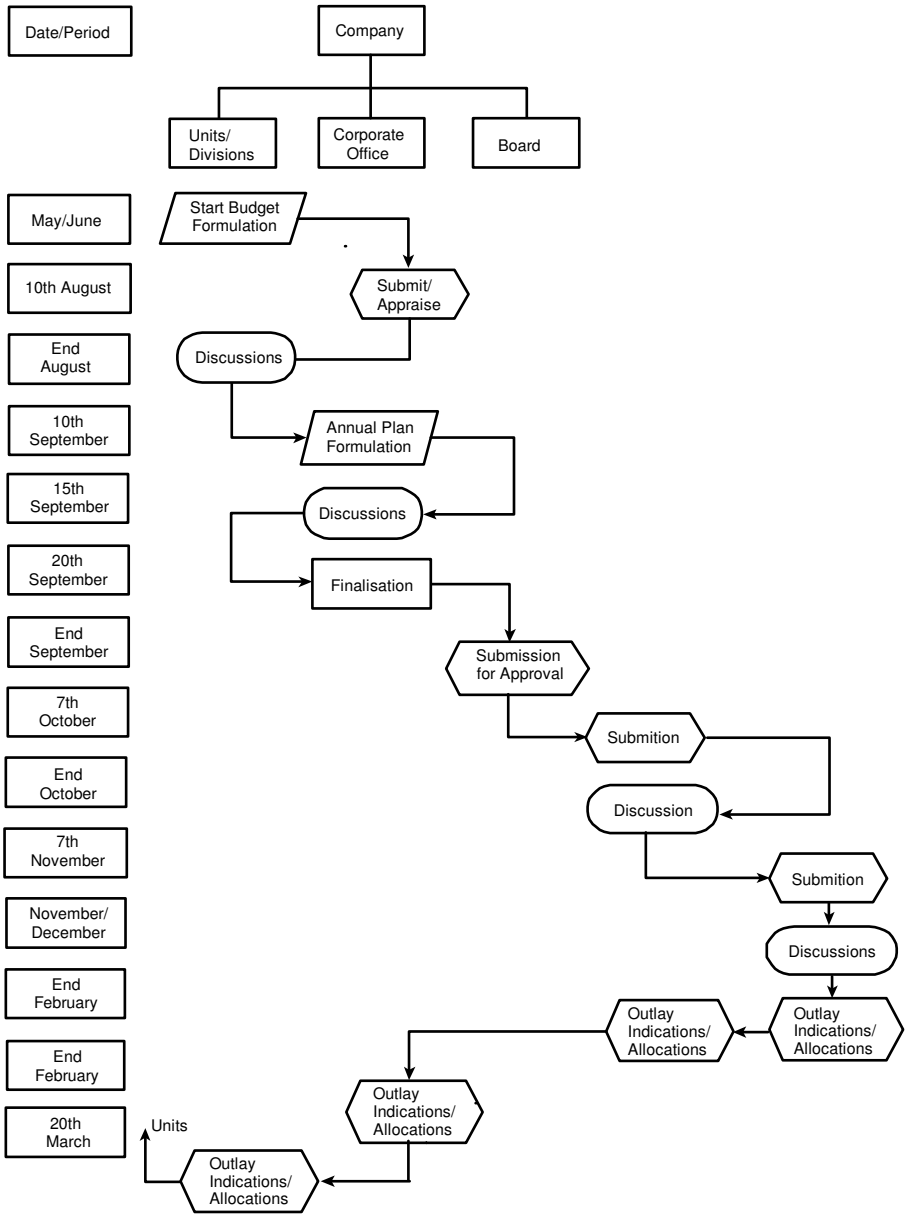


Exhibit 1.10 Annual Plan—Capital Funds Budget Procedure Flow-Diagram



LRP commences with multi-year sales forecast around which manufacturing, marketing, personnel, etc. are developed to meet the growing challenge. This shows commitment of an organisation towards growth in future. The plans of individual functions are then aggregated to build total financial plan, including investment decisions and usual budgeting and financial controls, but accounting for extended horizon of a long period of time.

The historical data of a period of five to six years is usually covered. The planning is usually done to cover a little more than what is reflected by the data. In long-range planning, the capital budgeting is of great significance. Capital budgeting uses the concept of pay back and discounted cash flows for evaluating the worth of capital expenditures. Long-range planning has many limitations and it was probably very useful after World War II due to steep growth of markets. The trends of markets were also fairly predictable as there was comparatively less business rivalry amongst competitors. Usually, a single firm was there in a single business. In the absence of these conditions, long-range planning becomes quite a useless activity.

Usually the sales projections and market behaviours will not be as estimated. The changes in business are quick and making projections for long periods of time may prove to be futile. Any effort to analyse the causes of deviations in sales projections may work out to be very complex. A more thorough understanding of the markets rather than merely sales projections is required, and for this, other underlying factors viz. economy, demography, attitudes, polity, etc. and scores of other significant factors must be considered.

To define the position of an organisation in a business, more rigorous analysis is required rather than analysis of sales forecasts alone. The future, off late, has become more uncertain. Future is no more smooth as projected by sales forecasts. LRP may also act as a trap for an organisation when it may think that it is making a sustained growth, whereas it may merely be driven by an external environmental factor, and when this factor, ceases to exist due to some imminent cause, the organisation may be left looking for ways to survive the onslaught. Long-range planning may be simpler for a single product company, but for companies having multiplicity of products it may be difficult to even visualise LRP taking care of all the products. The problems are also in resource allocation in LRP as it tends to confuse the planners towards overall focus of the organisation. It is easier to handle a project in isolation but to evaluate its effect in line with the total vision of organisation may be quite difficult.

NEED FOR STRATEGIC MANAGEMENT

Today, we know that business is becoming more complex due to rapid changes in environment. It is becoming increasingly difficult to predict the environment accurately. The internal and external environments of organisations are now driven by multitudes of forces that were hitherto non-existent. Earlier the changes in technology were not so rapid but today the information from all over the globe is pouring in through the computers. The world in fact has shrunk. This has created fierce competition as the

customers and stake holders have become more aware of their rights. They have several alternatives to choose from at their disposal. The customer now looks for real value for his money. He has become aware of quality and cost ratios and diligently selects the products. He is now more demanding for better service in the least possible time. This has brought in new rules of business that companies all over the world are evolving through their experience. The obsolesce has become so rapid that the time when one is in the process of buying a computer it might have already become obsolete in some part of the globe. The number of events that affect domestic and world market are now far too many and too often. Over reliance on experience in such situations may really work out to be very costly for companies. Reliance has shifted to more creativity, innovation and new ways of looking at business and doing it in novel ways. The earlier concepts of having highly functionalised departments and developing specialisation of labour is losing its credibility. The organisations are becoming more responsive, flexible, and adaptable to changing business situations. In such environments that are charged with high level of competition, developing competitive edge for survival and growth has become imperative for companies.

The need is now to distinguish between long-range planning and strategic planning. (Refer Exhibit 1.11). The importance of strategic management in setting the directions for growth of organisations is being increasingly realised these days. The evolution of objectives after setting directions for growth of organisations has become necessary. The technique of strategic management is used as a major vehicle for planning and implementing major changes in organisation. The implementation of the strategic plans needs good teamwork and understanding of the concept at grass root

Exhibit 1.11 Difference between Long-range Planning and Strategic Planning

	Long-Range Planning	Strategic Planning
Focus	Present	Growth
Objective	Annual Profits	Future Profits and share
Constraints	Present Resources Environment	Future Resources Environment
Rewards	Efficiency, Stability	Development of Future Potential
Risks	No growth	Slow Process, Requires Effort
Information	Present Business	Present Business, Future Opportunities, threats etc.
Organisation	Bureaucratic/Stable	Entrepreneurial/Flexible
Leadership	Conservative	Creative
Problem Solving	Reacts, Relies on Past Experience Low Risk	Anticipates, Discovers Creative Approaches High Risk

level and organisations today are making concerted efforts in this direction. The cultural dimensions of organisations have acquired importance of strategic plans, and organisations are taking pains to understand the impact of culture on business.

DIMENSIONS OF STRATEGIC MANAGEMENT

It is important to understand that some key decisions in any organisation are vital for strategically managing the business. Various issues that the management faces can be classified into following dimensions.

Top Management Decisions on Strategic Issues

To establish the vision of the firm, stating of corporate objectives, and strategic thrust areas, defining a comprehensive corporate philosophy and values, identifying the domains in which an organisation would operate, learning and recognising worldwide business trends, and allocation of resources in line with corporate priorities, are some of the key areas wherein top management of organisations take decisions.

Strategic Issues for Sharing of Concern and Resources

To meet certain specific needs of certain customers, use of common upgraded technologies by certain business units, deployment of people, physical assets or money from internal or external sources and to achieve economics of scale in deployment, certain decisions may be taken by the management.

Strategic Issues Likely to Have Long Term Impact

Strategic decisions for implementing a course of action have broad implications and long-term ramifications and the people of an organisation have to commit themselves to the decisions and plans for a long period of time. Once a firm takes strategic decisions and implements the action programs, the impact is seen slowly on its competitive image and the advantage tied to the particular strategy start pouring in. The companies become known in certain markets, products, or technologies or the decisions may adversely affect the previous progress.

In today's business world, where changes are by leaps and bounds, some organisations may decide for radical changes through re-engineering of their business processes to gain strategically better position.

Strategic Directions are Futuristic

Strategies are essentially for the future. Strategic decisions are taken based on forecasts that are in turn based on available data on trends. The managers involved in strategic planning concentrate on developing projections that would take the company to better strategic position. The companies thus become proactive rather than being reactive to business situations.

Strategies have Multi-Functional and Multi-Business Effects

Every company has several business units. Strategic decisions are coordinative in nature among all the business units of the company. Many strategic decisions on product mix, competitive edge, organisational structure etc. affect various departments and functions that may be classified as strategic business units (SBUs). Each of these units get affected by the decision taken at the top level, regarding allocation of resources and deployment of personnel etc.

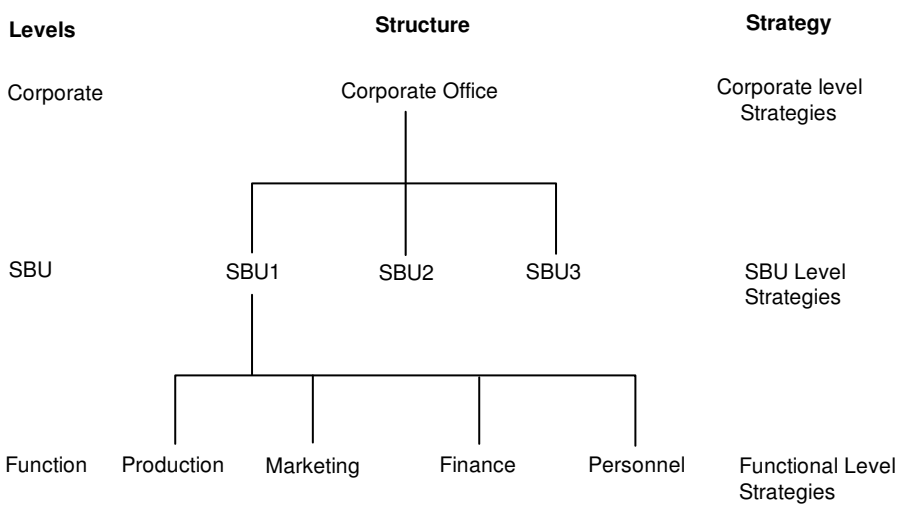
Strategies are Defined Based on Study of Environment

The organisation culture internal to the organisation and also the external environment must be thoroughly scanned and studied to decide on strategies. The interaction between the organisations and the external environment affects both of them. The organisation tends to change the environment and the same environment makes an impact on the organisation. The firms have to define their strategic position with regard to the environment and decide strategies that will take it to the desired position. The firms are part of the system, where customers, stake holders, competitors etc. exist and the firm cannot remain insulated from these determinants of the external environment.

LEVELS OF STRATEGIES

The strategic planning process culminates into formulation of strategies for the organisation. A business strategy must contain well-coordinated action programs aimed at securing a long-term competitive edge and which should be sustained by the company. (Refer Exhibit 1.12.)

Exhibit 1.12 Levels of Strategies

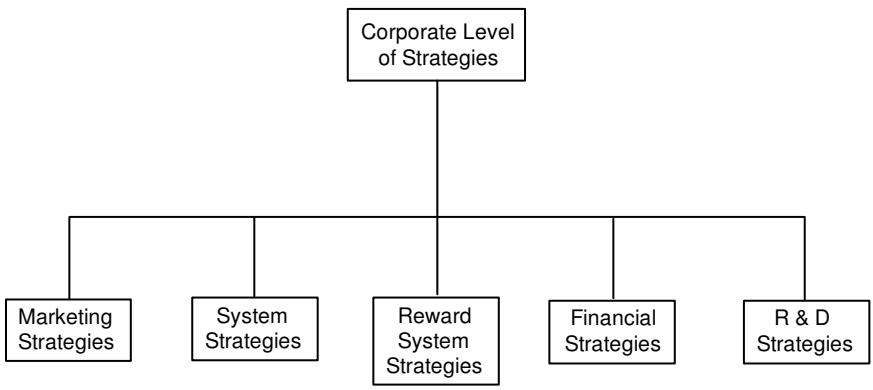


Corporate Level

In an organisation, there are basically three levels. The top level of the organisation consists of chief executive officer of the company, the board of directors, and administrative officers. The responsibility of the top management is to keep the

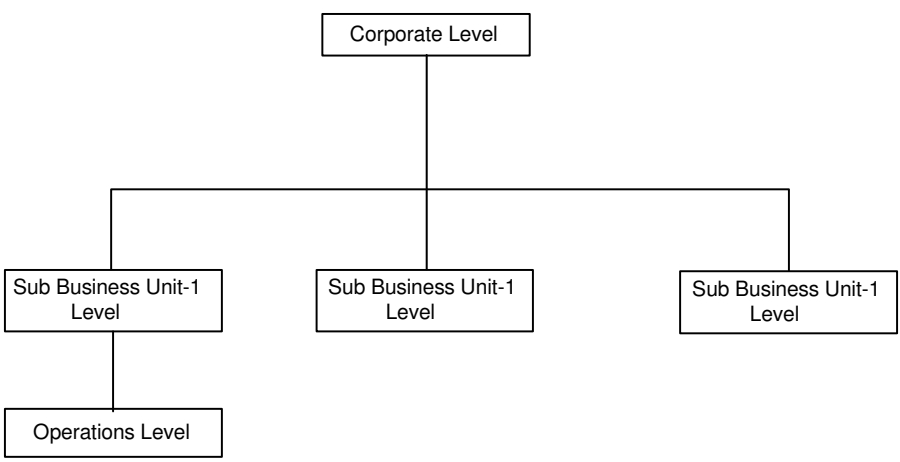
organisation healthy. This implies that their responsibility is to achieve the planned financial performance of the company in addition to meeting the non-financial goals viz. social responsibility and the organisational image. The issues pertaining to business ethics, integrity, and social committment are dealt with, at this level of strategic decisions. The corporate level strategies translates the orientation of the stakeholders and the society into the forms of strategies for functional or business levels (Refer Exhibit 1.13).

Exhibit 1.13 Corporate Level Strategies



By using portfolio approach, a set of natural and generic strategies are generated that must be considered by each business group, depending on their position in the industry attractiveness and competitive strength dimensions. This is the level where vision statement of the companies emerges. Exhibit 1.14 shows typical levels of strategy-making in an organisation.

Exhibit 1.14 Levels of Strategy-making



Business Level

This level consists of primarily the business managers or managers of Strategic Business units. Here strategies are about how to meet the competitions in a particular product market and strategies have to be related to a unit within an organisation. The managers at this level translate the general statements of direction and intent churned out at corporate level. They identify the most profitable market segment, where they can excel, keeping in focus the vision of the company. The corporate values, managerial capabilities, organisational responsibilities, and administrative systems that link strategic and operational decision-making level at all the levels of hierarchy, encompassing all business and functional lines of authority in a company are dealt with at this level of strategy formulation. The managerial style, beliefs, values, ethics, and accepted forms of behaviour must be congruent with the organisational culture and at this level, these aspects are diligently taken care of by strategic managers.

Operational Level

Planning alone cannot create massive mobilisation of resources and people and can never generate high quality of strategic thinking required in complex organisational context. For this to happen, the planning should be carefully dovetailed and integrated with significant administrative systems viz. management control, communication, information management, motivation, rewards etc. It is also vital that all these systems are supported by organisational structure that define various authority and responsibility relationships, among various members of the company and specifically at operational level. The culture of the organisation should be accounted for, and these systems should find adaptability with the culture of the organisation.

Exhibit 1.15 Interaction of Various Functions



The managers at this level of product, geographic, and functional areas develop annual objective and short-term strategies. The strategies are designed in each area of

research and development, finance and accounting, marketing and human relations etc. The responsibilities also include integrating among administrative systems and organisational structure and strategic and operational modes and seek for congruency between managerial infrastructure and the corporate culture. Exhibit 1.15 shows the interaction of various functions for deciding strategies at the operational level.

CHARACTERISTICS OF STRATEGIC DECISIONS

The three levels of strategic decision have varying characteristics due to the varying responsibility and authority at different levels of management functioning. (Refer Exhibit 1.16).

Exhibit 1.16 Charateristics of Corporate, Business and Functional Level Strategies

Characteristic	Corporate Level	Business Unit Level	Functional Level
Nature	Conceptual	Conceptual but related to business unit	Totally operational
Measurability	Non-measurable	Measurable to some extent	Quantifiable
Frequency	Large spans 5-10 years	Periodic	Annually
Adaptability	Poor	Average	High
Character	Innovative and creative	Action-oriented	Totally action oriented
Risk	High	Moderate	Low
Profit	Large	Moderate	Low
Flexibility	High	Moderate	Low
Time	Long range	Medium range	Short range
Costs Involved	High	Medium	Low
Cooperation needed	High	Medium	Low

The nature of decisions taken at corporate level give a vision to the organisation. The decisions taken are visionary in nature and hence are highly subjective. The vision of a company evolves after a lot of deliberations among the directors who decide that how their company would be known after a long period of time, say after ten to fifteen years. The decisions at this level are therefore vital for selecting the directions of growth of a company. Since it is very difficult to foresee what would happen to a company after a long period of time, the decision essentially should have built-in flexibility as these would have far-reaching consequences on the operations of

the company. The decisions at this level also involve greater risks, costs, potential profits etc. The characteristic strategies at this level may include the following in a typical organisation.

- Business scope and an expression of competitive leadership.
- Identification of product market segments.
- Corporate strategic thrusts and planning challenges relevant to the business unit.
- Internal security at the business level that includes identification and evaluation of critical success factors and assessment of competitive position.
- Environmental scan at business level and identification of product markets and industry attractiveness.

Formulation of business strategy is a set of multi-year broad action programs.

At the functional level, the decisions involve action-oriented operational issues. Essentially these are short-term type and hence periodically made. They reflect some or all part of the strategy at corporate level. These decisions are also comparatively of low risk and involve lower costs as the resources to be used by them are from the organisation itself. The company as a whole is rarely involved in these decisions. They are more concrete, clear, simple to implement and do not disturb the ongoing processes of the company. The decisions at this level are more critically examined, in spite of being less profitable.

NEED FOR FORMALITY IN STRATEGIC MANAGEMENT

The degree to which the membership, responsibilities, authority, functions, and decision-making is specified and involved is called formality. The degree of formality has a direct bearing on cost, completeness, accuracy, success, and growth of strategic management in any organisation. All companies do not have the same degree of formality and it varies with the internal and external environment of the company (Refer Exhibit 1.17).

The need for formality in strategic management arises in the companies due to their urgent need for succeeding in their strategic plans. The strategic plans are in turn guided by the size of the organisations, the dominant management styles being followed, the nature of environment, its business processes, nature of problems that the company faces and the requirement of the level of detailed planning. The companies of entrepreneurial nature have a single individual at the apex level and he controls the entire functioning of business. The strategic decisions in such companies are limited for a small number of products and services and are informal and intuitive with very limited scope. On the contrary, companies having multitudes of products and services that are individually headed by chief executives, have written down systems and strategies interwoven in the very fabric of the organisation. Usually such companies use the planning mode, however, adaptive mode is being used by the medium-sized companies that operate in a comparatively more stable environment.

Exhibit 1.17 Degree of Formality

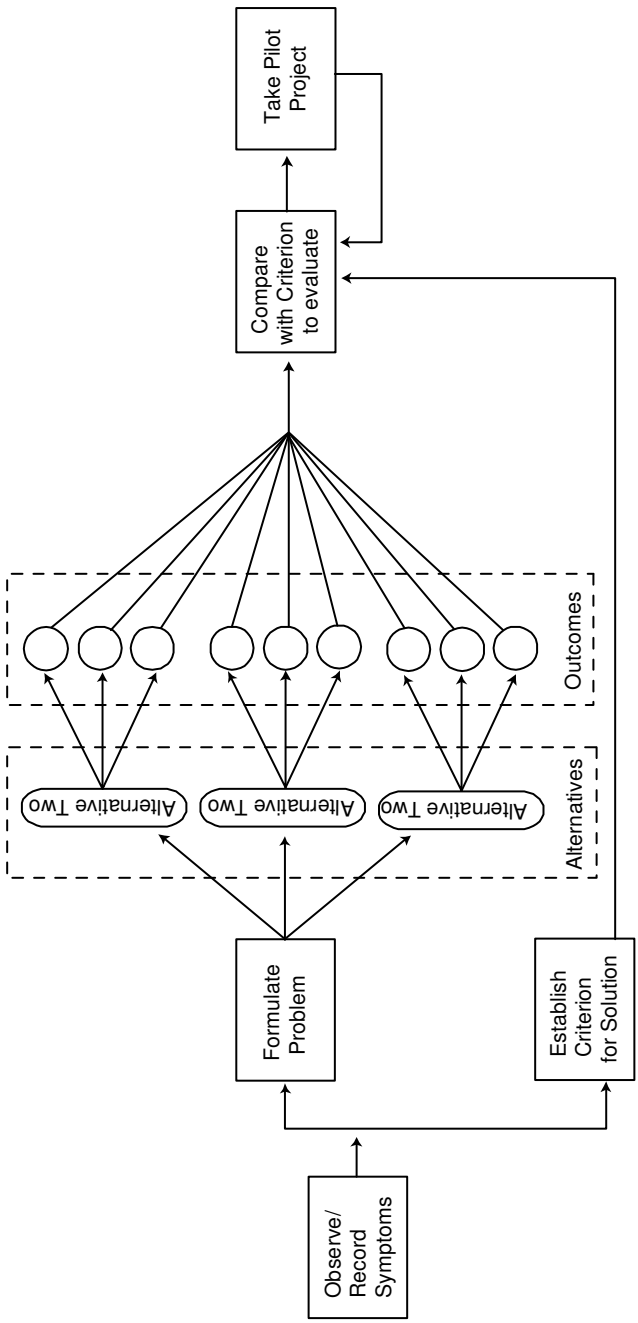
Dimension	Factor	Likely Characteristic
Management and style	Policy matter	More formality
	Democratic	Less formality
	Autocratic	More formality
	Thinker	Less formality
	Planning expert	Less formality
Environment	Stable	More formality
	Turbulent	Less formality
	Absence of competition	Less formality
Internal processes	Long lead time	More formality
	Short cycles	Less formality
	Labour and capital	More formality
	Intensive integrated processes	More formality
	High technology	More formality
	Facing short range problems	Less formality
	Coordinative work Training	More formality
		Less formality

The need for formality in strategic management in large organisations is vital for its success and the management must formalize the process.

ISSUES IN STRATEGIC DECISION-MAKING PROCESS

It is extremely difficult to clearly define the manner in which strategic decision is arrived at. The process is too complex to comprehend as it cannot be easily analysed. It is based on complex mental process, where many factors are simultaneously considered. Hence, making a model of a decision process is quite difficult. Also, it is increasingly felt that dimensions, not very important in one case, were really vital in some other case, however, we can to a large extent understand the process if we consider various issues involved in the decision-making process. A typical decision-making process shown is Exhibit 1.18.

Exhibit 1.18 Process of Decision-making



Decision-making Criteria

The criteria for making decisions is governed by the objectives that the decision maker attempts to lay down. These objects give countability or measurability to the decision-making and can also indicate the quality of decision-making, its efficiency, and effectiveness. The criteria can be maximisation of a specific variable. The aim is to achieve the objectives at their maximum level with available resource. Some of the examples can be return on investment or value for money spent etc. When the concept is of satisfying criteria, the objectives are set such that they can be achieved satisfactorily and realistically. In the concept of continual evolving, the objective is to move ahead with consensus building. The consensus is reached among the group and the company moves ahead to accomplish the objectives through logical steps that are incremental in nature. There is rarely a quantum jump.

Rationale

Rationality in decision-making process implies presence of logical reasoning in arriving at acceptable decisions. A number of alternatives may be created and by paired comparison or through elimination process, strategic alternatives are arrived at. Usually maximisation refers to maximisation of profits, however, in other circumstances, it may refer to maximization of some other desirable attribute viz. value, return on investment etc. A rationale decision-making process must consider all the aspects of satisfying maximisation and continually evolving the vital factors and the nature of design requirements of the process and build a rationale of the decision process.

Creativity

Creativity and innovations bring in most unusual ideas. The alternatives generated may lead to break-through ideas. Companies tap the creativity of their people through various techniques viz. brain storming, attribute listing, Gorden technique etc. to generate alternative strategic options. Various novel ways of doing things are exposed and the objective may be achieved in an exceptional manner. It is vital for managers who are in the field of strategic management to develop creative ways of lateral thinking and looking beyond the obvious to come up with break-through ideas. The process involves short-listing of ideas and evaluating workable strategies with weightage scores.

Variability

No two people think alike in a given business situation. The two managers who are in the process of strategic decision-making will usually arrive at different decisions. This is often observed in real life cases also, where two managers are found to have a honest difference in opinion. The difference may arise due to different perception of the problem itself. Additionally, the two managers may differ in their approach due to their experience, training, mind set etc. The difference observed in decision-making is due to the

variability in nature. There can be no accurate mathematical model to arrive at exact solutions and hence the factors of variability is usually present in the decision-making.

Personality or Individual Factors

The age, experience, training, qualification, intelligence, values, etc. play a vital role in decision-making and quality of decision. Some of these factors may positively affect decision-making in a given situation, whereas others may have a negative effect. The creativity tapers down with increase in age. Similarly the managerial style of a person may also affect his decision-making. Different styles lead to varying degree of information availability and its assimilation, thus affecting the decisions. The values, ethics, beliefs etc. of a person also reflect on decisions taken by him.

Group Dynamics and Individual Decision Making

Group dynamics affects the decision-making process and the decision-making is generally through consensus. The personal factors may not be in tune with the entire group and hence differences are expected to arise in decision-making. The availability of information to the group and individual is different, which creates variability in decision-making. When groups are small individual decision-making thrives, but as the groups become large, the need for acceptance of ideas by the group becomes more difficult, and hence arriving at consensus is found to be a little more complex. Some organisations operate in an unique environment and have special characteristics of a group that affects the decision-making as in case of a hospital or hotel etc.

DECISION - MAKING APPROACHES

Each organisation has its own objective, structure, environment, business etc. and hence it has its own unique way of strategic decision-making. However, generally speaking, various organisations can be broadly classified to have the following approaches in strategic decision-making. The manner in which decisions are taken, have been studied by various management experts and categorised as follows:

Intuitive Approach

Intuition defies logic and in organisations that are owned by families or a single person who controls the business, decisions are sometimes taken, based on intuition alone. The person in-charge acts as a visionary and he anticipates the future and accordingly he takes decisions on strategic issues vital to the company. The entire thinking process is implicit and the logic is not evident to the people around. The person, based on his values, experience, age, exposure to the facts, environment etc. takes decisions that are strategically important for the organisation. Most of the family-owned small business groups follow this approach. In some cases, the decisions taken may not appear to be of good quality, however, there have been occassions when such an approach has led to quantum jumps in growth of some of the companies.

Opportunistic Approach

Some companies are in constant search for opportunities to maximise their profits. They do not leave any opportunity for taking benefit and are constantly in process of identifying and creating new opportunities for the benefit of the organisation. The strategies adopted by these companies consist of diagnosing the opportunities, generating alternatives to fully exploit them for the benefit of the organisation, analyzing the consequences of each alternative and implementing alternatives that may be best-suited to meet the objectives of the company.

This approach of strategic management is adopted by various forms of organisations involved in strategic decision-making, including family and small business. This approach is quite difficult for large organisations, due to their built-in inflexibility. Smaller organisations have better flexibility to make quick use of opportunities viz. a bad harvest, or breaking out of an epidemic, or untimely rain, or rise in price of a commodity, or change in government rule etc.

Incremental Approach

In this approach, the strategic decisions are not dramatic in nature but they are based on a small incremental approach. The changes suggested are not radical in nature, where the entire structure of on organisation may require complete change, and systems, procedure, and methods etc. may have to be evolved from the scratch. On contrary, the approach is to select a few alternatives that marginally differ from one another and the choice amongst them is made through an interactive process, thus continuously redefining the improved strategic posture based on feedback. In very large organisations, where several business units operate, the strategic approach of each of these units may be different and to a varying degree of intensity and the end result is the negotiated settlement between these interest groups. In public sector companies that operate under similar internal and external environment, their strategic approaches are incremental in nature.

Adaptive Approach

Various changes take place in the internal and external environment of any organisation and they adapt themselves to these changes. The way these changes are perceived by the organisations is different. The changes sometimes are very fast, and the organisations can be reactive to these changes. The reactions can also be very fast, depending on the size and structure of the organisations. The adaptivity of organisations to changes therefore varies, depending on various factors. When the business environment is uncertain, the organisations have no choice but to be adaptive and at greater speed, and the approach in such situations is termed as adaptive approach.

Structure Approach

Due to formation of highly functionalised departments and set procedures in organisations, where clearly defined organisational structures exist, the approach to

strategic decision-making is also essentially highly structured and formalised. The job of strategic planning and decision making is assigned to a specialised group that deliberates over various aspects of business and makes strategic decisions. Such organisations that follow structured approach tend to follow the text book methods to a large extent, the methodology adopted is very rigorous in nature and also time-consuming, but with the help of an expert, the approach becomes easier for analysis and implementation.

ROLE OF STRATEGIC MANAGERS

Strategies are developed by strategic management teams. The process for large organisations is very complex and it cannot effectively take place unless people at various levels are made to participate to arrive at meaningful conclusions. The team consists of managers from all the levels viz. corporate, business, and functional level. In addition to the data from external sources, the data from within the organisation is generated through participation of company-planning staff and lower levels viz. Junior managers, supervisors, and workers as the data generated for implementation of strategies is very vital for any company. The CEO of the company has to be essentially present including his team of other directors, business unit heads and heads, of functional groups.

The strategic decisions taken by the company are key to its survival and progress, and make a tremendous impact on the company and need widespread and large commitments of resources of the company, hence the presence of top managers in these teams is necessary.

These persons are often designated as General Manager, Managing Directors, Presidents, Vice-Presidents, Executive Vice-President etc. The traditional view of the General Manager is that he is a reflective thinker who maps strategy, creates design of an organisation and roles for people through the tactical plans to achieve the goals, using his vast experience, knowledge and insight, and sets goals. He is considered to be a strategist, planner, leader, and is aware of various human, technical, economic, and political needs of the environment of the organisation. He has to fit various units into a jig-saw puzzle through ever-changing circumstances.

The experience shows that CEOs have to simultaneously handle several factors, activities etc. on a schedule that rarely give him time to contemplate.

The process of intuition and judgement, depending on his perception, becomes the major and preferred decision-making mode.

Mintzherg's list of roles gives us an example of different roles that the CEO plays in an organisation and these are termed as interpersonal, informational, and decisional roles. As the head of the organisation the CEO has to perform numerous functions, that are legal and social in nature. While performing these functions the CEO has to keep the strategies of his organisation in mind. While staffing, training, motivating, directing, and performing several other functions, he has to keep the strategic directions

of the company in focus. The CEO has to essentially keep himself well-informed about the internal and the external environment and therefore has to create channels where from information will come to him. For this, he may have to travel, read periodicals, business magazines, conduct meetings within and outside the organisation, and also exchange information through writing letters, phone calls, faxes etc. The CEO has to ensure processing and classification of information such that it may be useful as and when required. He also has to give the information in proper perspective of the strategic management to create the desired impact within the organisation. While performing his informational role, the CEO has to keep the strategic focus.

The decisional roles that the CEO has to perform are vital for the company. The CEO perceives and interprets the information to draw conclusions based on which strategic directions are evolved. He has to take important decisions on resource allocation, like manpower and funds etc. and exercise control so that the resources are most optimally used for the growth of the organisation.

The CEO of a company has to play pivotal role in negotiating with unions, major suppliers, and customers etc. with strategic directions of growth in focus. He has to communicate with stake holders, outside and within company. The formulation of strategies, plans, and their implementations are an important realm of CEOs. CEOs are often helped by the planning staff in formulating the strategies. Even task groups are created that may visit various other companies and gather information, process it, and present it to CEOs that may help them to decide on the strategies. In the field of power equipment, BHEL has set up a team of managers who visited many companies viz, Escort, TVS, Siemens, etc. and suggested that future strategy should be to study business processes and reduce cycle times if it has to be competitive in the market, and accordingly various business units were given directive in this regards by the CEO.

Strategic management thrives in a congenial environment within the organisation. In case the CEO is autocratic in nature, the advantages of team work gets diminished. The CEO has to play a very positive role in ensuring participation and team orientation in his organisation for strategic management to prosper. The degree to the CEO plays his role in this regard determines the success of strategic management in the organisation.

Since the entire responsibility of the success of an organisation is dependent on CEOs, they play a dominant role in formulation of strategies and should display a strong will, a high level of company orientation, and a high sense of self-esteem.

BENEFITS OF STRATEGIC MANAGEMENT

Many studies in organisations have proved that strategic management has led to improved financial performance as generally expected. Since strategic management decisions culminate from vigorous interactions at all levels of the management, hence behavioural patterns in an organisation should also be measured and evaluated to arrive at benefits accrued in addition to the financial criteria. The managers having positive outlook and innovative approach contribute more to the growth of a company.

Strategic management leads to a culture of problem prevention. It encourages managers to be proactive. The strategic managers emphasise the need for good planning and they are helped by the supervisors and workers in this regard. Thus the culture percolates to the grass root levels. Working level also becomes involved with the strategic directions of growth and offers support to the management. This leads to more participation and sharing of concerns.

The benefits of group dynamics and teamwork are clearly visible while making group-based strategic decision. The alternatives are generated by interaction of group members who get involved in issues faced by the company. The alternatives generated are short-listed, based on expertise of fellow members who offer forecasts based on their wide experience. Hence, the managers become an integral part of the strategy formulation process.

Strategic plans that have interwoven responsibilities and authorities motivate employees. The activities of various employees are directed towards objectives and employees develop an understanding of various steps of strategic plan development and functioning of reward systems. Employees thus get motivated and participate in the process of implementation with greater responsibility of achieving results. Strategic planning and formulation process results in bridging various gaps and overlaps that might cause confusion or repetition of efforts. Plans that evolve in the process clearly define various required roles and the related responsibilities. Business processes also get defined to a large extent and ownership of each part of a process also gets carved out, thus leaving no corner for ambiguities.

Participation by members leads to more congenial and acceptable climate where cooperation of employees grows. This reduces uncertainty towards achieving objectives as the entire energy gets a spear-headed direction. Limitation of selected strategy and its worth is also well appreciated by employees and hence they have a more realistic approach towards objectives. Employees also learn to appreciate difference in opinion and still work towards meeting the accepted goals.

Companies adopting strategic planning do not rely on simple operational motifs. Strategic planning process contributes to enriching segmentations of a company by recognising all hierarchical levels and their matching with organisational structure. It gives scope for business autonomy, oriented towards meeting demands of external markets and recognises that shared resources and concerns should be accomplished to harness the potential strengths of the company.

Strategic management introduces a discipline on effective use of manager's time. It induces a logical thinking process, dovetailed with tasks that are scheduled, thus raising vision of all the managers. They are more well equipped to focus their energy on strategic directions of growth.

Strategic planning creates an environment where competence of managers develops by enriching their understanding of corporate objectives and business of company and the methodology by which objectives would be converted to realities. The

process itself is important for managers. Planning book is merely a by-product. It is a vital experience for managers when they involve themselves in communicational efforts, multiple and multidirectional interpersonal negotiations, needs of understanding and articulating basic issues that affect business and their personal involvement with issues and questions faced by business.

RISKS OF STRATEGIC MANAGEMENT

Whenever a process is formalised, conditions are created that impose a bureaucratic burden on the functioning of an organisation. This stiffles creativity, innovation, and new knowledge that may otherwise be free. There is a risk of losing track of primary objectives for which the entire activity was started and get lost in the bureaucratic jungle of hierarchies. An activity may turn into a game of numbers, making people sluggish on strategic alternatives that may be truly the central theme of the entire exercise. Strategic management is repetitive and time-consuming activity and managers may soon lose interest due to monotony. The entire activity may start with a big bang and with an exhilarating challenge, creating a lot of enthusiasm and commitment but soon, this may fade away and what would be left is a bureaucratic routine.

There are several ways by which one can stand against the perils of such situations. One of the approaches could be to avoid the monotonous audits every year and instead rely on comprehensive and extensive audits after a gap of about two to three years. Meanwhile, simply upgrading and toning of the strategies may also be carried out. It is wise to select a new planning theme every year, like value management, international business, process technology, business processes, value to customer etc., and it should be made inevitable for key managers to pay due attention to these key issues. Planning units deserving more attention should also be identified and given to break the monotony of bureaucracy. Innovations and creative thinking processes must be imbibed in the cultural fabric of the organisation practicing strategic management, and doors must be kept open for people to contribute for radical and dramatic changes or incremental changes that would enhance the pace of achieving strategic objectives.

Managers must also be trained to skillfully spend time in strategic management activities without affecting their operational responsibilities. Strategic management approach must be tried to be integrated in culture of company. This is quite difficult due to the requirement of formality, however, it is definitely required to be accomplished. It is often found that managers who formulate strategies are not involved in the process of implementation and giving inputs required for the same. This shrinks their responsibility. Strategic management, thus, should be done as a way to integrate all managerial capabilities within the corporate culture and values to assure strategic thinking at all levels in a company.

We know that organisations are fragmented into highly functional units named as departments and hence the strategic processes also have this element of fragmented

thinking and is often more intuitive. Managers proactively guide many actions and events to incrementally reach towards strategies embodying many principles of formal strategic planning. The top brass of the organisation that has the sense of vision, maintains shared concerns by managers in focus and permits a meaningful negotiation to set up a long-term objective. Thus, grand design and incremental thinking can be effectively synergised to meet the challenges.

The managers may become frustrated and disappointed due to unattained expectations and hence they must be trained to anticipate, minimise, and constructively deal with such situations. Managers misunderstand that their association and acceptance of their plans will fetch them all the associated rewards. Managers must be trained to negate such expectations, as successes may raise their expectation too high and failures may make them feel highly frustrated.

Earlier, in India (1950–80), the model of development was based on the following factors:

i. Need of permits and industrial licenses that resulted in a set back to entrepreneurship and initiative of people due to widespread corruptive practices that had taken roots. The government undertakings in some cases were forced to sell goods at prices lower than the cost price. The business environment lacked competition.

ii. Emphasis on self-reliance, thus making the Indian industry insulated from the world. Widespread eruptions of manufacturing units that made crude products, copying designs of communist countries because it was easier for them.

iii. The investments were that disproportionate to the their needs and hence uneconomical and self-defeating systems came into being.

iv. Large investments in public enterprises without accountability and autonomy that led to monopolies.

v. Spiralling taxation structure lead to evolution of parallel economy. The tax evasions were of a very high magnitude.

vi. The tariff protection that led to non-competitiveness.

vii. Very low foreign investments came due to complicated procedures and control.

It became inevitable for the country to change its mixed economy model, due to changes that affect the globe and instead the doors of Indian economy were gradually opened up for the global players.

Some of these reforms are:

i. Permitting inflow of direct investments

ii. Public sector reforms and making them to compete with global players

iii. Labour laws reforms

iv. Establishment of private banks

v. Financial sector reforms
vi. Tax Reforms
vii. Capital market reforms
viii. Currency Reforms
ix. Delicensing of industrial investments
x. Trade reforms etc.

QUESTIONS

1. What do you understand by business planning? Discuss various stages of planning.
2. Discuss evolution of organisations and today's Indian business scenario with reference to globalisation.
3. How do you value strategic management? Do arrive at a suitable definition of strategic management process.
4. What is strategic planning thinking? Discuss various aspects of budgeting and financial controls and emergence of long range planning?
5. Why is strategic planning necessary and what is the need of strategic management in the present context?
6. What are the various dimension of strategic management? Discuss various issues that the management faces during strategic management process?
7. What are the various levels in your opinion in which strategies should be formulated and implemented?
8. Discuss various characteristics of strategic decisions and issues involved in strategic decision-making process.
9. What is the need for formality in strategic management.
10. What are the various decision-making approaches used in strategic management?
11. Discuss role of strategic managers.
12. What are the benefits and risks of strategic management?
13. Evaluate the need for strategic management in your organisation.
14. What do you understand by the word strategy?
15. Discuss today's business condition and evaluate whether strategic management can help the situation.

CHAPTER

2

STRATEGIC MANAGEMENT PROCESSES

Organisations devise various methods for strategy formulation. The strategic management formulation and implementation methods vary with product profile, company profile, environment within and outside the organisation, and various other factors. Large organisations which use sophisticated planning use detailed strategic management models whereas smaller organisations where formality is low use simpler models. Small businesses concentrate on planning steps compared to larger companies in the same industry. Large firms have diverse products, operations, markets, and technologies and hence they have to essentially use complex systems. Inspite of the fact that companies have different structures, systems, product profiles, etc., various components of models used for analysis of strategic management are quite similar.

The strategic management consists of different phases which are sequential in nature.

PHASES

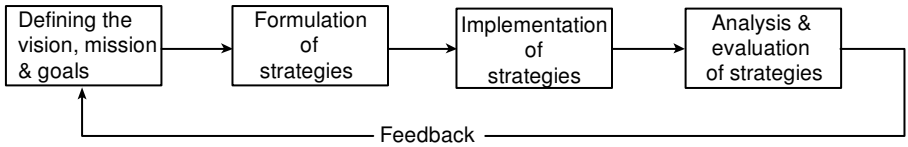
There are four essential phases of strategic management process. In different companies these phases may have different nomenclatures and the phases may have a different sequences, however, the basic content remains same. The four phases can be listed as below.

i. Defining the vision, business mission, purpose, and broad objectives.
ii. Formulation of strategies.
iii. Implementation of strategies.
iv. Evaluation of strategies.

These phases are linked to each other in a sequence as shown in Exhibit 2.1. It may not be possible to draw a clear line of difference between each phase, and the change over from one phase to another is gradual. There may also be retracing to a phase and going back. The next phase in the sequence may gradually evolve and merge into the following phase. An important linkage between the phases is established through a feedback mechanism or corrective action. The feedback mechanism

results in a course of action for revising, reformulating, and redefining the past phase. The process is highly dynamic and compartmentalisation of the process is difficult. The change over is not clear and boundaries of phases overlap.

Exhibit 2.1 Phases of Strategic Management Process



ELEMENTS IN STRATEGIC MANAGEMENT PROCESS

Each phase of strategic management process can be viewed to be consisting of a number of elements, which can be clearly defined with input and output relationships. The steps have logical connectivity and hence these are sequential. Some authors have defined twelve steps and others have included lesser number of steps, however, these steps can be illustrated with the help of a flow diagram. The following discrete steps can be considered as comprehensive.

i. Defining the vision of the company.
ii. Defining the mission of the company.
iii. Determining the purposes or goals.
iv. Defining the objectives.
v. Environment scanning.
vi. Carrying out corporate appraisal.
vii. Developing strategic alternatives.
viii. Selecting a strategy.
ix. Formulating detailed strategy.
x. Preparing a plan.
xi. Implementing a strategy.
xii. Evaluating a strategy.

STRATEGIC MANAGEMENT MODELS

Some of the strategic management models are shown in Exhibits 2.2a, 2.2b, and 2.3. We will discuss each of the elements of strategic management model.

Exhibit 2.2a Strategic Management Model

Company vision statement

Company mission statement

Company profile and what is possible

External environment and internal environment

Evolution—strategic choices and selection

Long-term objectives

Grand strategy

Annual objective

Functional strategy

Operating policies

Institutionising Strategy

Control and evaluation

Exhibit 2.2b Decision of Management

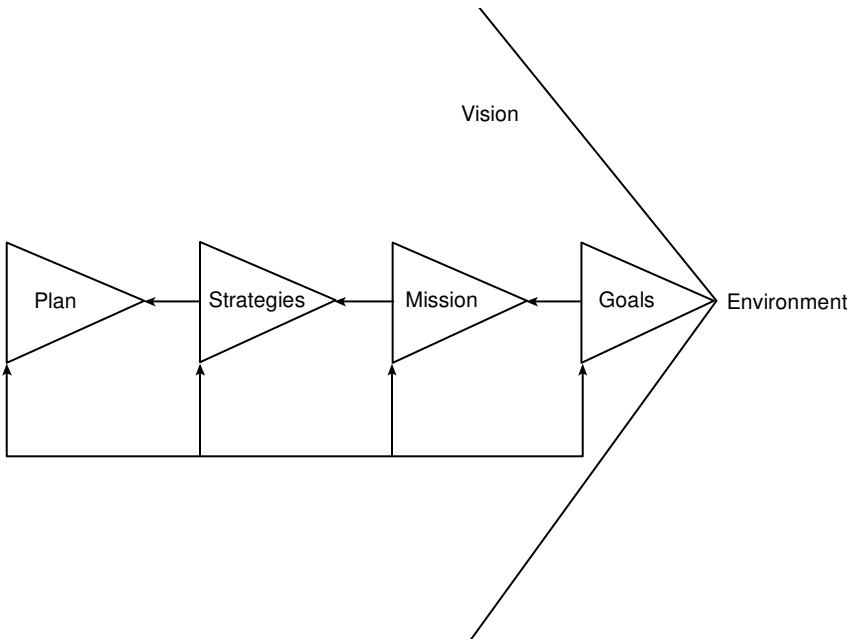


Exhibit 2.3 Comprehensive Model of Strategic Management

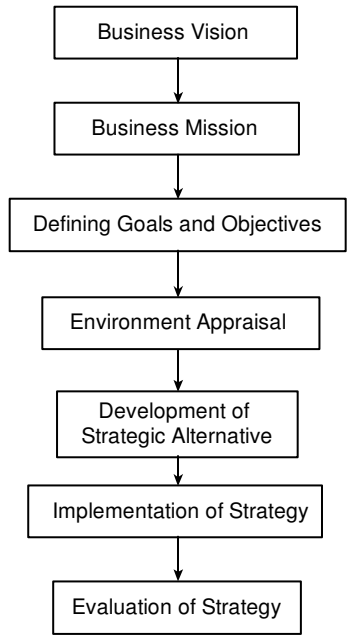
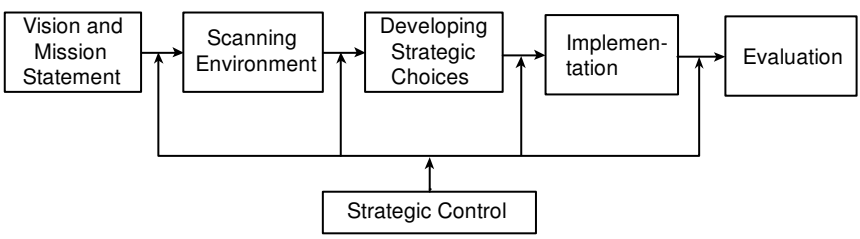


Exhibit 2.4 Working Model of Strategic Management



Vision of the Company

Vision of a company is rather a permanent statement articulated by the CEO of the company who may be Managing Director, President, Chairman, etc. The purpose of a vision statement is to:

i. communicate with the people of the organisation and to those who are in some way connected or concerned with the organisation about its very existence in terms of corporate purpose, business scope, and the competitive leadership.

ii. cast a framework that would lead to development of interrelationships between firm and stakeholders viz. employees, shareholders, suppliers, customers, and various communities that may be directly or indirectly involved with the firm.

iii. define broad objective regarding performance of the firm and its growth in various fields vital to the firm.

Vision is a theme which gives a focussed view of a company (Refer Exhibit 2.5). It is a unifying statement and a vital challenge to all different units of an organisation that may be busy pursuing their independent objectives. It consists of a sense of achievable ideals and is a fountain of inspiration for performing the daily activities. It motivates people of an organisation to behave in a way which would be congruent with the corporate ethics and values.

Exhibit 2.5 Statements of M/s Anupam Industries Ltd.

Mission

To deliver competitive product and services of global standard that delights customer through:

- Continuous technological upgradation in design and manufacturing process.
- Committed team work of highly dedicated employers.

Business Concept

To achieve our objectives, we believe in providing congenial, creative and challenging working environment for our employees, providing zero defect products to our customers in order to gain continued customer support and at the same time generate adequate rate of return on investment.

Vision and Values

Anupam aims to be a market leader into fields, we enter and be known as premier Company committed to excellence.

A sense of fair play, dignity of work, ethics and respect for people, permeate all our relationships with our business partners, our employees and our customers and the community at large. This has fastened team spirit and a sense of belonging which have contributed so largely to company's success.

Since we started 25 years ago, we have constantly strived to create an atmosphere of increased creditability in the eyes of potential customers in India and abroad. We realise that we need our customers more than they need us.

A strong sense of commitment has gone into achieving our objectives i.e. multi-disciplinary engineering, quality assured manufacturing, customer-oriented marketing and good after sales service.

We have faith in our visions and values……. It is simply common sense, good practice and very hard work.

Source: Booklet—Commitment to Excellence and Quality.

Many firms do not have clear vision statements. An indirect method of knowing whether a firm has reached the stage of corporate strategic management is emergence of a vision statement. Vision of a firm cannot be highjacked from a company, however, a firm may definitely get inspired by the vision statement of another firm. It has to be evolved after a lot of deliberations, brain storming, and thinking.

It is pertinent that an individual working in a firm should become an active participant and collaborator in accomplishing corporate objectives. He must understand and share the vision of the firm because he would have to contribute in transformation of vision into a reality through his or her actions. Total behaviour of people of an organisation should get conditioned by the basic framework of vision. Personal objectives of individuals are very important to them and only to fulfill these objectives people join organisations. Vision of a company when translated into action programme must be able to meet personal needs of people. This includes the need of achievement also. Vision of a firm thus encompasses personal objectives of people which they try to achieve (Refer Exhibit. 2.6).

Exhibit 2.6 Motivating People—The Pepsi Way

Pepsi fosters belongingness and ownership in employees from whom it also demands a lot.

- It awards one-time scholarship to children of employees to study abroad
- It has set up multi-skilled capability center in Delhi which offers training tools to employees growing from supervisory to manager cadre.
- It has introduced awards for best performing sales people in a country.
- It celebrates Pepsi-day which is a day long carnival with families.
- It supplies free beverages at employees weddings
- It sends flowers to employees on birthdays
- It encourages people to preferably use blue cars as blue is pepsi's corporate color.

Source: *Business Today*, November 22, 1998

Vision of a firm is in fact its corporate philosophy. Let us see some examples of vision statements of companies in Exhibits 2.7 and 2.8.

Exhibit 2.7 BHEL Vision 2001

Vision

A world-class, innovative, competitive and profitable engineering enterprise providing total business solutions mission.

To be the leading Indian engineering enterprise providing quality products, systems and services in the fields of energy, transportation, industry infrastructure and other potential areas.

Values

- Meeting commitments made to external and internal customers.
- Faster learning, creativity and speed of response.
- Respect for dignity and potential of individuals.
- Loyalty and pride in the company.
- Team playing.
- Zeal to excess.
- Integrity and fairness in all matters

Exhibit 2.8 Philosophy and Profile of Waukesha Bearings, USA

Wakusha Bearings, USA, have stated, 'We engineer customer success', What does this mean? What's the promise?

"To our employees, it means a process deliberate process of interaction and planning with our customers. We make sure our customers utilise our resources, talents, expertise, or in some cases just our products, to the best long-term advantage of their individual businesses. It also means managing our business thoughtfully, so that we deliver the value to our customers, need to maintain their competitive advantages. We can't ride dead horses, and won't be in business long if our chore customers don't prosper in their own markets.

For our customers who utilise our bearings engineering services, it means we use our best analysis, expertise design and business judgement to provide the most cost effective solution for the assignment. Not just a delivery, that enhances their competitive edge, as well as the value they provide to their customers.

To our customers who utilise our manufacturing resources, it means a high quality product at a continually improving cost of ownership. It means we're working to make sure that our costs from quotation to commissioning are in control and improving, and that our quality remains absolutely inquestionable. So they don't have to worry about either one. And they can tend to their business at hand knowing that they have chosen well in choosing Waukesha Bearings.

To the people who work on and maintain the equipment in the field, it means we'll be there when they need us, though fully listening, with sound advice and a real world answer to the problems they face on the job.

Overall it means we bring our customers a focused combination of our resources and know-how to provide the best bearings technology available, continuous cost and quality improvement support during emergencies and the most outstanding people in the industry.

Another way to say it that we give our customers a good night sleep. That's a promise.

Source: Catalogue, Day In, Day Out Dependability of Waukesha Bearings

The major components of a vision statement must consist the following.

i. Mission of the firm in terms of product, market, and geographical scope and a way to attain a desired competitive position.
ii. Clear identification of business units and their interrelationship in terms of shared resources and concerns.
iii. Statement of corporate philosophy, corporate policy and values.

Business Mission

The basic concept of mission of business is expressed in terms of products, markets, geographical scope alongwith a statement of uniqueness. At business levels the mission statement becomes more sharp and gets focussed on specifics. It is detailing out of the vision statement that reflects the strategic posture of a company. The mission statement is an expression of business purpose as well as needed excellence to achieve a position of competitive leadership (Refer Exhibit 2.9 and 2.10).

Exhibit 2.9 Statement by Lalita D. Gupta Joint Managing Director & Chief Operating Officer, ICICI In 45th Annual Report 1999-2000

"We have taken the leadership role in bringing the new economy paradigm to the India Financial Sector. We have used the power of technology to forge relationships with several key multinationals and to establish virtual partnerships with our corporate clients. We will continue to ride the technology paradigm and retain the cutting edge."

The primary information contained in a mission statement should be the required degree of excellence for assuming a position of competitive leadership, a clear definition of the present position, and future expected scope in business. The description is

usually broad and goals are achievable in reasonably short span of a time frame of three to five years. Business scope is explicit in stating what is to be included and excluded. Purpose of defining business scope is to clearly enumerate specification of current and future product, market and geographic coverage of business.

Exhibit 2.10 Statement by S.H.Bhojani
Deputy Managing Director, ICICI
In 45th Annual Report 1999-2000

"Leading its drive to attain global standards of transparency, disclosures and services, ICICI completed a full scope US GAAP audit of its accounts this year. ICICI also implemented ESOS (Employee Stock Option Scheme) to encourage employee participation in the growth of the company. ICICI shall thus remain committed to global best practices to maximize shareholder value."

Many firms suffer from marketing myopia and the contrast between the current and future scope is an effective diagnostic tool to caution against the myopic position of company. Information contained in mission statement should provide a way of selecting a method to pursue a position of either leadership or a definite competitive advantageous position.

Company Profile

Company profile reflects capability of a company depending on its resources. The resources may be available with the company or may be within the reach of the company. All types of resources in terms of their quality and quantity are necessary to be known for assessing the company profile. The resources may be physical, such as land, machinery, financial, and human, etc.

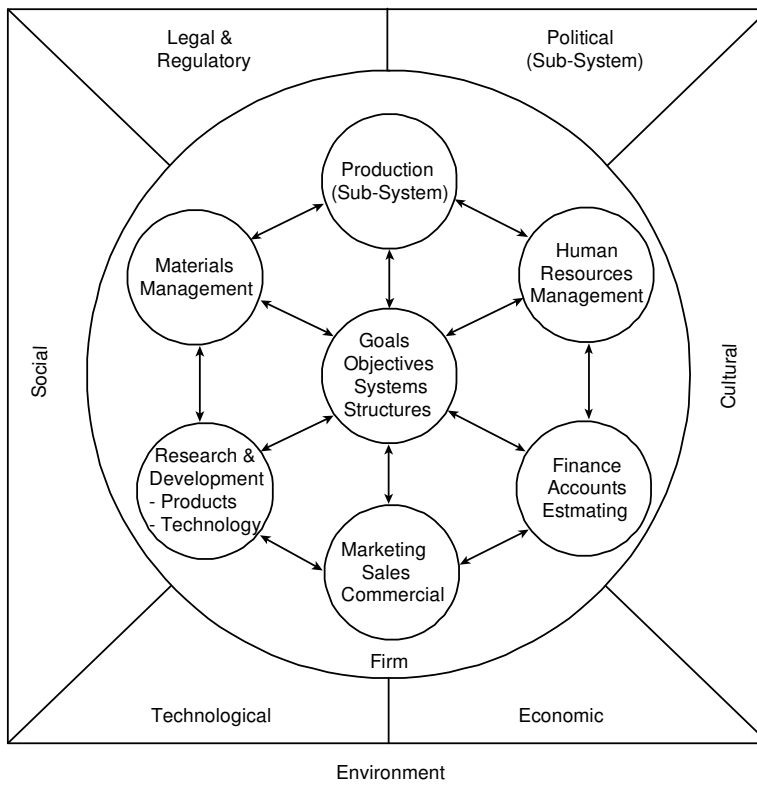
Company profile also illustrates weakness and strength of a firm in terms of its management systems and skills, technology, organisation structure, and depicts historical success of a company with reference to its present day concerns and future directions of growth. Companies may choose to alter their profile to gain a position in competition depending their strategies for growth, thus making them emerge with an entirely different approach. Some companies may go for a clean state approach to give an altogether different company profile.

External Environment

While it is vital for a company to explore whether current strategy of the company is working, it is also essential for it to determine how a strategy would work in an environment that would be faced by the company in the years to come. Environment is the outside and inside world of an organisation (Refer Exhibit 2.11). It is quite unlikely that companies would be dead right in forecasting environment, however, they can try to

be very near to the actual future environment using a set of definite logic. It must be understood that environmental forecasts are not simply extrapolations. Environment may take new courses and unthinkable changes may occur which may be important for the survival of a company.

Exhibit 2.11 Company and Environment



A manager must carry out analysis of environment because organisations cannot remain insulated from it and the environmental factors influence strategic management process. Environment analysis leads to generation of anticipated opportunities and plans for alternative responses (Refer Exhibit 2.12). This analysis also helps in developing a warning system and prevent threats or evolve strategies that would turn a threat to advantage of organisation (Refer Exhibits 2.13 and 2.14a, 2.14b).

Exhibit 2.12 Company and Environment

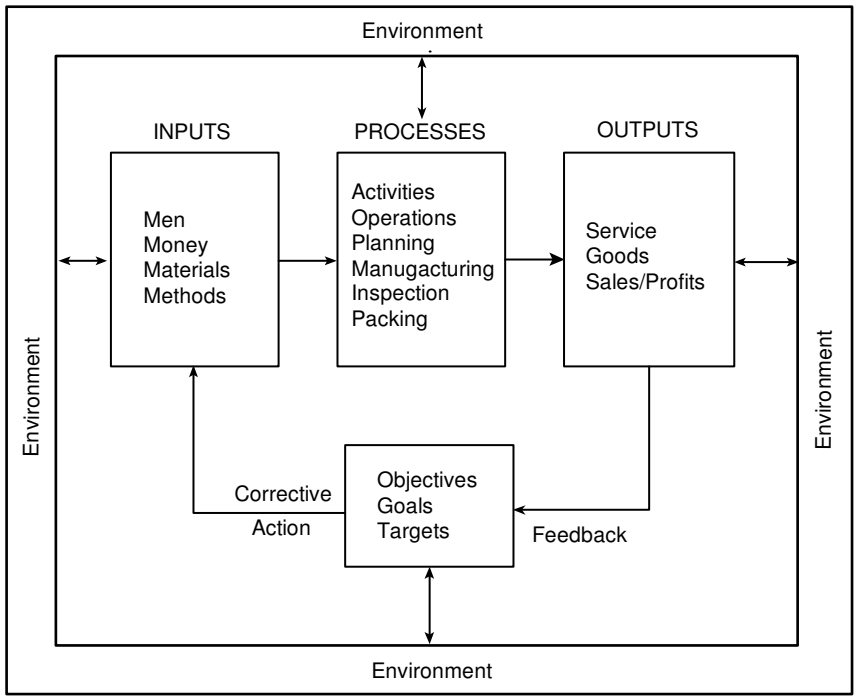


Exhibit 2.13 Process of MOU Formulation in BHEL

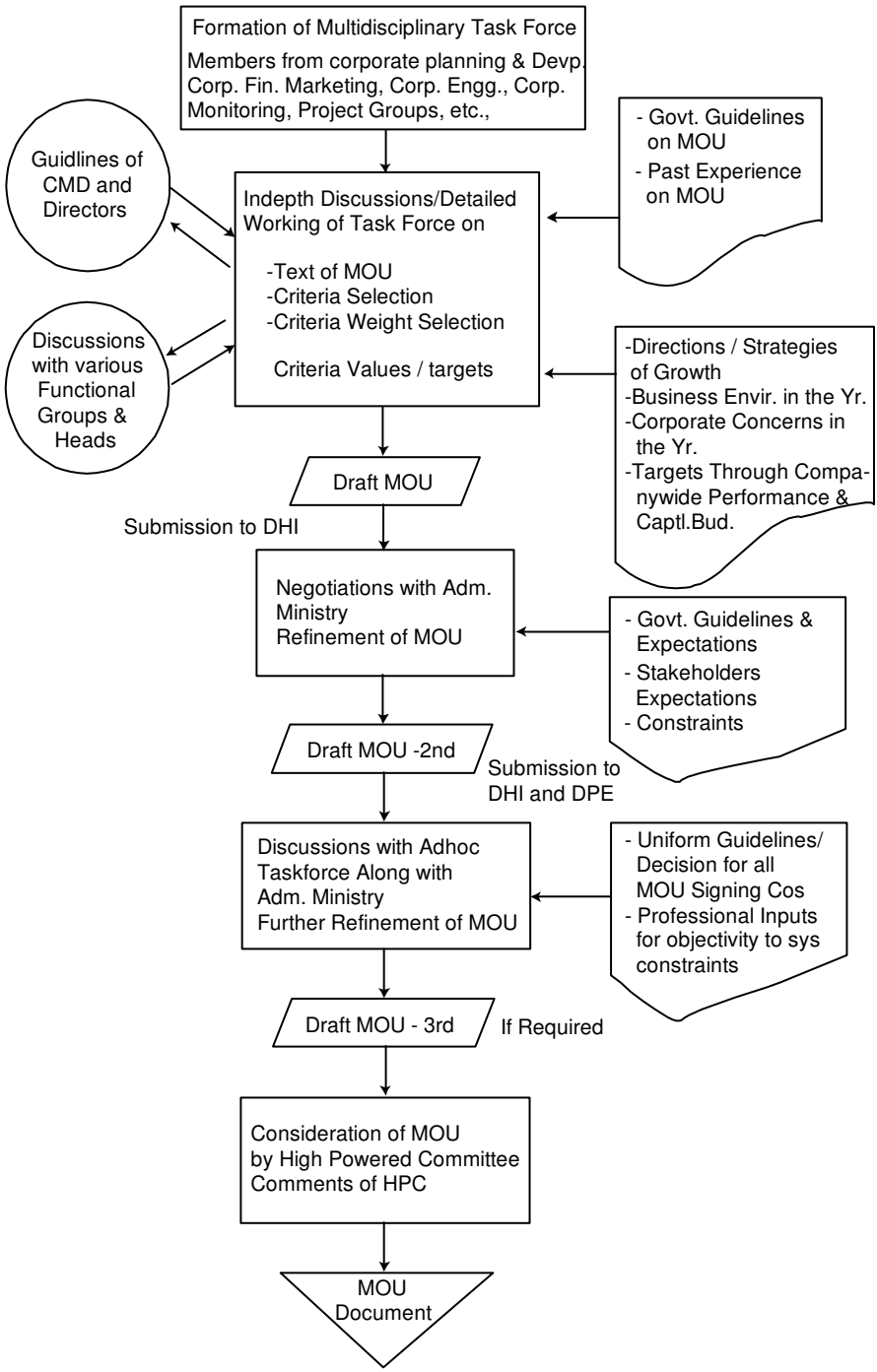


Exhibit 2.14a MOU Performance Evaluation System in BHEL

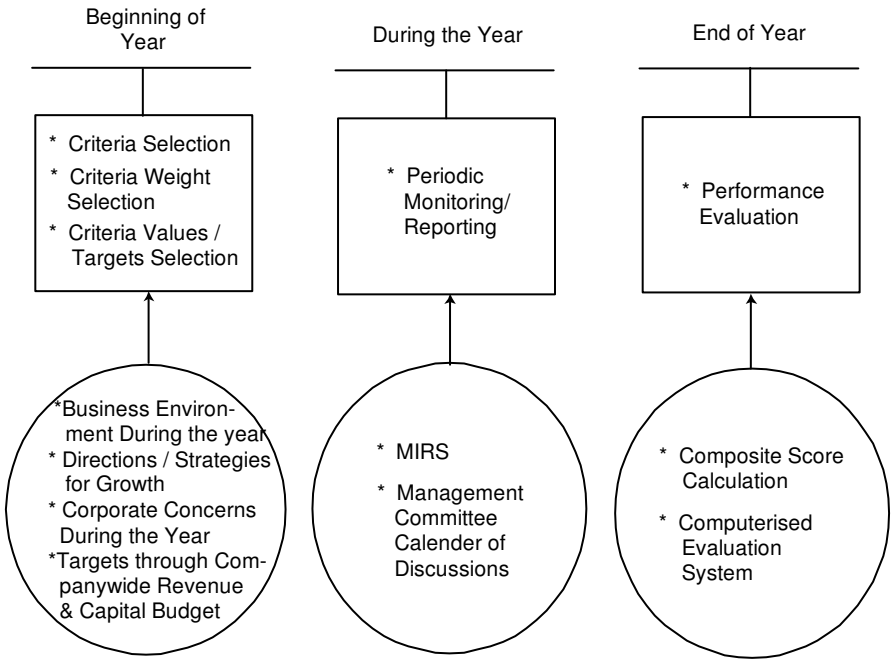
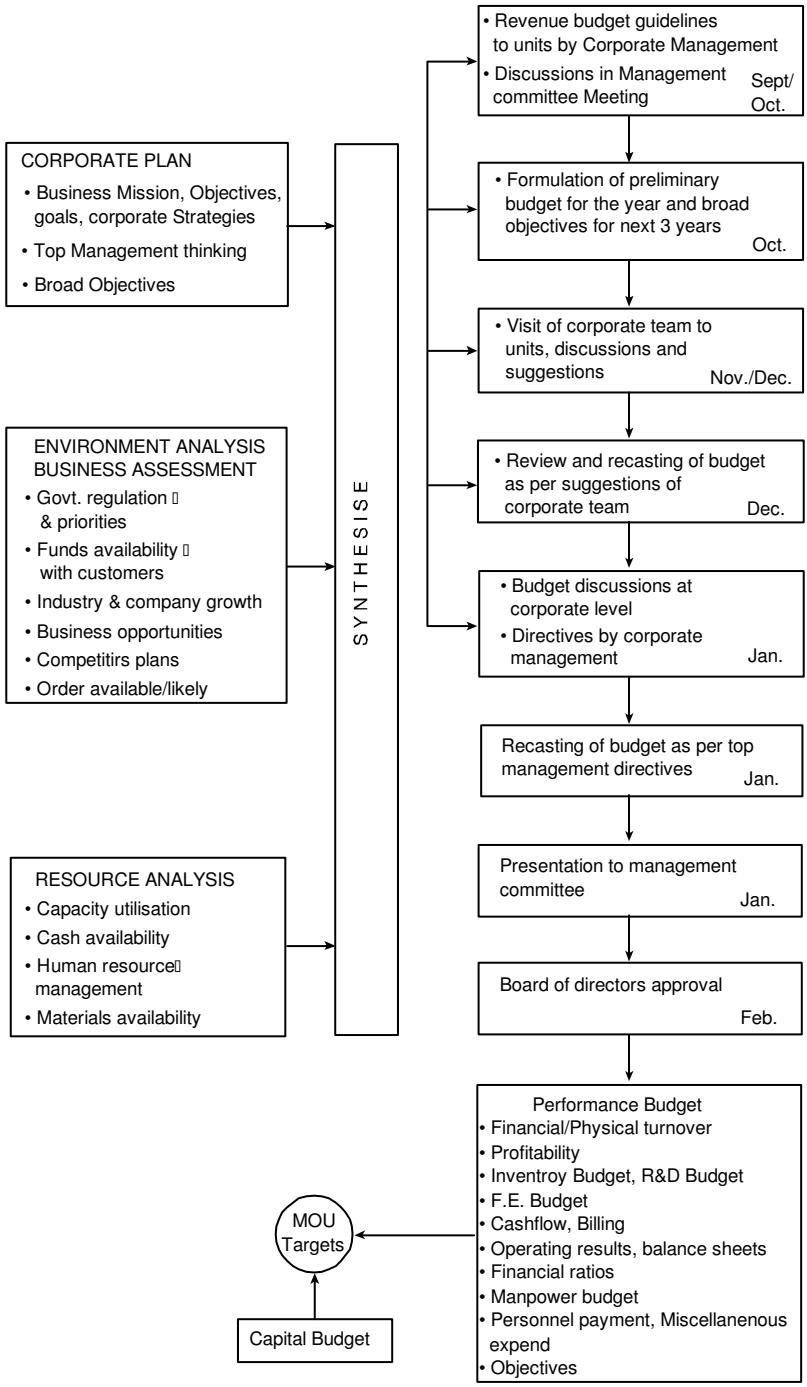


Exhibit 2.14b Performance Budgeting Process in BHEL



There are many examples of industries, companies etc., Which could not anticipate the changes taking place in their business environment and hence had to face the wrath of it. Managers must search environment to find out:

i. which factors in the environment present threats to the strategy of the company in terms of accomplishment of the objectives.

ii. which factors in the environment present opportunities for strategy of the company and which can be grabbed by the company to accomplish the objectives.

There is always a possibility of making wrong, inadequate, or over estimation of the environment and hence strategic managers must guard against such possibilities.

There are various types of environments viz. general, social, technological, legal, and regulatory that are affected by various driving forces viz. customers, suppliers, competitors, etc. Gathering of information on these various aspects can be made verbally or through written or documentary information, industrial intelligence etc. Gathering of information on these various aspects can be made verbally of through written or documentary information, industrial intelligence etc.

External environment of a firm can be viewed from different dimensions viz. political, legal, social, economic, cultural etc. The study of environment and its analysis relates to study of these dimensions in detail and an assessment of various strategies which get affected by these dimensions. These dimensions are never static and they also interact and interplay with each other, thus making the study even more complex (Refer Exhibit 2.15).

Exhibit 2.15 Shared World

Most of the futurists have been seduced by the overwhelming excitement of technological developments scooping the first world and they talk very little of majority of human kind of the third world. This prime driver, due to its size of population will dominate due to one man one vote rule of politics. The hegemony of the west will come to an end bridging inequality and substantially enriching other worlds. The economics of scales which have for long favored the multinationals may not hold any more true. The product innovations will travel round the world within no time and copies created or reverse engineered to defy new laws of intellectual property. Product launching hence would be global rather than limited to home markets. The individual ideas will also become global within a short time. Governments which intervened to control their economy for decades will be in sheer helplessness situation. The economic laws which hinged around exchange of physical goods are found to be irrelevant in more complex and intangible services. The money flows will become are more based on speculations. New super currencies may emerge

leading to more equitable distribution of wealth. New computer based economic models may emerge to solve problems.

Source: David Merger, *Future Revolutions*, Orion Business Books, 1998.

Environment can be viewed and classified in various ways. Some companies talk about operating environment and remote environment. Operating environment relates to the forces within a particular industry but external to a firm and which directly affects selection of strategy. Operating environment gets affected due to interaction of various forces like competitions, consumers, suppliers, stakeholders, etc. Remote environment refers to various forces and conditions that emerge due to general political, social, legal, technological and cultural situation prevailing in and out side the industry (Refer Exhibit 2.16).

Exhibit 2.16 Missing Opportunities

India is one of the leading suppliers of Zari to the world market inspite of the fact that a large production base exists in the country, it has not been possible for the country to take advantage of rising demand of Zari Handicraft in the world market.

The industry is plagued with inadequate production, poor delivery, poor product development, high prices, low quality, erratic production and non availability of raw material. There has been a constant deterioration of quality of Zari Handicrafts over the years due to poor quality of raw materials, colors etc. A tough competition from other developing countries is on the anvil who offer their products at lower rates.

Source: K.K. Sharma, "Zari Craftsman Fail to Cope with Demand," *The Times of India,* March 24, 1999.

Depending on its behaviour, the environment can be viewed as reactive, inactive, precative, and proactive. Environment can have a different kind of response to various changes and may be slow, moderate, or fast in responding to the changes.

Strategy Analysis and Choice of Strategy

In order to reach any position, it is essential to know for a company where it is at that particular time which implies that the current strategy of a company must be clearly known. The current strategy is a set of actions that managers are busy taking for meeting certain set and spelt out objectives. From the actions, decisions, and commitments of the managers one can infer the strategy being pursued in a company. Thus strategies emerge from simultaneous assessment of the environment and threats and opportunities and concluding upon course of actions and decisions to be taken to accomplish laid down objectives (Refer Exhibit 2.17).

Exhibit 2.17 Strategies in Development of Productive Road Infrastructure

The eighth Five-year plan document, in the context of road sector had no mention about financing the road projects through private sector and financing through international agencies was clearly defined. The present system of budgetary financing will not be able to meet the rapidly growing requirements. The road sector suffers from following major deficiencies leading to;

- increase in cost of vehicle operation
- increase in wastage of fuel resources
- increase in accidents
- increase in pollution
- waste of time in journeys

The possible strategic options for rapid progress in the road sector are:

- participation by private sector
- introduction of toll on existing four lane highways and using this revenue for further four laning. Toll revenue also to be used to make repayments of loans.
- creation of separate road development fund.

The strategies for privatisation could be

1. Build-own-operate (BOO)
2. Build-own-operate-Transfer (BOOT)
3. Build-operate-Transfer (BOT)
4. Build-Transfer-Lease-Operate (BTLO)
5. Build-Transfer (BT)
6. Build-own-operate-sale (BOOS)

Source: Prof. (Dr.) A.K.Gupta, adapted from "Transport Scenario and Development of Productive Road Infrastructure", *India technorama*, February, 1999.

Organisations rarely define their strategies clearly and explicitly. The first step in understanding the strategy of a company is to develop a description of what the company is exactly doing in each of its functional areas viz. marketing, production, design, human resource etc. It also amounts to understanding the objective of each sub-process and interrelationship of each of these processes with regard to objectives,

structures, systems etc. Analysis of a company's market place, price of product promotion etc. reveals its market strategy. The way a company sources, produces, and delivers a product or does service, is known as its production strategy and the methods it adopts for sourcing and using its funds is known as its financial strategy. Managers do not perform all these functions by themselves but they design systems and structures which will allow people to perform these functions. Human resource strategy in a company is concerned with methods that are used by managers to work through others to meet objectives set by them for the company.

Once a current strategy is identified, it must be evaluated in the internal and external context of company. Strategies are evaluated with regard to available resources and their ability to meet given objectives. Support of stake holders is necessary to make a strategy a success and hence their management is vital for any company.

Next stage in the process is to generate alternatives and evaluate these choices to select the final strategies. Options generated are evaluated on the basic pay-offs and risk potential and likelihood of its becoming the competitive edge firm. The strategic analysis process constitutes matching the possible, desirable, and available interactive opportunities with long-term objectives and also with viable means and the strategies. The set of variables, actions, decisions, factors, etc. which are thus selected are called as strategic choice. The criteria for comparing various alternatives is developed through deliberations amongst managers. Managers of a company may focus on risks, flexibility, stability, growth, profitability, diversification, liquidity, etc. considering one or more factors together (Refer Exhibit 2.18). The process of making strategic choices is very complex and calls for due attention to multitudes of factors influencing the decisions and must be carefully worked out.

Exhibit 2.18 Business Revolution

A revolution is in the offing in Indian business scenario. There is a sudden, momentus, and forcible basic reorientation of the business situation.

- Redefinition of markets:

  The markets are moving from regional and national to global markets due to trade agreements thus leading to expansion of potential markets with more fierce competition. The assessments of market environment needs more dynamism and new set of planning dynamics.

- There is a distinct shift of focus from producer to customer, the services offered and the quality of goods delivered. The entire product research, organizational structures, quality progress, planning etc is focused now on customer and it is now vital for companies to know their local and global customers and competitors.

- The information explosion has brought the world closer with regard to business ethics, product quality, customer preference etc. The work force having core competence has assumed new dimensions.
- Information technology has transformed societies and businesses and has control over strategies of business. The information technology has become necessary for organisations.

Source: Marilyn M. Parker, adapted from strategic transformations and information technology paradigms for performing while transforming

Long-term Objectives

Organisations plan for long-terms and develop long-term objective. These objectives cover various areas viz. return on investment, competitive position, leadership in a definite field, productivity, public image, employee development, profitability, etc. It is important that objective should not be ambiguous and on the contrary these should be clear and measurable. It should also be possible to achieve these objectives although it may be slightly difficult to do so. The objectives are the results one expects to get out of business one does, and the way one does this business is called the business process which must be long term. Objectives can be; increasing value added reduction of inventory to a certain level, training a specific number of employees in some skill, achieving business excellence, multifold earning per share, capturing certain markets etc.

Grand Strategy

Deciding of a long-term objective is immediately followed by major action plan. We know that environment is usually dynamic and deciding major action plans by taking dimensions of environment into account is called process of formulating the grand strategy. Grand strategy also takes into account the resources available and an analysis of required resources for accomplishing the objectives. Each company has to decide its own grand strategy and hence it is unique in nature, however, it would be fairly accurate to say that following are generally adopted approaches to selecting a grand strategy.

1. Marketing strategies
   - Market development
   - Market share
   - Exploring new markets for old products
   - Exploring old market for new products
   - Market research

   (Refer Exhibits 2.19, 2.20, 2.21, 2.22)

Exhibit 2.19 Brand Equity

In global markets, brand equity works as a strategic factor at three distinct levels. These three level are product, firm and country. The focus of brand equity is to make the customers positively inclined to use the products of that particular company. The brand equity emerges from several consistent strategic choices of a firm displaying its core values. We know that customers get swayed by names like Gillette, Microsoft, Tatas etc. If the purpose of government is to attract MNCs, the very character and constitution of the government becomes quite crucial for companies to come forward. Delegations visiting India for investment opportunities give due attention to incidents of storming, picketing, strikes and law and order situation. The safety of money and personnel is the prime concern for MNCs.

Source: Dr. Arun Kumar Jain, India Brand Equity Fund, Competing Globally the Wrong Way, *Indian Management*, Jan–Feb, 1999.

Exhibit 2.20 Concurrent Engineering

A survey conducted in 1984 in Japan among CEOs revealed that the prime duty of a CEO is to increase market share and also increase the ratio of new products to the old. It was also suggested that the later is more crucial to the first.

The focus of new product development should be on the customer's needs for his delight and success. The concurrent Engineering aims at simultaneous development of products and the related process to meet the customer's needs and built into the product as a bundle of functions. The design absorbs 15 percent of cost but commits 85 percent of it and is an investment rather than cost. Hence product development need not mean producing new products but may mean adding more value for money that the customer pays.

Source: *Economic Times*, November 29, 1998.

Exhibit 2.21 Entry of Nepal in Copper Wire Industry

About 200 units of copper wire industry are in the pipeline in Nepal a country which does not produce any copper. The country has 5 per cent import duty on copper rods, in contrast to India which levies 35 percent duty. The bare copper wire produced in Nepal will come to India for enameling without any import duty due to Indo-Nepal free Trade Treaty.

Source: *Business India*, Nov. 30 – Dec. 13, 1998.

Exhibit 2.22 Success of MNCs in India, the Guiding Factors

The Indian partners need alliance due to lack of technology for making products, paucity of funds to make huge investments and take the risks involved in acquiring these skills, low capabilities and resources. The MNCs on the other hand seek alliances to maintain their global leadership in business and perceive India as a potential market for their business. The Indian partner provides the knowledge of the local markets, uses local connections for smooth sailing and help in easy startup. The MNCs provide technology, process, equipment, product design, quality methods, brand image and a part of the capital.

The MNCs have superior learning capabilities due to their exposure to the world market and hence they learn very fast about the local market conditions and can use the arising opportunities with better skills. The local knowledge (language, culture, performance etc) is best known to the local manager who would be interested to shake hands with MNCs. The technology absorption and appreciation of good quality is the most difficult part of this alliance, however, continual upgrading of their learning capacity is almost a pre-requisite for protecting the equality of partnership for an Indian manager.

Source: *Economic Times,* November 27, 1998 & Sumantra Ghoshal Series

2. Integration strategies
   - Backward integration
   - Forward integration
   - Horizontal integration

(Refer Exhibit 2.23, 2.24, 2.25, 2.26)

Exhibit 2.23 Concentrating on Core Competencies

The US based Timken company has acquired the 40 per cent stake hither to held by TISCO in Tata Timken Indian Ltd. taking its share holding to 80 per cent. This acquiring has been done as a part of global strategy of Timken to concentrate on its core competencies.

Another UK based global steel giant Ispat International is out to buy Unimetal, Tefileurope, and other related subsidiaries of world's second largest steel producer Usinor.

Source**:** *The Times of India*, March 4, 1999.

Exhibit 2.24 Alstom's Strategic Moves

Alstom has entered into an agreement to acquire ER Equipments Electricos which specialises in manufacture of air core reactors and line traps in Brazil.

The acquisition will strengthen Alstom's presence in North American and Latin American markets where ER has an established reputation since 1967.

As part of Alstom, the new company will have new business opportunities and would address wider customer base.

In another strategic move Alstom have sold its subsidiary Alstom Vannes specialising in industrial valves to TYCO Flow Control Holding SA . .pa. pa

Source: *Business India,* May 25, 1999.

Exhibit 2.25 Glaxo's Takeover Strategy

As soon as T. Thomas the chairman of the 700 crore Glaxo India expressed the intentions of his company of acquisitions, the market rumers have sent the stock prices of the possible candidates shooting through the roof. The possible take over included multinational company, German Remedies, Cipla and Merind Analysis have pointed out that Indian Labour laws are a major stumbling block as laying off of people is quite difficult in India

Source: Adapted from *Business World,* August 1997.

Exhibit 2.26 Breakups

Breakups have been called by different names like spinoffs and demerger also. In fact down sizing has become an accepted practice in corporations access the globe. The rationale behind breakups is the erosion of values between different businesses of a corporation. The overall performance of SBUs is found to be much smaller compared to what they would have if they were independent units.

Source: Adapted from *Business World*, August 1997.

3. Overseas strategies
   - Globalising Business
   - Being multinational company
   - Licensing abroad

(Refer Exhibit 2.27)

Exhibit 2.27 Legal Protection for Brands

Prominent brands viz. Nike, Benettor, sony etc. are being helped for protection against misuse of their brand equity through new laws on the anvil. These laws are being framed under India's obligation under Trips agreement of 1994 and the MNCs would now be in a position to take legal action against piracy of brands and products. Under this law the government will stop imports of fake or pirated goods which hither to were being rampantly imported from Nepal (e.g. NIKE Shoes, Casio Calculators etc.). Under the legislation of designs the government will protect designs of products, for example, Reynold's pen.

The laws on geographical indications for protecting Basmati Rice and Darjeeling Tea etc will be framed. Many companies in Brazil, Taiwan and Kuwait use Basmati as their trade mark not only for rice but for many commodities like coffee, tea, sugar, cereals, bread, cakes, biscuits, etc.

Source: T.S. Vishwanath and Sharif D. Ragnekar, "Law to protect brands, design on the anvil," *Economic Times*, March 17, 99.

4. Logistics strategies
   - Rationalisation of distribution
   - Excess capacity
   - Rationalisation of product
   - Rationalisation of services
   - Rationalisation of product line
5. Efficiency based strategies
   - Methods efficiency
   - Technological efficiency
   - Manpower efficiency
   - Productivity
   - Value oriented
6. Opportunity strategies
   - Hesitation
   - Pure survival
   - Maintenance
   - Abandoning

It is not possible to encapsulate all actions that a company would take while implementing any one single grand strategy. The above list is not exhaustive and companies may come up with entirely new concepts in deciding their grand strategy.

Selection of a grand strategy depends on many factor like environment, objectives of the firm and its strategic positioning etc.

Annual Objectives

From long-term objectives are born annual objective of a company. The long-term objectives when knocked down, lead to decisions on annual objectives or targets. In case a company decides to attach an increase in value added of ten percent in 10 years, then it may like to fix the annual objective of value added as one percent. It need not necessarily be a straight-line relationship. Some companies may strive for quantum jumps initially and in later years they may plan for growth which may be incremental in nature. In a typical company aspiring to cut down costs of its operations over a period of 10 years, may decide its annual objectives by selecting, first the key cost areas and then fixing the cost reduction targets to be achieved annually. A company which is in the field of manufacture of power generating equipments may decide to fund certain power projects to keep its employees busy and also generate profits and create surplus.

Functional Strategies

Each grand strategy can be broken down into functional strategies at operating level. Company may have several departments which perform certain functions. Grand strategy chosen at the organisational level would have its share from each of these departments which should inturn decide the course of actions leading to accomplishment of objectives given by the grand strategy. When a company decides that it would become a market leader in a particular industry then all the departments viz. marketing, design, manufacturing, packaging, advertising etc. will have to fall in line and evolve strategies at the functional level which must be in congruence with the grand strategy chosen and the business vision. Usually, functional strategies are directly linked to annual objectives and therefore a measurable assessment of the annual objectives is necessary to make an assessment of objectives of the following year. Annual budgets of a company are closely linked to functional strategies and are reviewed from time to time.

Business Policies

In hierarchy of any organisation, managers at different levels are delegated with executive powers for guiding their decisions and actions. These executive powers and guide lines for thinking and acting in a manner that would be helpful in meeting a long-term strategy of a company is called a policy of the organisation. A company may have a policy document on integrity, financial aspects promotion of personnel, marketing etc. These may also be referred to as standard operating procedures and serve to make managers more effective since routine decisions are standarised in the form of policies. Due to availability of policy document, it becomes easier to accomplish functional objectives as clarity is developed for specific actions to be taken as per delegation of powers.

There are many examples which can be catergorised as policy decisions.

- An office order that managers and above can travel by first class.
- A circular stating that indents having estimated value more than Rs. 1 lakh to be signed by Deputy General Managers.
- A company wide decision that promotions will be stopped for next two years.

Institutionalising the Strategy

It is important that strategies must be institutionalised i,e they should be in the very fabric of an organisation and strategy should be operational while performing day-to-day functions. The strategic decisions should not get formed only in parts of plans and gather dust but should be felt pulsating and throbbing in the actions taken. The first step to translate long-term intentions into short-term guides and actions is making a strategy operational. In order to make strategies operational organisational structure, leadership, and culture play a very significant role. Successful implementation of a strategy depends on effective integration of all of these factors along with able management.

Evaluation

A continual process of evaluation of strategies is necessary. Evaluation process must be an integral part of strategy implementation because it keeps the entire program on the tracks. Evaluation is done on the basis of objectives defined and measures decided for evaluation of effective implementation. The purpose of evaluation is to introduce objectivity in meeting the target clearly defined by the strategy. Managers must keep an eye on the likely responses from various functional groups and the parts of business processes where strategies are implemented. The market response measurement is also important for evaluation of strategy.

Control of Strategy

Strategy must achieve objectives for which they are designed and for this purpose controls are to be exercised at defined levels in an organisation. The amount of control required is dependent on many factors viz. the size of organisation, the business process, number of business segments, structure of organisation etc. Control should be such that it should yield the desired corrective action. The required control which is to be exercised depends on variation in results. It may be important for some companies to even decide on the control strategies that they would adopt.

STRATEGIC MANAGEMENT VIEWED AS PROCESS

A process has defined inputs and outputs. The inputs in a process undergo changes to create the desired outputs. The desired outputs are one of the objectives which are expected out of the process.

In a typical strategic management process, all kinds of information is required. Historical data, current information and forecasts on the business, various operations

and details pertaining to environment are some of the important requirements. The business and its various operations and details pertaining to environment are required to effectively assess the process. All this information is to be processed taking into account the values and culture and internal environment of an organisation. The persons who have stakes in a company are also considered as they exercise their power to see that their interests are guarded. Groups which work in an organisation are also important and must be considered in the entire process of strategic management. In fact, strategic management process can be viewed as business process of an organisation crossing all the boundaries of highly functionalised groups. Objective of strategic management process is to evolve a strategic plan which would include formulation of strategies and develop methods of implementation of these strategies to meet long-term set objectives of the company stated as vision and mission statements.

In a process each element is dependent on the other for inputs it receives and the output it delivers. Each stage has a defined role to play and in case any specific stage does not effectively play its role the entire process gets corrupted. When strategic management is viewed as a process, some important facts are revealed.

In the overall cycle, each stage affects the previous and the fore stage, as depicted by arrows in the model. The flow of information is two ways and hence the impact is also two ways. Let us consider external environment as an illustration of the fact. Any change which occurs in external environment affects formulation of strategy. In case there is a change in Government regulation a company affected by it cannot afford to sleep over these changes. A company may have to study the implications of new government regulation in its strategy and make changes wherever desired. Similarly, when government thinks about bringing some change in a regulation, it would generally take into account views of various companies in the industry getting affected by the regulation. Harmful emissions from automobiles have always of concern for the Indian government but it cannot enforce the legislation without seeing its total impact on the society at large, including the users of old vehicles, road side mechanics, and a series of new cars entering the market. Thus, the forces present in the external environment make it mandatory for the companies to account for their interest while formulating business missions and reciprocally the environment legitimises the mission of the company existing in that environment. Before the liberalisation policy there were hardly any companies who had a mission to become a world-class company but today most of the companies aim at becoming world-class in their respective fields.

A company may call its mission by different names but essentially it serves to link the organisation to society. Many companies define in their mission statement that they would devote themselves to develop significant resources to diversify into high-tech areas and market oriented businesses with superior growth and profit potential and consistently increase exports in line with national goals, which is generally in line with the program of the government.

Another implication of viewing strategic management as a process is that defining business vision and mission, strategy formulation and its implementation are sequential.

Any process has this important characteristic that each element has to be sequential. One cannot perform a process by being haphazard in this approach. Assessment of environment of a company is vital for formulating strategic options otherwise the strategies may not work for objectives for which they are designed. The development of company profile is a must for formulating the strategies or else the company may formulate some highly ambitious strategies which may be of little practical use. The entire exercise may lead to building castles in the air.

The process of strategic management begins with introspection by the company, i.e. analysis of its strengths and weaknesses. Company mission statement is reviewed and revalued and a new statement is arrived at taking all the factors, internal and external to a company into account and the likely impact of each of these factors is carefully analysed on the total mission of the company. After this process is complete, strategic choices are developed, most suitable strategy is selected, long-term and short-term objectives finalised through a feed back process, operating strategies are designed, experimentation and pilot studies conducted, if required, and the evaluation of strategies made for institutionalising and continual review and necessary updation systems are also designed and installed. The need for measure of rigidity with which the process is to be followed must also be known from the measurement accuracy and the results of measurements and an awareness program taken up by the company to draw support from its people.

Strategic posture of a company is vital for it and its knowledge to the manager of the company must be in very clear terms. People at the helm of affairs must really understand the strategic posture of the firm. The strategic posture of a firm is defined using a coordinate system of principal factors that affect the position of a company. Significant factors for a company are chosen and its strategic posture and position is defined. Various factors which affect strategic posture of a company can be entry of a major competitor, death of an important board member, loss of major order by company, replacement of the chief executive of company etc. There may be many more on the list of the company which many affect its strategic posture and on the event of happening of any one or more of these incidents the company has to essentially reassess its strategic position. The process of reassessment, in fact, is built into the measurement and evaluation process itself and indicators may be on for reassessing the vision and mission statement of the company. The strategic management process begins in the reassessment of the mission and vision statements and undergoes the complete cycle of events as already depicted in the model.

In cases of very stable environment, which is in fact a matter of history, the companies need not go through the reassessment process of the vision and mission statements. The stability of the environment is no more there, however, in future, theoretically a situation like this may occur wherein vision and mission statements may be required to be reviewed only after a long period of time. In the past, it was often found that companies were generally satisfied with their original statements of vision and mission even after a decade. In India, after liberalisation of economic policies most of the giant companies are busy in reviewing their vision and mission statements.

Today most of the corporate sectors are busy doing formal strategic planning and are spending considerable time in addressing each component of strategic management. The objectives of companies are being up dated each year and rigorous assessment exercises are continuously on.

A very important aspect of viewing strategic management as a process is its continual feedback on each stage of evolution of strategic management policies and plans. The feedback is also vital from the point of view of institutionalising the strategies and a continuous review of status of implementation and measurement of results is necessary. This offers a lot of scope for improvement in the process of institutionalising the strategies and making them more effective in accomplishing the desired results. Feedback is given based on the measurements conducted at each stage. The cause and effect relationship at each stage of strategic management define the input and output relationship and measurement of the effect is done and given as inputs to get the desired and measurable effects. Thus future decision making is made more simple and quality of decisions is enhanced due to better quality of inputs. The strategic management process must attempt to assess the impact of implemented strategies on external environment. Future planning which is essentially required to be done takes into account the effect of these impacts and precipitates that they may be required in the strategic actions. The strategy managers eventually use the feed backs for modifications in strategies.

We know that environment and other factors important to a business are never static and this dimension makes the entire process of strategic management as dynamic and ever changing. The interrelated and interdependent strategic activities have to constantly change as per the needs of the changed conditions. The basic approach to planning in freezing the changing conditions and making plans based on this axiom, whereas practically the actual conditions keep on changing, making it imperative that the plans must continuously be updated. Strategy managers must recognise this factor carefully while making strategic decisions. Managers must appreciate that internal and external environment is dynamic in nature and must be constantly monitored and significant changes in any of the stages of strategic management process must be identified and their consequences estimated to arrive at strategic decisions. There is nothing like an absolute strategy in the ever changing environment. We know that government polices, economic situation, aspirations, due requirement of people, demands of unions, etc. are assuming newer dimensions everyday and the strategic management process must actively consider these and other factors which are significant to a company.

LIMITATIONS OF THE MODEL

It is vital for a company to understand the limitations of the strategic management model in order to be able to plug various lacunas when applied specifically to their company. The usefulness of the model is more if its limitations are well appreciated and users are well aware about methods of overcoming these limitations by being aware of

various factors and being judicious in identifying their cause and effect relationships. This awareness also induces more effectivity to the strategic management process. It must be clearly understood that the practical models which are used by different companies are similar to the one presented in the book, however, the model is modified and tailored to suit the requirements of a specific company on case to case basis. This is done through use of experience with regard to various factors and their inter-relationships for a specific company or industry. The three important limitations of the model are discussed as follows:

Holistic

The model presented is holistic in nature. i.e. the philosophy of the model is based on assumption that strategic management planning should be initiated at top level of an organisation.

The model presents a broad perspective and hence the process is assumed to be triggered off at top management level and at the functional level detailed strategies are to be designed to meet specific needs of a functional group. The approach is to study the business as a whole first, and thereafter accounting for the total competitive environment surrounding organisational operations. The model is basically in three tiers i.e. at top management level, functional level, and the operating level. At operational level, action plans are developed in greater details and measurement criteria established. In contrast to holistic approach, there is tactical approach, which is highly situational in nature and largely based on the available opportunities. In tactical approach the managers work up through their firms and study available potential of the firm to meet various challenges. They obtain an operational view of the firm's strength and weaknesses and workout the ability of their firm to meet the challenges imposed by external environment. The holistic approach is found to be theoretical in nature and hence the planning that may ultimately emerge out of this strategic management model may be unrealistic. Managers would tend to overlook scores of difficulties that may arise in implementation process and may come up with unrealistic planning. The holistic approach often culminates into a highly theoretical plan as managers tend to overlook finer details. The finer details in the entire plan may be of great significance and may affect the final strategic decisions. In order to make the plans operational it is vital that each of the finer details be worked out and possible threats to the implementation process worked out in advance. Although it may be really difficult to envision all the problems that may be faced, however, managers can add from their experience and from the results of critical study regarding the internal environment of the company which is necessary to be conducted by all companies. The tactical approach on the contrary has its own limitations because here the planning becomes more rigid. Managers focus more on the operational details and are over cautious of the risks. They sometimes resort to overstating the factors of status quo due to their very tactical approach. The view is myopic as stress is more on immediate operational concerns. The planning also concentrates on these concerns only thus missing out the important opportunities on way. Overall planning function is almost absent and focus is on

narrow operational problems. Whatever planning is there, it is disjointed, confused, and complicated and hence evolving a unified strategic plan is difficult. Focus is usually on the present, Future plans, opportunities, threats etc. are all considerably ignored. We know that strategic management is all about the future. In tactical planning, focus is on making improvements in the current position of a company. In tactical planning emphasis is not on satisfactorily meeting a futuristic need which is the basic objective of strategic management.

Strategic management model which follows step-by-step procedure based on scientific collection and analysing of data is more superior to tactical planning which primarily concentrates on immediate gains. While following strategic management model, it is very important that data should be accurate. Data should be collected from right sources and should be verified and validated. Managers at middle and lower level feed in operational data based on which strategic management model works and hence their voice must be heard. There is a likelihood that these levels of management may be ignored since they do not directly participate in strategic management process, however, they are the information providers. Their voice speaks of real problems that strategies may encounter and hence their advice must be taken during process of strategic management.

Analytical

It must be noted that the strategic management model is analytical in nature. It does not specify the procedure which must be followed by a specific company. The model does not detail out various logical, sequential, and analytical steps that companies generally follow while designing strategies. It does not detail out each step for a specific company and each company may have to write its own script. The model cannot be said as ideal and ready to be used by all companies. In fact many companies have used different models and achieved great success. The model is only a general approach to strategic management. The model does not ensure definite success and each company may have to make additions and deletions suiting to their specific needs.

Nonpolitical

Any activity in strategic management process is done by the people involved. One should appreciate that in any organisation people who participate in the strategic management processes bring with them problems related to interpersonal transactions. Various problems that arise due to this can be subjective assessment, incorrect interpretations, errors, biased view in some issues favoring a few, decisions based on over generalisation of facts etc. Thus we see that behavioural aspects play a significant role in strategic management and problems usually associated with group dynamics are also present. It is vital for management to analyse carefully into this aspect of strategic management and organise people to get best out of them in a given situation. Strategic management models assume that managers involved is strategic management exercise are skilled in human relations and able to sensitively and skillfully handle

situations of interpersonal relations and behaviours which arise in various working situations in any organisation. People related issues must be handled with care otherwise the entire exercise of strategic management may become futile. In order to have a clear focus, the top management must help to build a congenial climate wherein healthy and fruitful discussions through brain storming, foster creativity and innovative thinking rather than wasting energy in clashes with each other.

Evolutionary

Strategic management process is evolutionary in nature. One cannot just sit in a closed compartment and come out with magical strategies. Strategies that are evolved through detailed discussions and deliberations on each issue are initially generalised in nature and get cast over a period of time. Executives first have a general idea which gets more clarity as the discussions and exchange of ideas proceeds. This happens because the entire business is studied with a holistic view in the context of environment and other vital factors internal to a company. A generalised view of environment for vision and mission of business is developed which gets more specific when it comes to sub-business units and operations. Thus strategies evolve through a process of discussion over various issues like planning system, perception of usefulness of strategies, involvement of managers, time to be spent on strategic management, acceptance of results of deliberations, resource deployment, consistency between budgets and plans, attention to social issues etc. As the discussions are held in a frank and open way, managers gain confidence and their participation gets more result oriented, specific, and business like. A clearer insight into knowledge, experience, skills, and understanding of the process of strategic management is developed which yields positive results.

APPENDIX 2.1

MANAGING MERGERS—IT WAY

By S. Lomash

According to a research conducted of several organisations in 1997, it is found that about 70% of mergers and acquisitions fail to produce results, as desired, and about 50% of such deals entirely fail. It is also found that the failures cannot be attributed to price or deals as such but to all or some of the following factors:

- Poor management of acquisitions
- Different Cultures
- Non-focussed management policies
- Poor usage of Information Technology

Out of several ways to make mergers work and deliver results the most promising is to manage planning process more effectively. It is pertinent to identify the Information Technology opportunities and the associated risks related to mergers and acquisition to derive benefits from the total change process.

DECISION OF MERGERS AND FINER DETAILS

The decision of merger commences with study of financial models. Estimates are prepared and industry's best practices are scrutinised based on which synergy of the process and the merger is estimated. Sadly enough, at this stage, finer details regarding ways and means to accomplish financial objectives are very often overlooked. With large dimensions of complexities it may not be humanly possible to carefully study the models for which IT can be prudently used.

Many companies, provide this expert services wherein they draw from their worldwide services, sales and research organizations to cater to needs of mergers and acquisitions. The process consists of using IT, business process re-engineering concepts, project management techniques, systems integration skills etc.

Steps of Mergers – IT Way

In order to manage a merger and acquisition process, large amount of information is required to be processed. The data on two merging companies needs to be thoroughly classified, analysed and presented for drawing meaningful conclusions

Step 1

The IT should be used even while finalising the deal. An analysis of data covering all the possible aspects of merger and acquisition should be carried out to given an instantaneous picture of the event. 'As in view' capabilities of both the companies before and after merger must be considered. The result of such a study permits acquirer to assess risks and test the assumptions of the merger process.

Step 2

In this step, it is essential to develop a collaborative environment unlike the first step where the attention is on a number of companies. At this stage, the focus is on what a new company would be and for this to happen an expert IT professional is given the responsibility to develop a team playing spirit and faster and quick decision-making. A basic transition plan is developed, including estimation of costs that would go in to the process and a rationalised approach for new business entity having new business processes and a consensus on new strategies of integration are developed.

An effort is made to identify all those business processes and smaller segments of organisational structures that would have highest probability of supporting the new strategies. Even new application areas that would emerge due to merger may be selected. It is necessary to build good communication channels between the two organizations to permit blending of cultures in a most harmonious way.

Step 3

At this stage the total system or process that a company would follow is fragmented into manageable units. Project staffing plans are implemented and detailed work plans are developed. All this is done through a core group which keeps close monitoring of business processes and reports to top management for guidance and/or corrective

actions. The objective here is to culminate the merger quickly and reap the benefits as early as possible. The merger synergy is the prime focus.

Step 4

In this step, the focus changes to supporting the new business processes and re engineering them, if required, and evaluation of strategic actions and initiatives and evaluating their performance for course correction is done. It may be worth while sometimes to even re-evaluate the merger decisions.

It must be borne in mind that decision making is the key to progress and quick decisions are required to be taken to effectively implement new strategies.

Reference

1. The cost of a combined strategy published by IBM Global Services – Utility and Energy, in *Asian Power* Dec. 1999/Jan. 2000.

CHAPTER

3

Defining Vision and Mission of a Company

Vision statement is a permanent statement of a company which communicates mission of a company, identifies its major strategic business units (SBUs) and their interaction, and its corporate philosophy. It defines the very purpose of existence of a company in terms of its corporate objectives, business scope, competitive leadership, and provides a framework for operation of relationships amongst stake holders, customers, suppliers, competitors and other driving forces of business and the company itself. It also includes and enlists the broad objectives of a firm. It essentially emerges from the CEO of the company and is an expression of a unifying thread between different organisational units. It offers vital challenges, communicates sense of accomplishment of objectives, and serves as a fountain of inspiration to members of an organisation. In fact it has an altogether magnetic effect and is a motivating, driving and guiding force for people of an organisation who work to achieve the targets envisioned, keeping in focus the ethics and values cherished by the organisation.

It is really quite difficult to articulate a vision statement. Many companies find it extremely difficult to define a vision statement due to their nature of work or near total absence of a vision. They are bogged down with the routine activities and do not have focussed growth directions. In such organisations employees do not share corporate objectives and do not work in an unified direction for accomplishing the company's vision.

The vision of a company is a direction for action for an individual employee. It gives him a defined path on which he must act in a manner which would re-inforce his personal views towards meeting the objectives of the vision of the company. He must become an active collaborator in pursuit of strategic purposes and be comfortable with the vision of the company. He must clearly understand the implications of the company's vision and must develop a clarity about it at the operating level keeping in mind prevalent traditions and values of the organisation.

In order to develop the vision of a company, one must first understand segmentation of business of that company, which is done in terms of strategic business units.

Strategic business units (SBUs) can be defined as an operational entity or unit, or a planning focus that offers a set of distinct set of products or services to a definite group of customers, which can be termed as a segment due to their identifiable traits, in comparison with a well-defined set of competitors. SBU is a level at which an analysis of business is done and strategic planning effort is centered around it (Refer Exhibit 3.1).

Exhibit 3.1 Characteristics of SBUs

For a product or service to be classified as a SBU, it is necessary that it must have following characteristics.

1. It can be a single business or collection of the related businesses (backward or forward integrated) which can be planned for profits and activities, independent of the rest of the company.
2. It has its own group of competitors competing with the business.
3. The unit has a CEO who is responsible for strategically managing the business and for creation profits.

Source: Rajan Saxena*, Marketing Management,* Tata McGraw Hill Publishing Co. Ltd.

The following exercise is to be done prior to articulating a business vision.

1. Identification of SBUs within a company and clear identification of rationale for business segmentation. The rationale is arrived at after deliberations amongst people of an organisation.
2. Identification of need and areas of sharing resources among various identified SBUs. The purpose of sharing resources should be identified, which could be to achieve economies of scale or problems related to infrastructure or mobilisation of resources and so on.
3. Identification of shared concerns among SBUs pertaining to competition, business cycle, recession and so on, or to meet the demands of a specific industry, a geographical area or a customer.
4. Analysis and establishing responsibility, authority and functional relationships amongst the proposed SBUs and corresponding business and organisational structures (Refer Exhibit 3.2).

Exhibit 3.2 Vision of Canara Bank (1988-1991)

In December 1988, Mr. Prabhu said in his message, "Progressive organisations committed to excellence the world over, pursue a vision. It is this pursuit of vision that provides a motor force for bigger and better effort by every individual in our organisation. Our vision is to emerge as the best bank in customer service, profitability, productivity and innovations. It is something where each one of us can contribute irrespective of our placements, functionally, geographically and hierarchically. Let us all pursue our vision assiduously and stead fastly".

Mission

"Having emerged as a high profile, highly innovative and high profit earning bank, Canara Bank will now setup its endeavour to achieve banking and service excellence with the help of competitive and committed personnel."

MISSION OF A COMPANY

Basic understanding of the mission of a business unit of a company is similar to understanding the vision at its corporate level. This is expressed in terms of products and geographical scope, and it defines the competitive singularity of a company. At the business level it is more specific, sharply focussed, and more detailed. It emanates from corporate vision and strategic posture of a company. However, the possibility of a difference in perspective may exist at the business and corporate level. A company may aim at different competitive leadership at business levels which may not really coincide with those at the corporate levels. Thus the mission of a business is a statement of its current and future expected position with regard to products, market leadership, geographical scope, and also includes a methodology of attaining the desired competitive leadership.

A business mission helps to evolve an executive action. As the company mission includes the fundamental unique purpose for which the business in question is set apart from similar business units or firms of its type, it tends to create a separate identity for the business or the company in question. However, the business is defined as covering the scope of operations which follow the path of execution as envisaged in the mission statement. It is a build-up of business philosophy of strategic decision-making with regard to products, markets, and technological areas that need be emphasized (Refer Exhibit 3.3).

Exhibit 3.3 Plans and Strategies of IBP

The core competency of IBP is in the area of marketing. IBP has been known for its retail outlets and perception of customers is that oil available at IBP retail outlets is better than at other retail outlets.

SWOT Analysis

The biggest strength of IBP us its efficiency in retail markets where it enjoys tremendous trust of the company and dealers who are treated as part of the company. The people at IBP are also its strength.

The major weakness of IBP has been in the areas of other companies for about 90 percent of its products.

Change in Business Scenario

Due to de-regulation which would culminate by April 2002, into total open field for global players, the changes in business scenario may result in refusal by companies to supply products to IBP and hence they would have to build their base. The first objective of the company is to maintain its own outlets and then go in for growth. Retaining of professionals in the company is also a challenge in these times. The need for the company to become cost competitive has become essential for survival.

Following are the major strategic areas:

1. Major investments are required for infrastructure
2. Strategic alliance with refineries
3. Building up company's own infrastructure
4. Setting up import terminals
5. Changing the face of retail outlets
6. Better customer service
7. Creating entry barrier
8. Multiplying the size of the corporation

Source: Adapted from *Business India,* May 1998.

NEED FOR A MISSION STATEMENT

Defining the mission of a business is entirely an internal agenda of a company. No external agency can probably help in this regard, because it is the way a specific company would like to conduct its business to attain a certain desired objective. It is a very painful, tedious and time-consuming exercise, but is vital for any company or business. It contains a few specific areas of thrust, broadly carved out goals and

strategies, and is a statement reflecting the attitude, outlook, thinking-pattern, orientation and direction of the company.

We have discussed above the need for a mission statement. However, to summarize, we may state the following reasons for evolving a mission statement.

1. The mission statement gives a unified direction to the company's growth.
2. The utilisation of the company's resources is also unified, and people get motivated to exploit these resources in a specific direction for the company's growth.
3. Allocation of resources is based on the mission statement. Company executives get an idea for allocation of resources as directed by the mission statement.
4. The mission statement while giving a direction for growth also tends to build up a professional climate for maintenance and improvement of the company's status in any desired area. Thus it streamlines the functioning of the organisation.
5. The mission statement vividly brings forth the purpose and growth direction in the prevalent cultural climate of an organisation, thus bringing into focus the style of management and functioning of the organisation. This approach draws support from people who wish to grow with the organisation.
6. The mission statement outlines a framework for organisational planning assigning definite tasks and responsibilities to each business unit.
7. The mission statement helps to set-up and develop a control mechanism for achievement of objectives.
8. Defining the mission of an organisation brings forth the hidden talent amongst the work force who take up challenges to meet the company's strategic objectives.

CHARACTERISTICS OF A MISSION STATEMENT

For a mission statement to be effective, it should have certain characteristics as discussed below. Sometimes the mission is not written down and is declared from either the actions of the management or press statements of the CEO. However, a typical mission statement should possess following characteristics.

Feasibility

The mission statement should be feasible. No company can afford to have a mission statement that would not be achievable. It should, no doubt, reflect stretched goals but must be credible and realistic. The feasibility of the mission statement depends on various resources that are available or which can be made available. The CEO of a company should make a correct assessment of resources and come out with a mission statement that may be possible to accomplish.

Precision

Using too many or too few words in a mission statement may lead to ambiguity. If too many words embody a mission statement, it may not be clearly understood by people at the functional and operating level. On the contrary, if less than the necessary number of words are used in a mission statement, the employees at operating level may derive different meanings out of it.

Similarly the mission statement should not have a narrow focus or a very broad view. For preparing a mission statement strategy managers have to create an abstraction ladder and choose appropriate words to define the mission. Defining mission as manufacturing refrigerators may be too narrow a focus. Likewise, defining the mission as just taking health care may appear very non-specific.

Clarity

The mission statement should culminate into an action program and hence brevity is the essential requirement of a mission statement. It should not contain high-sounding words which eventually do not clearly convey any action. The mission statement should be clear to employees of the company because all of them would be guided by this statement. It should be made clear to those who do not understand it through training workshops, leaflets or other forms of communication.

Motivation

The mission statement should be a source of inspiration for members of an organisation. Members of the organisation should take pride in associating themselves with their organisation through the mission statement and they should get motivated to accept the challenge and accomplish the mission. Customers and societies associated with an organisation should also feel good about the mission of the organisation.

Distinctiveness

The mission statement of an organisation should be distinct. There may be many organisations manufacturing washing machines, refrigerators, scooters, cars etc. but each one of them define their mission differently because they are basically pursuing a specific mission that exclusively belongs to them. The Mission statement should be unique for an organisation as it makes it different from the crowd, and makes an impact on minds of people associated with the organisation. It is very rare that the mission statements of any two companies are similar. Each company depending on its resources, environment, purpose, and various other conditions evolves its own mission statement.

Reflection of Major Strategy

An organisation may have different strategies but the mission statement should speak of the major strategy being followed by the company. The Company should highlight

potential strengths or requirements, that is, stability, growth, leadership, business volume and so on, such that the requirement is well driven home in the minds of the employees for giving them a unified direction of growth. The major strategy along with the purpose of an organisation gives an insight to a reader about the organisation. The major strategy should also be reflected with a view to bind the organisation in a uni-directional effort to meet objectives. Stating the major strategy in mission statement gives an insight to the employees regarding the course of action that they have to jointly take.

METHODS TO ACCOMPLISH OBJECTIVES

The mission statement should indicate the manner in which the organisation's objectives would be achieved. Since the mission statement is related to a specific time-period, the reflection of methods of accomplishing the objective gives a better understanding of the mission of a company and the way defined objectives are to be pursued. Different companies have different kinds of culture and working environments typical to that specific company, due to which text book methodologies for imbibing mission statements do not work and each company has to evolve its own methodologies suited to its own specific working conditions. However, some generalisations with regard to this are possible.

FORMULATING A BUSINESS MISSION STATEMENT

A Business Mission Statement usually evolves during the inception of a business itself. A person or a group of people who think of starting a business have an idea of the mission of their business. Many organisations formulate their mission statement from the tasks that they are supposed to perform due to national priorities which become their own priorities also (Refer Exhibit 3.4). In case of government undertakings in India, which were born from the vision of Pandit Jawaharlal Nehru, a host of these companies including some big business houses in private sectors adopted a mission of nation-building in their own area of work.

Exhibit 3.4 The AGRO Industry Competitiveness in the Globalised Era

A recent study conducted in Punjab University revealed that the Indian agricultural industry in punjab could not be competitive in any of the years during the one and half decade ending 1994-95. (Gill and Brar; 1996) In order to make quick money, the Indian farmers are switching over to cash crops which are non-food in nature. This may lead to shortage of food in the long run say by 2030 A.D. Thus the strategies for agro-industry should be designed with social responsibility towards environment, food, and employment. The MNCs in this area present more challenges than the opportunities

and the number of companies entering into agro-related business in India has surged by 150 percent during 1996. This trend has already started replacing the small companies-based agrarian economy into MNC controlled agro-industry.

The following strategies are suggested in this area:

1. The Indian agro-industry should develop its own processing, packaging, and marketing ventures.
2. Adequate capital resources must be pumped in, to develop irrigation, water-sheds, and storage etc.
3. Better post-harvest management practices must be developed to meet high quality needs (minimal toxic and basic agricultural output).

Source: Dr. K. Rangarajan*, Vulnerability of Indian Agro Industry*.

Due to changes in economic policies that this country has witnessed during the past five decades, these public sector undertakings are now undergoing a change. Earlier these companies pursued the sole objective of nation-building, but today, due to the changed business scenario in the country, they are evolving new business mission statements.

In fact, business mission statements cannot remain the same as the organisations grow. Usually the entrepreneurs develop corporate philosophy based on philosophy of the country and its needs, because this is the sole purpose based on which a country defines its policies for the purpose of growth. The policies may not be very clearly cut out in some cases, and it may take some time before these policies take their final shape. Changes in policies is an on-going process and these are modified, re-made, or discarded altogether. The impact of policies may not be clear in the minds of corporations but as time passes the impact of policies becomes evident, necessitating changes in policy to make required corrections. Organisations may not be clear in their minds in the beginning on the actions and the mission that they would like to pursue, which would be in tune with their aspirations and strengths, but it takes a definite shape over a period of time. In India, some of the smaller organisations which were born only to earn profits slowly transformed into corporates over a period of time and framed their business missions after maturity. The following issues work subconsciously while doing this exercise of formulating a mission statement.

1. Confidence that the product or service in question will reap benefits to give profits and create surplus.
2. Confidence that functions desired from a product will satisfy specific needs of customers.
3. Confidence regarding a chosen technology that would meet required production volume and desired quality.

4. Confidence regarding ability of an organisation to meet the requirements of a customer or even surpass it for a product or service.

$$\text{Quality to customer} = \frac{\text{Quality} \uparrow}{\text{Cost} \downarrow} \times \frac{\text{Service} \uparrow}{\text{Delivery} \downarrow}$$

5. Confidence that the business will grow and be more useful to society.
6. Confidence that the business will build a good public image and satisfy personal goals of employees working for the organisation.
7. Confidence that the driving forces of business, that is, customers, stake holders, technology, market conditions etc. will be favorable, and business objectives would be well adopted and communicated to the line below.

The major business strategies contribute to development of the business mission through discussions and deliberations in an informal manner. CEOs of companies have a significant role to play in this regard and have to speak out their mind at these deliberations. They get formally and informally involved in this exercise. Sometimes consultants may be of some help to develop clarity of thinking and development of a mission statement.

Sometimes, a business may face situations where it may become necessary to alter the mission statement. The change in environment due to competition, technology, government policies etc. may force the organisation to change its mission. The companies due to their poor performance may also want to introspect and redefine their mission.

A typical business mission statement may include a statement about products or services offered, focussed market segment or customer, technology that it may use for product quality, cost, service and delivery, growth directions, management philosophy, desired public image and self concept of company and so on.

BUSINESS DEFINITION

'What is our business?' is a pertinent question that every entrepreneur asks at some point of time. This question needs to be answered as it leads to generation of ideas, which can be further built-up by strategy managers to arrive at a business mission statement (Refer Exhibit 3.5).

Defining business is not an easy task. The employees in an organisation are often busy doing their routine work and within the available means they keep on performing to produce results. Even automation programs are developed for work which may be basically wrong. A lot of it comes from their habitual way of doing things that they have been doing during long years of service. Hence they do not directly feel the blow of change. It is only when pertinent questions are asked that employees start thinking about the true business of the company for which they work. It is through questioning that the true business in which a company is engaged, surfaces.

Exhibit 3.5 Break through Due to Information Technology

The concept of anywhere, anytime workplace is fast emerging, is facilitated by synthesis of portable and fixed information technologies. Hot desking wherein vacant desks can be used by workers of any company has reduced business overheads, homework has replaced office work through telecommuting, groupware has led to reduced costs of business meeting and discussions, and Banks and other financial institutions now offer a full range of services through financial kiosks installed at airports with service availability round the clock. The hospitals now use imaging to do off-site diagnosis taking specialized health care to hither-to-starved locations.

Source: Merilyn M. Parkar, Adapted from *Strategic Transformations and Informations Technology Paradigms for Performing while Transforming.*

PRODUCTS, PRIMARY MARKETS, AND PRINCIPAL TECHNOLOGY

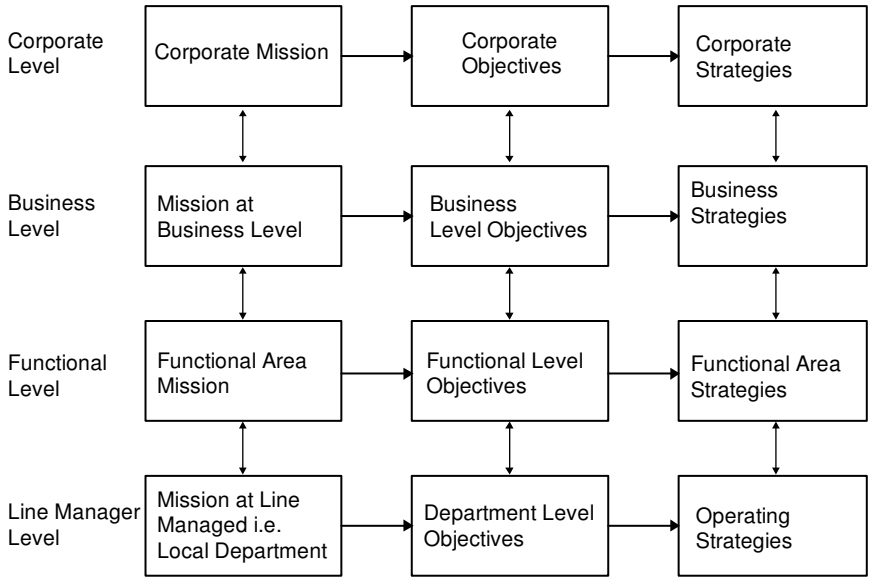
The functions and specifications of basic products and services, the primary market where the products are used and the principal technology for production and delivery to the consumers are some of the major constituents of a business mission statement. A company may be active in various fields, however, at the business level it is imperative for it to clearly identify these factors in the mission statement.

Identification of products and service is important not only from the point of view of employees working in an organisation but also for the users of product and services, who get associated with the company through these. The primary markets also need to be defined along with the principal technologies which give a definite recognition, image and status to the company.

The three factors discussed above can also be termed as the dimensions of business definition. The products and services define work that company may be doing in terms of satisfying the needs of the consumers. Products can be viewed as bundle of functions that customers expect products to perform, in return for the money spent by them in acquiring the product. As soon as a product or service stops performing, the functions for which it is intended, it is rendered useless.

Customer group or segment indicates those whose needs are being satisfied and technology indicates how the needs are being satisfied. Diagramatically Exhibit 3.6 shows these dimensions of business.

Exhibit 3.6 Tires of Mission, Objectives and Strategies in a Company



COMPANY OBJECTIVES AND GOALS

Objectives and goals that are being pursued presently are for future of the company, and hence must be carefully defined. Companies set their objectives and translate them into short and long-term goals. An effort is usually made to set measurable goals such that performance of company can be objectively worked out. Any company doing business has a will to secure its survival through continuous growth and profitability.

Survival of a firm is the first priority as it exists to satisfy needs of the stake holders, customers and other driving forces of business. Very often strategic managers neglect this aspect of goal-setting in a hurry to emphasise growth and creation of surplus. The company then faces a danger of being myopic as its focus is on short-term gains. The short-term gains are usually at the expense of long-term benefits. There appears an urgency in a company for quick hits or bargains at the cost of long-term benefits. This further leads to unplanned investments, changes, detours etc. The synergic exploitation of resources is also ignored and thus survival itself becomes quite difficult.

The profitability of a company is the most important and sought after goal. Various companies have different ways of measuring profits. However, measurement of profits over a long period of time gives a clear idea of the performance of the company. The method thus evolved finds better acceptance with employees and stake holders.

The short-term profits may endanger the existence of a company and we may call it as its strategy myopia. Some companies may decide reaping short term profits as part of their strategy.

In an environment, which is charged with competition, the growth of a company is tied to its survival and profits. Growth does not merely mean growth in number of markets served, but growth in variety of production and services and so on, which lead to improvements in competitive edge and consequently in the performance of the company. Growth may be reactive or proactive. A correct balance is to be struck between growth and opportune diversifications maintaining the parameters that guide various growth decisions. Hence an optimum flexibility has to be built in the structure of organisation to make a quick shift-over whenever required (Refer Exhibit 3.7).

Exhibit 3.7 Leveraging Human Resources through Reduction of Number of Layers

The number of layers in the Crompton Greaves management structure have been reduced to create a structure of 4 by 4. This resulted in a pyramid wherein a general manager is separated by the workers by just four layers and each person at supervisory level has a minimum of four people reporting. If less than four are there, it may lead to interference and consequently lower level of empowerment of people.

Source: K.K. Nohria, "Leveraging Human Resources" *Business Today*, September 22, 1998.

The objectives of an organisation play a very significant role in creating an environment for growth in desired direction. The role of objectives is as follows:

1. The objectives establish a relationship between an organisation and the environment in which it exists. The environment consists of various entities, that is, society, politics, employees, customers, stake holders etc. who affect objectives and also the method of achieving defined objectives.
2. Objectives are the driving force for an organisation. The employees make a unified effort to accomplish them, thereby developing a clarity of mission and purpose.
3. Strategic decision-making processes become more sharply focussed due to objectives, and a code of behaviour is also set for meeting the targets. The strategic decisions are taken around agreed objectives.
4. Objectives lead to evolution of standards for performance evaluation and measures to control and guide performance. Standards for individual performance are also generated since it is the individual performance that eventually gets translated to organisational performance.

5. Objectives tend to develop conducive environment, understanding of business environment, organisation, personal development, required knowledge, skills and attitude etc.

CHARACTERISTICS OF OBJECTIVES

While formulating objectives, one should understand the purpose for which they are being outlined and should be defined with the following characteristics.

1. Objectives should be defined in a manner in which they can be understood by the concerned people. Vague and hazy ideas cannot be called objectives as they may lead to more confusion. Objectives should be simple and easy to understand by all people in an organisation in the same sense as they are meant to be understood. This aspect is to be carefully ensured.
2. Objectives must be clear, quantified and specific. Mention of Increasing sales, turn over, quality etc. do not convey anything. However, mention of increasing sales by 10%, increasing turnover by 20%, or meeting requirements of quality systems as per ISO 9000 makes them more specific and clear for those who have to act to accomplish them. It implies that these should be achieved, in specific terms.
3. Objectives must essentially be related to a time-dimension. The business situations today undergo extremely fast changes, and not relating objectives to a time-dimension may prove to be very costly for companies. Objectives, when related to time, communicate more specific information. Objectives without a time-frame do not yield much results. In fact objectives should essentially be linked to time-frames in these times of fast change where quick obsolescence of products and concepts has engulfed almost all business activities.
4. It should be possible to measure and control the factors which define objectives. This leads to development of a mechanism in a company, by way of which various parameters are measured and controlled in order to accomplish objectives.
5. Objectives should be optimally stretched in such a way that they pose a challenge to the work force and motivate them to work better. This leads to improved performance of a company, and strategy managers can take up the challenge for achieving an improved status for their company. It is necessary that the stretched goals be set in agreement with employees of a company. This develops a sense of belonging in the minds of employees of a company.
6. Objectives should correlate with each other. This is required to avoid conflict within two related departments. Consider that a company sets an objective for capturing the business of renovation and modernisation of power equipments such that it gets forty percent business in north and east zone in two years time and the concerned manufacturing department is not geared to meet this committment then a conflict may arise. The objective should offer

synergic advantages. Often it is found that the marketing divisions aim at handling variety of products, whereas production departments aim at variety reduction. The objectives set should strike an optimum balance between the two.

7. Objectives must be set keeping the practical constraint in view. The strategy managers must be well aware of the internal and external constraints. The internal constraints could be availability of raw material, trained and skilled personnel, bottlenecks due to a machine tool etc. Usually scarce resources are high in demand and various profit centers may competing for the scarce resources. The external constraints may be legal and statutory requirements, norms of pollution and effluents and companies have to keep these constraints in mind before arriving at the final objectives.

ISSUES IN SETTING THE OBJECTIVES

Strategic managers often find objective setting a very complex process. Integration of various functions of management must be made to arrive at meaningful objectives (Refer Exhibit 3.8). In fact the process of integration of various functions of an organisation itself means that one function cannot afford to ignore understanding of various other functions, and hence they essentially have to think in terms of synergising their efforts to meet common objectives. As an organisation, they face some common problems that need to be addressed to create a common focus for employees. Some of these issues are discussed here.

Exhibit 3.8 The Change Process and CEOs

CEOs usually face a dilemma while attempting to re-mould their company's strategies, structure, operations, marketing policies etc. as per the changing environment, with respect to various transformations, which are resisted by divisions of the company. A survey of 48 CEOs conducted by the Economist Intelligence Unit, India and consulting firm A. T. Kearney reveal the following four changes that have been implemented by about 50 percent of the companies surveyed.

- Restructuring the top management
- Market development
- Management of costs
- Development of core competencies

The survey indicated the problems assailing the Indian companies which are as following:

- Top-heavy organisation
- Inefficiency in management of costs list at all stages
- Unrelated diversification

The biggest impediment to change is finding suitable leaders to spearhead the changes. Various changes which were assessed were

- Strategic alliances
- Succession planning
- Senior management re-organisation
- New markets (Geographic)
- Business process re-engineering
- New products service
- New lines of business
- Mergers and acquisitions
- Major cost reductions

Source: *Business Today,* Nov–Dec, 1998.

Specification of Objectives

Objectives at all levels cannot be defined with complete specificity and accuracy. However, organisations do make an effort to be as specific as possible. The specificity of objectives varies with the level at which they are defined. Generally speaking, the objectives at corporate level are not very specific and are more qualitative in nature. Objectives at business level are more specific, and at operational levels objectives become distinct and are defined in specific terms. However, when a company says it would cross rupees two thousand crore mark by the year 2000, it specifically talks in measurable terms. Usually financial objective are more specific as these can be objectively expressed.

Multiple Nature of Objectives

The business operations of a corporate sector are spread out to many businesses. Similarly a SBU has many functions to perform and hence it is imperative that objectives should be of multiple nature. The objectives should cover all the aspects of business like growth, economy, social responsibility etc. The multiplicity dimension also creeps in due to the various organisational levels at which objectives are defined. When we calculate the permutations and combinations of various factors discussed above, we may find that objectives may be numerous.

However, it may not be practical for an organisation to have many or only a few objectives. Too many objectives may not be properly inter-related and may clash with one another and an optimisation exercise may be required. Too many objectives may also lead to confusion amongst the employees. Covering of too less a number of aspects of the organisation in the objectives may lead to neglect of many vital aspects. Both situations are unrealistic. The strategy managers have to optimally select the necessary number of objectives and effectively accomplish them.

Time Frame

Objectives are bound by a time-frame. Organisations may have short-term and long-term objectives. However, both kinds are related to a definite time-frame. It is important that the short-term and long-term objectives must be integrated to get synergy. It is usually the case that long-term objectives are generalised in nature compared to short-term objectives which are more specific and measurable. In fact one long-term objective may contain many short-term objectives over a definite time-period. The short-term objectives may also be arrived as due to opportunities or threats faced by a company or a business unit and they are therefore bound by a time-frame.

Measurability

It is possible to assess accomplishment of an objective only when it is quantifiable in some way. The basis of accomplishment of an objective must be defined and known to the people for whom they are laid down. This brings in more clarity towards accomplishment of objectives and it is also useful to strategy managers for making decisions about various policies. It is also possible that the strategy managers would try to devise a method of measuring an objective. The verifiability of an objective may be either quantitative or qualitative or both. In case an objective is quantifiable, it is quite easy for a strategy manager to devise some way of measuring it. Some examples of quantifiable objectives may be sales volume, percentage of market share, cycle-time reduction, cost reductions, etc. Sometimes it may not be possible to quantify the objectives and they may be purely qualitative like creating safety conditions, improving morale of people, and improving working environment in a company. Regarding qualitative objectives, it may not be possible to directly measure them but strategy managers may develop indirect indicators to verify them. For example, creating safety conditions can be measured by number of accidents per month or per year, consumption of first aid material etc.

Real Versus Pseudo Objectives

Organisations set certain norms of customer service and care, quality, cost etc., but as time passes by these objectives lose their meaning. The organisations celebrate productivity day, quality day and customer service day, etc. and re-dedicate themselves to these objectives. In fact, they set these objectives and attempt to accomplish them but hardly make any real effort to meet them as they can very well survive even without accomplishing them. Their operational objectives are very important to them. If we take example of Indian Railways, we find repeated announcements expressing deep regret over delay of trains but the waiting passengers rarely come to know of the real cause of delays or any action on the part of Indian railways to ensure prevention of these problems. Similarly, the Government organisations proudly announce customer service as their first motto but the clerk sitting behind the desk hardly responds to the request of the people. Often people find a display in which a nurse is seen requesting people to keep silence in hospital, but one finds a nurse just below the display shouting

at the top of her voice at some patient or a ward-boy. All these examples indicate that organisations do have pseudo-objectives and real objectives, and strategy managers have to clearly distinguish between them as all objectives require some resource allocation.

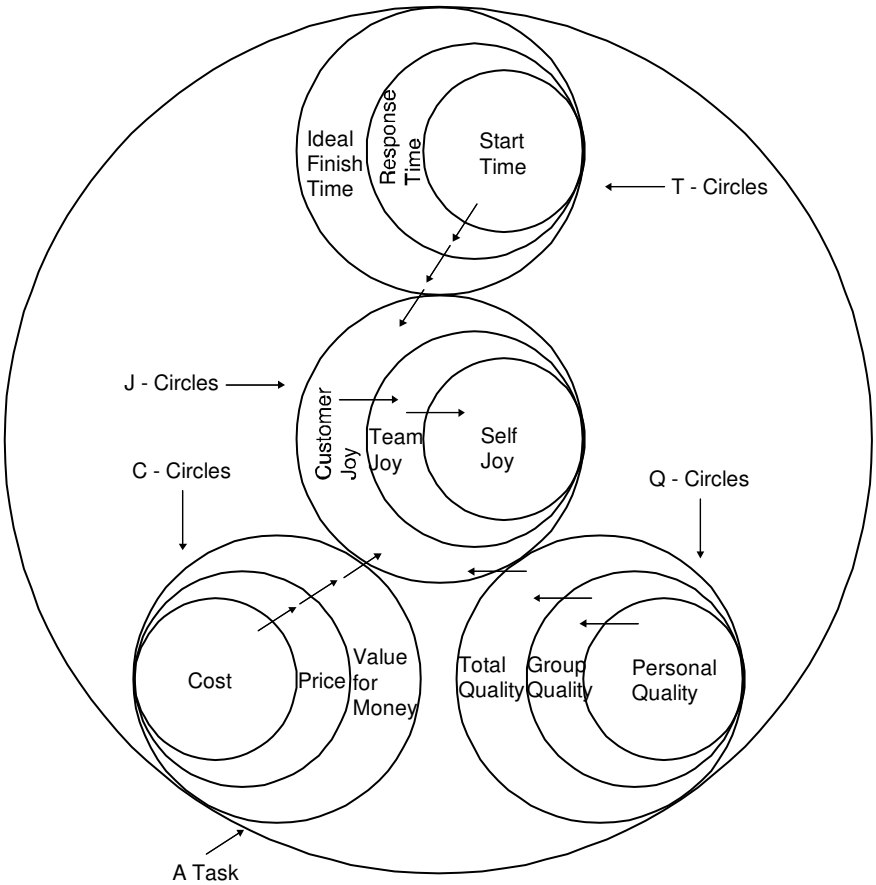
Areas of Setting Objectives

Objectives are to be set in all areas where performance of an organisation is vital. Various authors have defined areas for setting objective. However, they vary widely with the type of industry, business situations, economic conditions etc. There cannot be one best prescriptive approach for areas of setting objectives, and surveys in many companies have indicated that the key thrust areas for various companies are different, and setting objective depends to a great extent on this aspect. Some vital areas for setting objectives may be market status, innovation and creativity, productivity, resources, profitability, performance of managers, training of personnel, public responsibility, time-cycle, quality and so on. In case of a car or scooter manufacturer the objective may be to produce a defined number of vehicles per year, and for a company engaged in generating power it may be number of units produced per annum and the number of breakdowns. Railways may be interested in judging their performance by measurement of passenger traffic and freight handling, whereas the insurance companies may be interested in achieving targets such as number of policies executed, sum assured, expense income ratio etc.

HOW THE OBJECTIVES ARE EVOLVED

Various forces that drive the strategic managers for setting objectives for a company are many in number (Refer Exhibit 3.9). However, generally speaking the following factors play a significant role in setting the objectives.

Exhibit 3.9 Customer Joy – The Key to Competitiveness
Adesh Jain, Director-in-charge, Centre for Excellence in Project Management



Driving Forces of Business

The competition, stakeholders, technology and customers etc. are some of the important driving forces of a business. Various other factors present in the external environment of a company also have their impact on setting of objectives. Sometimes the interests of these factors may be congruent while at other times they may be conflicting, and hence a sum total effect of these interests is to be taken into account while setting the objectives. A set of expectations of customers and stake holders must also be considered while setting the objectives. A study of all these factors and the driving forces of business are necessary while formulating the objectives.

Clout and Resource Utilisation

Every organisation has a definite amount of resources and utilisation of these resources by various functions depends on their need and also on the clout enjoyed by that group of managers (Refer Exhibit 3.10). Resources help in accomplishment of the objectives and for setting realistic objectives. Resource mobilisation is very important for accomplishing the set targets because without the required resources it may be impossible to accomplish the task of achieving desired results. Various functional units in an organisation have different decision-making powers and according to the power wielded by them, they share the resources for realising the objectives. Sometimes a dominant group of strategy managers or board of directors drive the group to formulate objectives in congruence with their own views. However, with changing and dynamic relationships that exist within an organisation the same relative importance of the objectives may not finally be maintained as objectives also relate to survival and the very existence of a company.

Exhibit 3.10 Competing on People's Strengths

The basic problem is not getting enough buyers for the product, but getting the right to sell it. Tupperware's CEO, Alan D. Kennedy feels that their competition is not with manufacturers of containers, but it is with those who compete for employing a good sales-force. This could be a new trend in defining competition as it is emerging today.

Source: *Business Today,* November 22, 1998.

Value Systems

Each organisation has its own set of values which help in guiding the setting of objectives. The strategy managers cannot ignore these value systems while setting the objectives. Values help clarify what is good and what is bad or what is desirable and what is undesirable. Nowadays, when the rules of business have assumed new dimensions, values cherished by the CEO of a company may play a significant role in deciding upon the objectives and the corresponding strategies (Refer Exhibit 3.11).

Exhibit 3.11 Guidelines to be Resolute

Sometimes managers face confronting situations with people who insist on being difficult and quite often the argument leads to a discussion on who is right and who is wrong. In such situations one cannot have the kind of relationships that are congenial for working together. To tackle such situations the following suggestions may help.

- It is prudent to make friends because actions have reactions (Newton's II Law), and sometimes are more forceful.
- Highlight the cost of conflict or the loss in terms of hours, productivity, relationship. Also highlight recurring losses.
- Highlight the benefits that your creative solutions can offer to them.
- People like to be recognized for their contributions, hence give them the credit for the resolutions.
- Find out who can influence. Take his help
- Don't give up by any chance.

Source: *Business Today,* Nov–Dec. 1998.

Track Record

It is important that the past history of company be known, analyzed and kept in view while formulating the objectives. In the earlier days of nation-building the public sector companies did not bother much about the costs, profits and their customers etc., but in these changed times of liberal economic policies, their objectives are decided keeping quality and costs in focus. Some companies may choose to radically change their way of doing business keeping in view the changed aspirations of its customers.

Company Philosophy

Usually the company mission contains the company's philosophy. The company philosophy states the basic values, beliefs, aspirations and priorities of a company. Strategy managers focus on the company's philosophy while making strategies. It is found that most of the companies adopt a similar value system which is full of platitudes and hence their company philosophy statements hardly differ from each other. Most of these company philosophy statements appear like public relation statements. However, the strategy managers need to understand them and keep them in focus while making company strategies. Understanding these statements entails their threadbare analysis and arriving at practical and meaningful statements. Various key areas in which company philosophy is usually expressed are marketing, finance, control, human resources, product range selection etc. The company philosophy statement with regard to these key areas gives more clarity about a company as compared with its mission statement. Exhibit 3.12 shows the philosophy statement of a company engaged in marketing of consumer durables.

Exhibit 3.12 Company Philosophy Statement

Customer and Marketing Focus

a. The company will be continuously customer-focussed to meet their expectations, and strive to be better than the competitors.
b. The company will maintain effective distribution channels and develop capabilities to identify new trends and emerging markets for meeting customer's needs much to their delight.
c. The company will strive to give better quality at lower costs, coupled with quick and satisfactory service.
d. The company will maintain the latest modern facilities with attractive, clean and orderly shopping complexes that will make shopping a pleasure for the customers.

Management Roles

a. The company requires scientifically managed outlets with measurable results.
b. The company believes in 'kaizen' and permit openers to new ideas for continuous small improvements.
c. The company expects the managers to be capable of planning, delegating, motivating, controlling, and guiding people to achieve measurable results.
d. The company will promote team plying wherein good communication, clear policies, effective controls, and sincerity would be valued.
e. The company will expect acknowledgement of mistakes so that one could learn from them, and not repeat them again.

Human Resources

a. The company will develop and maintain competent and dedicated teams of people.
b. The company will foster a climate for motivation, growth, courage and integrity.
c. The company will recognise professionals for their outstanding contributions and provide them opportunities to take up challenges.
d. Redeployment of personnel as per need will be the company's key to training and development.

Finance and Control

a. The company will operate on a sound financial plan that will create surplus for growth and optimum return on investments.
b. The company will operate on systems which will indicate potential failures so that they could be averted in time.

PUBLIC IMAGE

The values and attitudes of people are important for any company as social factors affect the strategic management decisions. This is more important for a growing company as it has to form an image in society. For a company to be successful in the society where it exists it has to consider the social norms valued by the society (Refer Exhibit 3.13). The expectations that the public has from a business should be taken care of by the company as this aspect is vital for its survival and growth. Tooth paste is very personal to people and hence it enjoys a brand loyalty. In a society where herbal ingredients are valued by the users, the presence of turmeric or meswak is advertised by the manufacturer to woo his customers. Any ingredient which is a taboo for users is avoided in the manufacture of the item. The soft drink similarly enjoys a brand loyalty and a news item in the paper about traces of lizard eggs in the water used for soft drinks would definitely mar its image and the product may never be able to take off. A courier service company may build a public image for fast delivery of goods, and any action by the company contrary to this public image may be extremely harmful to the company.

Exhibit 3.13 The Legal Aspects in Advertising Business

Fena Ltd. submitted before a two-member bench of the MRTPC commission, that HLL should be restrained form referring to lemon as a cleansing agent in their products. The company should be asked to remove all references to lemon as the cleaning power in the advertisement and packaging of Wheel as the detergent did not contain any lemon.

Source: *Economic Times,* February 24, 1999. (PIT)

Sometimes firms stand up to re-emphasise positive aspects of their operations, products or services when a negative public image of their company is formed. This is true even for a country like India, which is known for its nuclear programs for peace and which had to speak out to correct its public image after its nuclear tests at Pokhran.

The concern for public image is generally not reactive but is pro-active. When public image tends to become negative, it stimulates greater response from the company. However, any company will be concerned about its public image even when there is no publicity at all. The organisations see to it that they are projected as credible organisations and in complete control over their functions for serving their customers.

SELF-CONCEPT OF A COMPANY

Every company has a self-concept like any human being. A company has to evaluate its strengths and weaknesses to combat predatory business situations and successfully remove negative images created in the minds of its customers. The self-concept is the public image of a company that makes it unique. The identity of a company develops

over long period of time and a company is known in society for its values, which connect it with not only its past but future also. Thus organisations have their own distinct personality. This may include its decision-making techniques, and the effect of these on organisational parameters are more important than effect on individuals of a company. Depending on this self-concept of the company, the society reacts to it. The response that an organisation gets from the society is dependent on the perception of the image that the company builds up based on its self-concept. This self-concept thus guides the behaviour and attitude of the people towards their company. The self-concept of a company must be reflected in the mission statement of the company and is to be accomplished by the employees the company.

CRITICAL SUCCESS FACTORS

Strategy Managers have a deep concern for critical success factors and concentrate on them. These factors are vital for survival and growth of a company. Identification of these critical success factors is not simple and requires deep introspection in company affairs. These success factors are not only the competitive edges but include all those factors which may be crucial for success of an organization. The critical success factors lead to identification of areas of resource re-deployment, technology change, reduction in time-cycle, improvement of quality etc. that is, a number of required and desired action programs. Objectives for critical success factors need to be clearly defined by strategy managers.

Study of business contexts may reveal what is happening, what is changing, and what is assuming new and more importance in the environment in which a company operates (Refer Exhibit 3.14). For some companies it may be quality or time-cycle for development or timely service or any other requirement. The cost of inaction for a company may be worked out to highlight the weightage of critical success factors. A typical company dealing with consumer products, as a result of an exercise on identification of critical success factors may come out with the following :

1. The existing process in the company cannot meet the needs of speed of operation. The process results in hassled staff, last minute bottle-necks, unplanned over-time payments, and missed deliveries.
2. The main focus is on reducing our costs and we are hardly bothered about the needs of the consumers.
3. We have a rigid organisation which is incapable of adapting itself to the fast changing needs of the business.

Exhibit 3.14 SWOT Analysis of Renewable Energy Sources

Strengths

- Non-depleting nature
- Environmentally benign
- Permit option for continual growth

- Natural re-cyclable resources
- Can be used with modular design concept
- Decentralization possible
- Low running cost
- Simple technology
- Generates employment

Weaknesses

- Seasonal availability
- Requires more space
- Labour-oriented
- Huge capital investment required
- Financially not attractive
- Lower capacity utilisation

Opportunities

- More awareness towards environment
- Emerging policies at International and National levels
- Scope for rural electrification
- Employment problem on the rise
- Government supports
- Offers social benefits

Threats

- Lower R & D efforts
- Incentives/subsidies temporary
- Risking costs
- Social problems

Source: R.Natarajan, "The Energy, Environment and Ecology – Dimensions of Sustainable Development", adapted from *Technorama* September 1998.

The management may look at the above statements and decide that they will have to change. The statements also give clues on what changes are required. The strategy managers will then evolve methods for making the changes happen in a systematic manner and define objectives also for each of the critical success factors.

APPROACHING THE DRIVING FORCES OF BUSINESS

The "here and now" crisis of competition that is now emerging worldwide has drastically changed business situations. The business cycles have become most unpredictable, as in today's environment markets, customer demands, product life-cycles, technological changes, nature of competition, rules of business etc. are all undergoing fast changes.

Consumers demand more as they know that they can get more. The consumer preferences and requirements must be known, for surviving in an environment charged with competition (Refer Exhibit 3.15). The consumer has a choice to go to any other manufacturer who will not only deliver goods of superior quality at lower price but is also ready to participate in success of his client. The consumer has become a driving force for the business as is evident in advertisements of washing machines, detergents, vehicles etc. There has been an information explosion on television and shopping has become a matter of a simple phone call. Companies need consumers more than the consumers need them as there are numerous choices available in the market.

Exhibit 3.15 Maruti's Winds of Change

MUL being a 'board-driven' company ensures that time taken for decision-making and implementation is shortened and the company is more responsive to market. In order to compete in the market and maintain its leadership it has urged its vendors to cut the costs by 20%. This an on-going process.

Source: Based on Interview of Yoshio Saito, Chairman of MUL Given to N. C. Mohan and J. Surya, *The Times of India*, Nov. 21, 1998.

Competition in terms of price, selection, quality, service, delivery, etc. has become more severe. Today, all the global brands are free to compete in the same market. Stiff competition makes products and services obsolete very fast as new companies come up with better designed products before the stalwarts can even think of it. Strategy managers will have to consider all these factors along with legitimate claims of the stake-holders of the company. Claims of investors, employees, and outsiders affected by the strategies of a company will have to be heard. The government wants adherence to legislations, the unions want worker's interests to be protected, the competitors want fair competition and the strategy manager has to consider the view points of all these driving forces of business while formulating the mission statement.

The major steps consist of

1. Identification of driving forces of business.
2. Understanding the specific claims and requirements of those driving forces.
3. Arriving at a workable solution that would decide the future of the company.
4. Co-ordination of claims and requirements such that they are optimally met, keeping in view any other constraints.

Social responsibility is the common denominator and the basis of claims of all above driving forces of business. Discharge of pollutants, disposal of waste and conservation of natural resources etc. are pertinent issues which must be addressed by the strategy managers (Refer Exhibit 3.16). The companies should be open to social audits wherein the social responsibility of a company must be evaluated and

conformance of the company to social responsibility must be assessed. Many companies mention their social achievements in their annual reports. The true profits should be claimed only after paying social dues.

Exhibit 3.16 IT and the Government's Social Responsibility

Use of information technology by the people would eventually lead to a form transparent and efficient government and this would be the final test of policy initiations of the government. In various applications, that is, verifying the land records to filling up application forms for ration cards, passports, and driving licences, life of an Indian is miserable. He is harassed and frustrated by the bureaucracy. There is hardly any transparency and accountability within the government departments and people are virtually up against a wall. The government is sitting on a pile of data which should be used to make life of people more easy and leading to transparency and freedom from commotion. For this the local content has to be increased as done by C-DAC which has made e-mail possible in Hindi.

***Sources**:* Sanjay Anand, adapted from "What Do You Want? Click The Mouse," *The Sunday Times of India,* December 27, 1998.

QUESTIONS

1. What do you understand by vision and business mission statement of a company?
2. What is the need for a business mission statement in a company?
3. What are the characteristics of a business mission statement?
4. What are the steps in formulating a business mission statement?
5. How is a business defined? What do you understand by company objectives and goals?
6. What are various characteristics of objectives?
7. Discuss various issues involved in setting the objectives?
8. What are the areas in a company requing setting of objectives?
9. What is the process of evolution of objectives?
10. What do understand by a company's philosophy statement?
11. What is the importance of public image of a company?
12. What do you understand by self concept of a company?
13. Discuss various critical success factors of a company?

CHAPTER

4

ENVIRONMENT SCANNING AND ANALYSIS

The changes taking place in the present days make us aware that it is the learners who inherit the future because they continue the process of learning. The learned on the other hand, find themselves at a loss and if they do not march in tune with the changing time, they face obsolescence. The same logic holds good for companies also. The changes are so frequent and fundamental in nature that unless companies keep in pace with the changes taking place around them, they may become outdated and may eventually go into oblivion. It is not only important for a company to evaluate its current strategy but it is also vital for it to know how its strategy will work in the future environment (Refer Exhibit 4.1).

Exhibit 4.1 Customer Preferences

The public sector banks have been quite unresponsive and the staff had been rude to the customers. Added to this is the repayment bureaucracy which has driven thousands of customers to new private sector banks. The new competition has hit SBI. With its 2000 branches and deposits ranging to more than Rs.110,000 crores, the profits earned are around Rs.1300 crores in constrast to ICICI Bank, Global Trust, HDFC and Centurion which with 150 branches and Rs.9000 crore deposit have earned profits around Rs.226 crores implying that the new banks are skimming off the cream of depositors leaving behind millions of small depositors for public sector banks to deal with, at higher costs.

With rising competition SBI has come with some of the significant changes in strategies.

1. It would set up new branches in prosperous residential areas and would target at upper and middle classes.
2. The minimum balance to be maintained in accounts would be Rs.10000 and Rs.5000.

3. These new branches would have uniform décor with central air conditioning and full computerisation.
4. Staff would be young and motivated.
5. ATMs will be installed.

Source: Roshni Rao, "Winning Back the Cream Customers", *Business World,* May 1998.

The environment consists of all that is outside an organisation and that affects it. The environmental factors which are largely uncontrollable influence the choice of strategies, related organisational structure, and the business processes. Every organisation is involved in some kind of business process as a result of which a company delivers goods required by its users. Business processes which have inputs and related outputs, take place in an environment which surrounds an organisation.

Environment can be categorised as *remote* and *immediate*. The operating environment which surrounds a company and which immediately affects it is called as the immediate environment whereas remote environment indirectly affects the performance of a company. An environment consists of factors like government policies, technology, social fabric of society, customer's needs, laws, regulations, etc. which in some way or the other affect working of an organisation. Since environment is complex and very dynamic in nature it is quite difficult for strategy managers to be always accurate about the future. Scientific approach in the assessment of environment is required for guiding strategy managers for formulating their future strategies (Refer Exhibit 4.2).

Exhibit 4.2 Future Organisational Structures

Peter Cochrance, Head of Research at British telecom believes that products of future will demand unstructured organisations where highly creative and innovative individuals will work. Due to need of customer for a structured organisation for his interaction, organisations will become system integrators with facilitating structures which will be formed to achieve specific objectives and will be later on dispanded.

Source*: Business Today*, September 22, 1998.

The problem of environmental scanning would be oversimplified by assuming that future would be always similar to the past. This assumption may even prove to be fatal for companies. The companies must therefore prudently analyse their environment for developing new alternatives and new ways of doing their business to attain a desired position rather than extrapolating what they had been doing in the past.

WHY ENVIRONMENTAL ANALYSIS

The strategies that a company may adopt is influenced by the environment. An organisation cannot keep itself insulated from the environment. It cannot take decisions on policies and performance, independent of the happenings in the environment around it, as it affects the strategic decisions required to be taken by a company. An analysis of environment and its behaviour gives ample scope for companies to anticipate various opportunities and threats and be proactive towards them. Implies that the organisations can turn them to their maximum advantage. If companies lack direction, focus, and perception of changing business scenario, they may be able to withstand predatory competition. Many companies in India went out of business due to their myopic approach towards the changing environment. They considered themselves invincible and that nothing in the environment could deter their progress. Today we do not see some of those brand names which enjoyed supremacy in the sixties and seventies. With the markets being flooded with different designs of washing machines from Videocon, Whirlpool, Godrej, etc. a number of local manufacturers lost their market. The same is true with Vijay Super and Lambreta scooters which are no longer visible on Indian roads (Refer Exhibit 4.3).

Exhibit 4.3 Changes in Popular Brands

There have been various brands of detergents advertising "New, stronger, cleaner, extra strong". Similarly in the hyper active tooth paste market we find slogans like "all new oxygen with tooth paste, improved etc. "Companies go on extending brands with fall in share point. This syndrance is found to spread in consumer durable as well. One of the causes is technology which comes from the west which makes products obsolete at faster rate. The profits are generated through higher price tags with slogans of improved and new on it. This corporate dynamics which forces the managers to bring in some kind of change is today being seen everywhere.

***Source**:* Adapted From "All Newly Muhamed Munner," *Economic Times,* May, 1999.

It is important for managers to scan the environment in order to know the following:

1. The various factors and their interactions taking place in the environment, which would be conducive to the strategies of the company to know how far they would be helpful in accomplishing the objectives set for company (Refer Exhibit 4.4).

Exhibit 4.4 Strategic Factors and Their Effects

Factors	Behavioural Pattern
Market size	Big markets attract big and new entry week competitors are sidelined.
Surplus capacity	Surpluses lead to downfall of price and profits
Entry or Exit barriers	Strong barriers result in protection of profits and competition
Price	More buyers buy at lower prices
Standard Products	Buyer changes the seller
Technological changes	Raise risk as obsolescence is fast
Capital	High capital requirements make investment decisions difficult. Vertical integration raised requirement of high capital
Economies of scale	Increase of volumes and increased market share for being cost competitive
Innovations	Reduce life cycle and increase risk

Source: Thompson and Strickland *Strategic Management*

2. The various factors and their interactions, that would threaten the survival and growth of a company and evolution of alternatives that would possibly turn threats into opportunities.
3. The various factors and their interactions that would generate new opportunities for the company to grow and accomplish stretched goals.
4. Targets that a company would like to formulate for itself which would be not only realistic but would also pose a challenge to motivate the workforce.

Managers are usually bogged down by their routine work. According to agreed schedules since timely completion of many interrelated tasks is very important for a company. Hence it would be unfair to expect more responsibility from these managers. Managers who do analysis of the environment find themselves better equipped to take up challenges in the changing environment and hence they are more effective. They do better analysis and to the required degree of accuracy to meet challenges of environment.

There is every possibility of doing incorrect environmental scanning and drawing wrong conclusions. A company may underestimate the environment and overestimate its own capacity. Some others may overestimate the environment and may pump in resources to carryout vigorous strategic changes. This eventually may not be required and may culminate in very costly investments for the company.

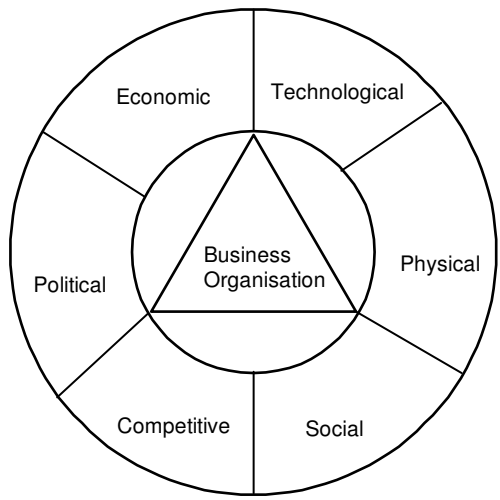
Strength, Weakness, Opportunity and Threat (SWOT) analysis at the level of a business unit is imperative. A coordinated effort within the business unit group is necessary to draw meaningful inferences from analysis. The important characteristics that emerge from the basic behaviour of an environment may be broadly categorised as predictable, partially predictable and unpredictable. Considering the partially predictable environment one may like to examine the controllable, partially controllable and uncontrollable elements in the environment which would constitute a particular behaviour of the environment. In this context we can consider the effects of demand and supply. We know that when supply of a commodity increases, its prices fall. The demand may go down or may rise due to some change in environmental situation like war, famine, change in law etc. which may be considered as uncontrollable.

The response of an organisation to an environmental change that has taken place or is in the offing may be inactive, reactive, preactive or proactive. Inactiveness refers total irresponsiveness from a company. Reactive responses are reactions of to a company certain stimulus. Preactive approach refers to constantly adjusting to changes in environment whereas proactive refers to positively bringing changes in environment favouring the company, In automobile sector, we find many preactive players with regard to pollution norms whereas in proactive category use may place Reliance group.

TYPES OF ENVIRONMENT

Remote environment consists of forces which are beyond the company's direct operating environment. Usually the remote environment is not affected by operating environmental forces of a single company. A multinational company having its headquarters in USA does not get affected by the competition faced by its subsidiary company in India. However, a change in legislature which affects the industry as a whole in which the said company operates, for example ban on certain raw material, may substantial by affect its business (Refer Exhibit 4.5).

Exhibit 4.5 Environmental Domains of Organisation



The environment consists of political, technological, social, economic and legal/statutory factors, etc. on which the organisation does not apparently exert any significant pressure for change. This is because an organisation would be only a small entity in the target environment. However, the converse may not be very true. Environmental changes influence working of a company to a great extent. The remote environment affects the strategies of a company in some way or the other (Refer Exhibit 4.6).

Exhibit 4.6 Transition from Protected to Globalised Market

The single key priority for Indian companies would be rapidly reposition themselves to enhance their preparedness for severe competition and support their successful transition from an era of regulation and protection to the fully globalised market of 21st century. The reform process needs to focus on adapting the existing companies and creating new ones proportional to the transition rate for market economy and the extent of globalization. Competitive advantage can be derived from clearer anticipations from future and encouraging strategic innovations in the organizations.

Source: Competitiveness—the Compelling Agenda, Speech by Y.C. Daveshwar, Chairman ITC Ltd., at 87th Annual General Meeting on August 12, 1998.

In the long run companies also influence the environment. The environment, although external to an organisation, may be very close to the company in the sense that any change in the functioning, image, policies, practices, structures, rules, etc. of an organisation affect the environment in some way or the other and vice-versa is also true to a large extent. That is, any change in the environment leads to changes in the objectives, strategies and policies.

CHARACTERISTICS OF ENVIRONMENT

Business environment has several characteristics and each of these characteristics are to be clearly understood by strategy managers.

Some of the characteristics of environment are as follows.

Environment is Complex

Environment has many dimensions for a particular business. The events, conditions, and influences arise from various sources present in the environment. All these factors interact with each other to produce changes in environment. An example in the leakage of poisonous gases from the Union Carbide factory in Bhopal which caused a long legal battle affecting the business of the company and led to the closing down of the Bhopal plant.

It is quite difficult to understand interactions of all the factors present in the environment. However, strategy managers try to comprehend the various factors and their influences.

Environment has Multidimensions

When a change is triggered off in a business environment it may influence source factors and may not influence some others. Change in environment is perceived by different people in different ways. For some companies, amendment of a law may be useful while for others it may prove to be fatal. Strictures passed by the Indian government regarding emisson norms for companies in and around Agra means a lot of expenditure for them which, if made, may render all these companies financially nonviable. Opportunties present in an environment may be a threat to some company. The dimensions available to define an environment and study its effect of change are multitudes and often strategy managers find it difficult to identify all the factors.

Environment is not Static

Around a business would, changes (either fast or slow). The changes occur continuously. In the present business scenario, these are more frequent and rapid changes. Changes may occur in any scope of the environment and consequently affect other factors. The dynamism of the environment brings in many threats as well as opportunities for an organisation. Hence organisations should be more alert to changes and be more adaptable. This is necessary for this survival.

Environment Affects Business Strategies

Since the environment has a direct effect on the companies, organisations have to formulate their objectives keeping environment in focus. Hence, the formulation of policies should essentially be in true with these objectives. A strategy that is adopted by a company may fail miserably if environmental factors are not correctly perceived and addressed while formulating the strategies.

Environment is only Partially Controllable

The environment within a company can be controlled to some extent whereas the environment outside an organisation is not under our control and hence has to be assessed. The environment can only be partially influenced by one company since there are other companies in an environment. These companies have varying interests which may clash with the interest of the company attempting to influence the environment.

INFLUENCE OF ENVIRONMENT

Environment affects current strategies also the decisions on future course of strategies. The various influences of the environment may be summarised as follows.

Opportunity

An event in the environment that may be favourable to a company may be suitably exploited by it for the overall benefit of the organisation.

A business opportunity may arrive due to changes in tax structure, natural or climatic changes, changes in the competitors' product designs change in some regulation, etc.

Threat

Some event in an environment may create situations where the profit margin of a company may be reduced or its very existence may be threatened. Emergence of stiff competition, obsolescence due to new products and design, braindrain of technical expertise due to lucrative offers from competitors, etc. are some of the examples of threats.

Strength

Certain companies have inherent strengths that they build over the years viz. research and development based information, trained manpower, distribution network, widespread infrastructure, etc. which enable them to be highly competitive and to create a niche for the company in a highly competitive environment due to these core competencies.

Weakness

Some companies have inherent weaknesses, limitations or constraints which prove to be strategically disadvantageous. Some companies may depend solely on a single source for raw materials or they may be doing only seasonal business and if a season is not favourable, their profits run into rough weather (Refer Exhibit 4.7).

Exhibit 4.7 Checklist for Strengths and Weaknesses

Marketing

1. Product features
2. Range of products
3. Timely delivery
4. Quality
5. Reliability
6. Life cycle cost of product
7. Ability to gather information about markets
8. Market share
9. Product mix
10. Market expansion potential

11. Distribution channels
12. Effective mechanism for organisation for marketing
13. Effective mechanism for obtaining customer feed back
14. Imaginative, effective and result-oriented sales promotion and advertising
15. Effective pricing strategy
16. After sales service
17. Follow up of product performance
18. Product differentiation
19. Customer good will
20. Brand loyalty

Finance and Accounting

1. Flexibility in financial operations
2. Ability to raise capital in short-term
3. Ability to raise capital in long-term
4. Shared resources at corporate level
5. Lower cost of capital
6. Tax benefits
7. Financial relations with investors, stock holders etc.
8. Barriers to entry
9. High cost of entry
10. Financial leverage
11. Follow of financial strategies
12. Budget control
13. Working capital management
14. Effective cost control
15. Cost reduction progress
16. Size of financial operations
17. Effective accounting systems
18. Profit planning
19. Cost effective systems
20. Cost structures

Technical

1. Easy availability of raw materials
2. Cost effective designs
3. Lower weights
4. Better quality at lower costs

5. Innovation
6. Latest cost effective technology
7. Lower inventory costs
8. Location facilities
9. Improved material handling
10. Layouts
11. Effective make or buy decisions
12. High value addition
13. Degree of vertical integration
14. Cost/benefit ratios analysis
15. Patents
16. Effective scheduling, purchasing, etc.
17. Cost of quality
18. Waste management
19. Clearly defined business processes
20. Use of computer in manufacturing, processing, design etc.

Personnel and General Management

1. Trained personnel
2. Highly skilled employees
3. Motivated employees
4. Good human relations
5. Effective personnel policies
6. Lower problems like absenteeism, alcoholism
7. Experienced personnel
8. Defined authority and responsibility relationships
9. Flexible and agile structures
10. Clear vision and mission statements
11. Effective communication down the line
12. Congenial organisational climate
13. Top management having effective control
14. Quick and effective decision making
15. Use of information technology
16. Company's past commitment to objectives
17. Discipline
18. Known for social commitment
19. Multi skill development
20. Effective training and placement and good paymaster

COMPONENTS OF ENVIRONMENT

Several economic factors present in the environment affect the demand, supply, services, prices, availability, etc. of products. The economic state of a company can be affected by various factors of the environment and these factors also drive the companies to change their strategies (Refer Exhibit 4.8).

Exhibit 4.8 Economy in 1998

The position of Indian economy is not significantly better than what it was in 1991-92. The figures released till December suggested that the government's fiscal deficit has already reached around 81 percent of that targeted for the full year while the overall contraction in the world trade has hit Indian exports. There has also been a sharp fall in investments coming from abroad. Only $880 million of direct and portfolio investment came in the country in the first nine months compared to $4.3 billions in the last year. The populist expenditures are rising unabated, including that of electricity subsidies which has risen four fold in the last seven years. All infrastructure industry grew by 2 percent this year compared to a 9 percent five years ago. The survey points out that the jaggernauts of decontrol and de-bureaucratisation remains unfinished.

Source: *The Indian Express,* February 25, 1999.

While studying the environment, a company would like to have information on certain specific aspects of the environment relevant to company. Some of these factors can be summarised as follows.

- Economic condition existing in a country or state, relevant to the company (Refer Exhibit 4.9).
- Stage of business cycle.
- Economic structure adopted viz. capitalistic, socialistic, mixed economy, etc.
- Structure of industry.
- Economic plans such as five year plans, annual plans, etc.
- Economic polices viz. monetary, industrial, fiscal policies, etc.
- Economic indices viz. growth of GNP, per capita income, rate of interests, balance of payments, etc.
- Policies of financial institutions, world bank, local banks, national banks, private banks, etc.
- Modes of transport and communication, power tariffs, energy sources, inflationary or deflationary situations, etc. While each of the above factors can be either helpful or may create hindrances in accomplishing their objectives, companies make use of the information to study the behaviour of markets

and frame their strategies accordingly. Some well known conclusion are also used to frame policies and strategies. Some factors like recession which lead to retrenchments resulting in poor sales, lowered interest rates leading to lowered fund requirements for investments and similar other axioms of business are deployed for framing strategies.

Exhibit 4.9 International Business and Role of Governments

The Indian government has increased investment limit for Indian companies abroad to $15 million. This enhancement of the investment limit is through fast track route to enable overseas investments in joint ventures and wholly-owned subsidiaries. Earlier this limit was $4 million.

Source: *Economic Times,* November 11, 1998.

Economic Environment

We can see the effect of economic environment in the annual reports of almost all companies. A few examples are given below.

1. During the latter half of 1996-97, the engineering industry in general and the automobile industry in particular faced a recessionary trend which was expected to accelerate with intense competition and falling prices due to stock piling causing a strain on margins. Companies had to bring down all input costs to face the situation squarely.
2. Partial decontrol of cement in 1982 resulted in quantum jumps in production capacities and supplies thus transforming the market control from manufacturer to buyer.
3. International rating agency Moody's Investor Service pointed out that high levels of non-performing loans and sluggish reforms were darkening the outlook for Indian bank's financial strength. (Source: *The Times of India*, January 14, 1999)
4. The government cleared a proposal that will enable it to raise about Rs. 7500 crore by selling its shares in six PSU through indegenious routes of cross-holding or buy back which is a deviation from the normal practice of disinvestment due to slump in the capital markets. (Source: *The Times of India*, January 14, 1999)

Regulatory Environment

The regulatory environment is constituted by various factors related to planning, promotion, and control of economic activities by the government to take care of the interests of common man. A government is usually formed by political parties which

may choose to bring in some policies which may be populist in nature only for reasons of retaining their power. Some governments may take decisions focussing on the growth needs of the people thus affecting strategies chosen by various companies. Thus political factors apart from affecting strategies chosen by managers, also influence the legal and other factors which govern various parameters of business strategies (Refer Exhibit 4.10). There are a number of areas like fair-trade practices, tax structures and related laws, minimum wage legislation, laws of contracts and agreements, laws related to pollution, pricing policies, interest rates, rate of inflation, growth trends, etc. which must be considered while formulating strategies (Refer Exhibit 4.11).

Exhibit 4.10 Change in Government Causes Uncertainity in Business Environment of Small Scale Industries

The government decision to lower the ceiling for fixed investment in small scale units from Rs 3 crores to Rs 1 crore has thrown into uncertainity the fate of those units which have come up in the intervening period, i.e. during the period of fall of United Front government and BJP coming to power. This lowering of ceiling may restrict investments in modernisation of plants and equipment and may eventually lead to sickness of these units.

Source: *"Business Standard,* February 19, 1999.

Exhibit 4.11 Product Patents, Globalisation Effects in Drug Industry

There have been quantum changes in the drug industry in the last two decades. The countries can no more be kept insulated and behave as islands. Various organisations are taking advantage of their core companies to grow in this environment which has resulted in strategic alliances between global giants. The mergers have been transnational in nature. The mergers have been to remove the weaknesses as a result of fierce competitiveness.

The mergers in India will help develop synergies thus giving organisations a critical mass to stand to the MNC competition. A typical example in this regard is take over by Nicholas Piramal (India) of Boechringer and Mannheim and Roche. Another example is that of Ranbaxy. It is pertinent to note that with a few exceptions, Indian pharmaceutical companies look for a strong R & D support and have largely flourished on reverse engineering strengths. Synergy is vital while merging but in the process companies also widen their therapeutic base.

Another trend is that of brand acquisitions where money involved is less and process is free of legal hassles. In this series Duphar Interfram sold Crocin brand to Smithkline Beecham and Knoll sold Coldarin to Johnson & Johnson. The liberation of Indian economy will attract more MNCs to invest, however, MNCs have enormous resources compared to their Indian competitors. The entire Indian pharma turnover may be less than the sales of Glaxo's Zinctac. The Indian companies at home enjoy some advantages viz. a large, skilled and trained technical manpower. The resource is cheap and in abundance.

Source: Rajeev Merchant, Product Patents—Planning for the Future *Indian Management*, Jan.–Feb. 1999.

In the past, the Indian Economy was a protected one and so the economic impact of international forces was largely discounted. After globalisation of economy this factor has assumed a greater significance. Some of the industries may be influenced by the European Economic Community, Organisation of Petroleum Exporting Countries, and other coalitions of third world countries. The financial institutions viz. World Bank etc. also significantly affect the strategies of various companies (Refer Exhibits 4.12, 4.13 and 4.14).

Exhibit 4.12 Laws and Regulations Affecting Business (I)

General Agreement on Tariffs and Trade (GATT) by India is for protecting the domestic market. GATT and Word Trade Organisation (WTO) under article 20, allow countries to restrict imports of certain commodities and goods if dependence on large volume of imports of such good threaten national security. Under this provision the government which are using the benefits, are required to publish a list of goods placed under article 20 so that other countries become aware of what goods are on the list and where does the domestic industry enjoy legitimised protection.

India has put goods ranging from fertilizers and pharmaceutical products to gold and pesticides under this article. From the European Union (EU) many companies are keen to export fertilizers and pesticides to India. These companies are from Germany, Italy, France, Britain etc. They also want to penetrate pharmaceutical market in India which has been protected for decades.

Source: "Economy and Business", *Hindustan Times,* January 12, 1999.

Exhibit 4.13 The Euro Effect

Single currency should make life easier and also lead to fall in prices of companies doing business in Europe due to birth of euro. The European market and its predecessor, common market which have existed for 40 years probably never thought of it to be a single market, however, many international companies treated Europe as one big market since beginning. In the near future, euro would create pressure for a global currency as the two big rival currencies viz. dollar and yen, in the part, have created turmoils in foreign exchange markets. It is expected that dollar and euro will become more volatile creating bad times for business. In order to limit fluctuations within the European countries, they have locked the business in single currency.

Source: V. Bala Swaminathan,"Giving Dollar A Run", *Industrial Economists* 15–29 January 1999.

Exhibit 4.14 Economic Cooperation and Business

The treaty of Rome in 1997 lead to formation of EEC or a common market and most of the Western European countries became its members. Its objective was to eliminate quotas and establish a free trade area for industrial products thus helping the member countries compete effectively in international markets. Such economic cooperation was also established among USA, Canada, Japan, EEC, and other countries through multilateral trade negotiations which has impact on business activity of various member countries.

Some of the important factors which influence the strategies in any market environment can be summarised as follows:

1. The frame work of the constitution, directive principles, fundamental rights, and legislative and executive powers of the government (Refer Exhibit 4.15).

Exhibit 4.15 Laws and Regulations Affecting Business (II)

British American Tobacco (BAT) Chairman expressing about the merger of BAT and Rothmans International said that the merger represented a major step forward in achievement of his vision to become worlds leading international tobacco company. It is noteworthy that BAT holds a 33 percent stake in Indian tobacco giant ITC Limited and therefore Rothman's proposal to set-up a 100

percent subsidiary in India is likely to be automatically rejected under the prevailing norms for MNCs.

Source: "Economy and Business", adapted from *Hindustan Times,* January 12, 1999

2. Government policies related to distribution, pricing taxation, etc. and their control (Refer Exhibit 4.16).

Exhibit 4.16 Political Effects on Business

The international rating agency Mood's investor service in its annual report pointed out that the reform process initiated in 1991 allowed down three years later due to political climate leading to falling behind the schedule the plans for fiscal tightening, deregulation and privatisation of public sector banks. The government interference continues as it controls and owns the majority of banking sector capital and this situation is not conducive for corporate governance. The Indian authorities are striving hard to create a well-regulated, increasingly liberalised banking sector.

Source: *The Statesman,* January 14, 1999

3. Government policies pertaining to monopolies, licensing, foreign investment, financing, loans, etc.
4. Industrial policy related to public sector, small scale industries, social development, pollution, etc.

Particularly in the Indian context, an industry operates within a strict regulatory environment. However, in some sectors ways and means are designed to break the norms. The regulatory environment has evolved as a result centralised planning and control and the regulations imposed by the laws on economic activities which are generally in the perspective of public interest. The industry has also been lobbying and creating awareness for its own benefit to create policies which will enable them to work and produce in the general interest of the public. The government acts through its ministers at the centre and the state in creating a conducive business environment. The state ministers are often found visiting other countries to invite foreign companies to start business in their state and they declare many attractive subsidies to these industries (Refer Exhibit 4.17).

Exhibit 4.17 Patent Law and Drug Business

US drug major Pfizer Inc, find it unattractive to introduce its latest drugs in India until a proper patent law is passed by Parliament. Pfizer will deepen its R & D presence and introduce latest drugs in

India if the IPR laws change to accept product patents. The five year transitional exclusive rights are not sufficient for an R & D intensive company to make up the investments.

Source: *The Times of India,* December 9, 1999, Business Times Bureau.

The consumer protection groups also impose regulations on the industry and register cases against companies, firms, businesses, etc. to protect the interest of consumers.

Market Environment

Market place environment where the product is sold to the consumer, has a great impact on a company. In a market there are competitors who offer better services to gain an edge. The competition may even turn out to be unhealthy when customers are carried away by untrue stories about a product or the company.

In market environment some of the pertinent factors that influence the business may be summarised as follows:

1. Customers have needs, demands, choices, preferences, attitudes, values, habits, buying behaviour, etc. With these traits a customer goes to market to satisfy his need. His satisfaction level about the quality of performance and appearance of a product may become a driving force for business. Some customers may be price conscious whereas others may bother more about status, services offered, brand name, etc.
2. Products available in market have a certain pattern of demand. Product image, its features, life, life cycle, cost, utility, finish, ergonomics, design, functions that it performs, etc. are some of the important aspects that a customer expects from products. The functions, whether secondary or primary, satisfy some needs of the customer. This drives him which he to buy a product and thus a business exists. How well the needs are satisfied decides how strongly a business is being driven. As a product is launched in market, competitors come up with even better features at lower costs. They may also offer additional functions at lower price or may offer an improved version of service or product. Customers evaluate product features and then take a decision of buying.
3. Market is usually charged with competition in present days. New competitors may be entering the market every day. There may be major competitors and smaller ones too. The nature of competition in some of the products may be very fierce whereas in others it may be mild. Various competitors may have different strategies to maintain a competitive edge.

   All these factors affect market situations and must be studied by the business managers formulating suitable strategies which will not only enable the

company to withstand onslaught of competition but will also help them to achieve coveted position in business.

4. It is only rarely that, products reach the consumers directly from the manufacturers. There is usually a chain of dealers, sub-dealers, local dealers, middle men, etc. before a product reaches a consumer. Further logistics, costs, delivery systems, packaging, transporting, displaying, etc. are involved which are also to be considered since all these finally go into selling of a product.

In the case of manufacture of control panels, generators, transformers, switch gears, etc., competition may not be as severe as in the case of consumer products. Here, market environment may be governed by service, life cycle cost, image, etc. Some sectors may be protected by the government viz. petrol, cooking gas, power equipments, electricity, water etc., although in recent years these fields are also being opened up for competition.

The rapidly changing business environment both at the national and international levels case the different markets to react accordingly. Companies have also geared up themselves and have brought in new systems, strategies, policies, etc. to meet new challenges. Today companies spend a sizeable amount of money to understand the market environment which directly or indirectly affects it (Refer Exhibit 4.18). Executives of companies visit markets to get first hand information about their own products and products of competitors. In earlier times, the edible oil companies rarely cared about their consumers but today companies making different brands of oils conduct surveys to get data on consumer satisfaction. The same is the case with the automobile industry wherein companies having unsold stocks resort to various methods of sales promotion. Even in the case of personal computers, companies are trying to reach out to homes of people to dramatically expand their market.

Exhibit 4.18 Japan's Innovative Growth

In the last eight years Japan has tried hard to get up and run but has miserably failed. Japan was the fastest growing country in the fifties and sixties by import of innovations and later on becoming a leading innovator for the next 20 years. The world owes a lot to Japan viz. the robot industry, computers and microelectronics etc. It has now run out of innovations taking the steam out of Japan's growth engine.

Source: Ashok V. Desai, "Fear of Drowning", *Business World*, September 22 – October 6, 1998.

It has now become composer practice for companies to study the competitor's profile and benchmark their operations for improvements. Some of the factors involved in a situational study of the competitor's profile may be as follows:

1. Total market volume and market share
2. Range of products and services

3. Network of sales
4. Competitive advantages and edges
5. Pricing trends, policies, etc.
6. Company mission and methods adopted for advertisement of products
7. Locational benefits
8. Company history with regard to profits, order book, operations
9. Sourcing of raw materials, components, etc.
10. Financial soundness
11. Quality standards used
12. Future plans
13. R & D programs
14. Human resource
15. Strategic directions of growth
16. Weaknesses

It is not an easy task to gather all the data however, executives take continued efforts to get more accurate details relating to these factors. A company ranks these factors in order to give more weightage to the more important factors.

The customer profile also has to be worked out in a similar gathering all the vital informations. The profile for the most prospective customer would necessitate knowing their complete details viz. geographic, demographic, and psychographic aspects, and their buying behaviour. Let us discuss each of these dimensions of the customer profile.

Geographic It is important for strategic managers to know their customers' geographic locations. Since each location has its own culture, environment, and background, it becomes easy to assess the customer's preferences. For example, persons belonging to West Bengal have a different pattern of preferences compared to Punjab. The food habits, festivals, living styles, dressing sense, hobbies, etc. vary from region to region and companies operating in different states must be able to match their products and services to their customer's delight. Political leaders make themselves more acceptable to the masses belonging to a particular state by wearing local outfits and using local language. Similarly, the Viswakarma Puja in factories is done to satisfy the workers. Companies make use of festival seasons to woo their customers with hoardings of new arrivals and discount sales.

Demographic The demographic information refers to information on age, sex, marital status, income, etc. which is comparatively easier for collection and processing. This information helps to create customer groups and segments for which separate strategies may be worked out by business managers. The product designs, their features, and price vary according to the buying capacity of the customers. This is the reason using a single company offers different varieties of detergents, cars, scooters, mopeds, houses, magazines, etc. with different features and prices.

Psychographic The personality, life-style, tastes and social movements of customers are some of the factors which influence their selection and preference of products. Certain classes of clothing, vehicles, toys, furnishings, etc. are owned only by a definite class of people.

The author once visited an exclusive showroom in Kashmir and asked the salesman to show pashmina shawls. The salesman gladly got ready to do so when the author hastily added that he only wanted to see it because pashmina shawls could only be bought by actors, doctors or ministers since the prices were exorbitantly high.

Buyer behaviour There exists a definite buying behaviour which is based on several indices viz. usage rate, benefits desired, preference for price, quality, service, life, life cycle cost, ownership cost, etc. Today, buyers have more awareness about their rights and demand very good product performance. This poses a challenge for manufacturers. Buyers have also joined hands and have legal forums where their grievances regarding products are being heard. Strategy managers have to consider these factors while making in their strategies (Refer Exhibit 4.19).

Exhibit 4.19 The Price War

The Indian consumer is keenly watching the price war in Indian market. The prices of consumer durables are tumbling down as capacities remain unutilised and competition taking new unexpected dimensions. The collapse started with televisions and computers, however, realistic pricing is now becoming the law of today's business. It is fast spreading to cell phones, holiday packages, credit cards, cars etc. Baron International which markets Akai and AIWA brands ignited the competition. The downward spiral soon caught other categories viz. cars, refrigerators, washing machines etc, who are wooing the buyers with more than 20 percent slash in price. Barely a few hours before TATA declared the prices of India, MUL slashed their prices thus triggering off a price war in cars. In holiday package business the Mumbai based SOTC was the first to offer free air tickets for spouse for the first 1000 tickets. The boom of 90s motivated manufacturers to expand their capacities, however, by mid 97 the recession had set in. It is noteworthy that the price war has lead to growth rates and the performance has been amazingly high in some sectors. For instance in refrigerator market, the growth has been 22 percent for April-Sept.'98 against 13 percent the year before and in PC market the growth has been at the rate of 35-40 percent on average. Thus the markets in India are fast realising that consumer is precious and is driving the business.

Source: Shefali Rekhi, "Going Cheap", February 1999.

Suppliers' and Creditors' Environment

The relationship existing within the suppliers, creditors and the companies is crucial for the company's long-term survival and growth. The relationship must be based on faith and commitment and should be long lasting. The suppliers and creditors should be dependable during times of difficulty because the company should have a continued supply of needed inputs. A company depend on its suppliers not only for timely delivery of materials, but also for financial support and services. During emergency conditions the company may have to demand quick delivery or soft credit terms. The deliveries of items and materials may be deferred or a lot may be broken into sub-lots. Only if the company in competent enough and is able to address some of the following aspects will it be able to get a continued support from its suppliers.

i. Whether suppliers offer the right quality of materials and whether the cost is low.
ii. Whether prices offered by suppliers are competitive with respect to quality of products offered.
iii. Whether suppliers offer desired services.
iv. Whether suppliers have the ability, reputation, reciprocal dependency, etc., and share value engineering benefits, and benefits accrued due to other cost reduction programmes.

A company should address some of the following problems to unearth problems fairly in advance to design strategies for meeting challenges (Refer Exhibit 4.20).

Exhibit 4.20 Business Environment Faced by Suppliers

The number of suppliers being cut by Indian companies is steadily growing. The Indian companies are doing so to remain competitive. Bajaj Auto has followed new supply-chain management policy by which it has knocked out about 70 suppliers. A supplier to HMT reported that the company had promised him initially a support for seven years but when the company started sliding down it started delaying payments and eventually stopped placing orders. Companies cannot go to court for fear of loss of total business. The tax men demand their money today though the money is received only after, may be, six months after the sale of goods.

Source: Niranjan Rajadhyaksha, "It's Hurting," *Business World,* Sep 22 – Oct 6, 1998.

i. The continued supply (as per the schedule of deliveries) of raw materials, components, consumables, parts, tools, tackles, etc. at competitive prices.
ii. Availability of finance for implementation of strategies, plans and projects as per schedule.

iii. Availability of energy at costs compatible with profitability of company.

iv. Perception of creditors company's past payments, working capital management, etc.

By specifically answering the above questions, a company can make forecasts about it position in the market and implement the needed strategies to sustain itself. It is only rarely that a company can process all the ideal factors—quality, quantity, price, and human and material resources. However, an accurate evaluation of suppliers and creditors is crucial for a company to gauge its business environment.

So happens that sometimes people join a company and come out after getting trained. In recent years the trend has greatly accelerated since youngsters are highly ambitious. It has become necessary for companies to pay marginally higher salaries to attract employees of other companies. The ability of a company to sustain its efficient employees is necessary for its success. In the business environment, the reputation of a company and the total pay package that it offers are the main considerations of personnels. From the point of view of an employee, a good company is one which

- has long-term ability to meet the personal needs of employees,
- is stable and permanent,
- pays reasonable salaries to its employees,
- looks in the welfare of employees,
- is valued for its product quality and service rendered and
- has a good reputation for the social behaviour of its employees.

After the industrial movement was started in India, most of the companies recruited people from nearby places even though they were not qualified or experienced. Gradually, these people gained experience and new companies get tempted to attract them. Some skilled employees demand higher compensation. Usually such skilled persons are selected from over large geographic areas. This can be exemplified by the thousands of engineers specialising in computer software IT industry migrating to the USA. The demand for and supply of workforce depends on many factors like technological growth, economic conditions, development programmes, etc. (Refer Exhibit 4.21).

Exhibit 4.21 Offshore Workers

The wage pattern in all countries is different and this fact has been well utilised by many companies around the globe. The data processing and back-office work is shifting to countries where facilities in exist of computerisation and trained people are available to handle the information.

The Swiss Air set up its data entry system in Mumbai in 1987. The Indian workers here make corrections in the reservation bookings and feed to the Swiss Air main computer in Zurich. The clerk in India

with all the computer and supporting software etc. costs about one fourth to the company.

Source: Niranjan Rajadhyaksha, "It's Hurting" *Business World,* Sep. 22 – Oct. 6, 1998.

Technological Environment

Technology has been rapidly changing in recent years. Likewise, the obsolescence is also fast-changing. The advent of computers has shortened distances and virtually there has been an explosion of information. This technology boom has even changed the nature of competition. By innovating technology and streamlining operations, companies have expanded their limits and have raised customer's expectations. Thus the customer's satisfaction transforms to customer's delight and customer's success.

The technological changes also result in shrinking the product life cycles from years to months. A product introduced today may become obsolete the next day. The time to develop new products and services and to introduce new concepts, has greatly reduced.

Some of the key factors which influence operations in a technological environment are as follows:

1. The source of technology is important for any company competing in a market. Several companies develop their own technology through in-house research whereas others depend on collaborations. However the technology becomes old by the time it is really imbibed. Small improvements are made existing over the technology using techniques like value engineering. These modify the material flow processes and other design features. The cost of technology is an important factor and must be considered during its sourcing.
2. The technological developments are vital for a company as they decide its competence. The rate of change of technology, cost of change, and time to assimilate and install a new technology are some of the important factors to be considered.
3. While going in for new technologies, the companies are responsible for taking care of the social environment and man-machine system. The effect of technology, the health of employees and the social environment should also be taken into consideration.
4. The fields of information technology and management have taken quantum leaps in the recent past. Businesses have tramped new rules and companies have gone into introspection of their operations. The business processes have been redesigned to avoid arbitrary fragmentation of natural business process which causes extensive information exchange, data redundancy and rekeying of desired information. The system slackness which was unable to cope up with uncertainty causing piling of inventories, buffers and other

assets is being made more adaptable and responsive. The high ratio of checking and control to value additions is being reduced.

Technology basically involves the know-how and know-why which refer to ways of designing, manufacturing or using things and which transform into the products, processes, and services rendered to customers. Further, technology is strategic in nature as it has far reaching consequences on future of a company. It has become a major stimulus for change resulting in economic progress. Countries which dominate are technologically advanced the global scene today. Developments in agriculture, transportation, health, communication, etc. are all dependant on technology. Every part of human civilisation is affected by technology.

ENVIRONMENT SCANNING

We have discussed in detail the impact of environment on companies. It is vital for companies to comprehend, identify and classify environment and its factors in order to draw meaningful conclusions. Although these environmental factors discussed above encompass all the relevant dimensions, it should not be forgotten that environment is highly dynamic in nature and it is humanly impossible to be accurate about these factors and their interrelationships. All the elements act together in a coordinated fashion and no single element can be exclusive of the others. A change in environment triggers off a series of reactions. The effect of rise in petrol prices on the business environment of a company, the effect of education on product preference, the effect of adulteration of edible oil on its sales etc. can be cited as examples. Since the changes in environment affect various factors, which are vital to a company, to varying degrees at various times, it is difficult to evaluate these influences. Probably cause and effect relationships can be drawn between various factors and their impact on the environment. The environmental uncertainities causes strategy managers to go for short-term plans. They operate with flexibility, focussing on speeding up operations to be in tune with the fast changes in environment. Thus companies tend to become reactive rather than being proactive and hence face the peril of losing leadership in business.

It may be true that some strategies are successful it may be very difficult to anticipate the impact of changes in the remote and operational environment of a company. The impact of changes on other alternative strategies also cannot be easily evaluated. Hence a lot of data should be collected, classified and analysed.

In spite of the inaccuracies in predictions it is worthwhile to study the effect of various changes on environment as it helps to narrow down on the alternatives and avoid unwanted options. Assessment of environment does not lead to the best strategy but it definitely leads to elimination of all non-promising alternatives. The cost, effort and time spent for environmental scanning helps in justifying the efforts that go into the entire exercise.

APPROACHES TO ENVIRONMENTAL SCANNING

The various approaches used by strategy managers for environment scanning, can be summarised under three broad categories.

Systematic Approach

In this approach, formats for various issues are developed and scanning is done systematically in a step-by-step fashion. The information related to various factors viz. regulatory, social, economic, technological, resources, etc. is collected which has direct bearing on the working of company. Data on various factors is continuously collected and updated and their effect on various elements pertinent to the organisation is studied. The variance of various factors is analysed and their swing is worked out to estimate the impact of the changes. A system of assessment of the environment is prepared by the strategy manager followed by all the line managers in the organisation.

Process Information Approach

Information on environment and its various factors is available from trade papers, trade magazines etc. Many organisations prepare summary of relevant information to keep themselves updated. The processed data is made available to the strategy management group for processing and drawing inferences based on which corrective actions may be taken by a company.

Ad Hoc Approach

Some companies collect specific information on selected environmental factors by conducting special studies. Such studies are usually conducted when a company wants to launch a special project. The impact of a project on various environmental factors is studied within the framework of a specially designed study program and results are obtained through analysis using computer softwares of changes and developments may be studied using pilot projects and results extrapolated for use by strategy managers.

Usually organisations use various kinds of approaches for evaluation of environment. Either they choose a highly systematic complex process of evaluation or just settle for an informal assessment. Generally during emergency, an informal assessment is made, however, information and pattern of changes already studied may be used to arrive at a strategic decision. A systematic approach is basically a proactive approach where a system may be designed to convert threats into opportunities. An informal approach is basically a reactive approach where unless the companies have good flexibility in their structures, and business processes, it may be difficult for them to plan strategies accordingly. Practically it is not possible to stick on to exclusively one type of approach. Depending on the various issues faced, the company chooses its mode of approach. Results based on correct data are important for strategy managers to formulate workable strategies.

SOURCES OF INFORMATION

A company can obtain information from different sources, but it should be ensured that the information is correct. The correct source should be tapped for specific information for more accuracy. Information received from secondary sources may sometimes even misguide strategy managers. Hence it is important that information should be verified for correctness before it is processed and decisions are taken based on it. The various sources from where information can be gathered include:

1. trade directories, journals, magazines, news papers, books, newletters, government publications, annual reports of companies, case studies, etc.
2. radio news, television, internet, etc.
3. internal documents viz. files, records, management information system, employees, standards, drawings, charts, etc.
4. external agencies like customers, suppliers, inspection agencies, marketing intermediaries, dealers, advertisers, associations, unions, government agencies, share holders, competitors, etc.
5. market research reports, consultants, educational institutions, testing laboratories etc.
6. spying, considered as a powerful way of extracting information from other companies.

It is found that the chronological order of information is also quite important for strategy managers. Usually information received from government agencies is quite stale since processing takes more time. The information received from competitors is quite expensive but it is usually fresh and is quite useful.

TECHNIQUES USED FOR ENVIRONMENTAL SCANNING

The techniques may be either very systematic to intuitive. Selection of a technique depends on data required, source of data, decision to be taken, timelines of information, relevance, cost of information, quantity, quality and availability of information, etc. Many theoretical models for extrapolation of information have been developed depending on the kind of information required. Some of the methods widely used can be categorised as follows: Scenario writing, simulation, single variable extrapolation, morphological analysis, cross impact analysis, field-force analysis, field anomaly relationship, theoretical limit envelopes, dynamic mode mapping, game theory, etc. The techniques are either statistical or mathematical in nature. However, judgemental and intitutive techniques are also widely used.

The entire process consists of following steps.

1. Major events and trends in environment are studied.
2. A cause and effect relationship is established with regard to events and trends for long and short term. This is done through brain storming in a group.

3. Diagrams showing interrelationships amongst various factors are prepared and an attempt is made to quantify the results.
4. The study is reviewed by a group of experts who deliberate on each aspect and on the possible strategies that may be decided.

The information gathered needs to be structured so that it may be easily understood and assimilated. The information generated is classified and structured to study the emerging threats and opportunities.

PRIORITISING ENVIRONMENTAL ISSUES

Environmental scanning generates a vast amount of information which are all jumbled up. The information should be rearranged in order to draw meaningful inferences from it. Also each information may vary with respect to its value and priority, hence, it is prioritised on the basis of the amount of impact it can make on strategies. It is extremely difficult to quantify the impact, however, a qualitative assessment can be made with a little effort. If a matrix is attempted to be created with probability of impact and its intensity on various strategies of business, it would be possible to rank critical, and high priority items and not-so-critical and low priority items. It must be remembered that low or high priority is only a variation which may change with time, and a low priority item may become most critical with passage of time. Hence low priority signifies that there may not be an urgent need to focus immediate attention on these items but a thorough and continuous monitoring may be necessary. From these critical and sub-critical factors and issues emerge the opportunities and threats which the strategy managers diligently use for the benefit of their company.

ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE (ETOP)

Various environmental factors are quite complex and it may be quite difficult for strategy managers to classify them into neat categories to interpret them as opportunities and threats. A matrix of comparison is drawn where one item or factor is compared with other items after which the scores arrived at are added and ranked for each factor and total weightage score calculated for prioritising each of the factors. This is achieved by brainstorming.

Finally the strategy manager uses his judgement to place various environmental issues in clear perspective to create the environmental threat and opportunity profile.

Although the technique of dividing various environmental factors into specific sectors and evaluating them as opportunities and threats is suggested by some authors, it must be carefully noted that each sector is not exclusive of the other. Each of the major factors pertaining to a particular sector of environment may be divided into sub-sectors and their effects studied. The field force analysis goes hand in glove with ETOP as here also the contribution of each sub-factor to a major factor is estimated and eventually judged by the strategy manager. An internal assessment of an organisation with regard to opportunities and threats posed by the environment is

also a necessary part of study. The strategic managers should keep focus on the following dimensions.

Issue Selection

Focus on issues which have been selected should not be missed since there is a likelihood of arriving at incorrect priorities. Some of the important issues may be those related to market share, competitive pricing, customer preferences, technological changes, economic policies, competitive trends, etc.

Accuracy of Data

Data should be collected from good sources otherwise the entire process of environmental scanning may go waste. The relevance, importance, manageability, variablity and low cost of data are some of the important factors which must be kept in focus.

Impact Studies

Impact studies should be conducted focusing on the various opportunities and threats and the critical issues selected. It may include study of probable effects on the company's strengths and weaknesses, operating and remote environment, competitive position, accomplishment of mission and vision etc. Efforts should be taken to make assessments more objective wherever possible.

Flexibility in Operations

A lot of uncertainties exist in a business situation and so a company can be greatly benefited by devising proactive and flexible strategies in their plans, structures, strategy etc. The optimum level of flexibility should be maintained. Some of the key elements for increasing the flexibility are as follows :

i. The Strategy for flexibility must be stated to enable managers adopt it during unique situations.
ii. Strategies must be reviewed and changed if required.
iii. Exceptions to decided strategies must be handled before hand. This would enable managers to violate strategies when it is necessary.
iv. Various available options for achieving defined targets within the framework of policies and on justifiable grounds must exist. This enables employees to choose a course of action. Flexibility may be quite costly for an organisation in terms of changes and compressed plans, however, it is equally important for companies to meet urgent challenges.

QUESTIONS

1. What do you understand by business environment?
2. Why is environmental analysis required for a company? What does a company in your opinion draw from environment?

3. What are the various types of business environments? Discuss the characteristics of business environments.
4. What is the influence of environment on the working of a company?
5. Discuss various components of a business environment.
6. What do you understand by a regulatory environment?
7. What are the factors in regulatory environment which affect strategies of a company?
8. What do you understand by market environment?
9. Discuss various factors of suppliers' and creditors' environment.
10. What do you understand by technological environment?
11. What is business environment scanning? What are various approaches to environment scanning?
12. What are various sources of information?
13. Discuss techniques of environmental scanning.
14. How do you prioritise environmental issues?
15. What is environmental threat and opportunity profile (ETOP)? Discuss various dimensions of ETOP.

CHAPTER

5

Analysis of Industry

Nowadays, whether a company manufactures a product or offers some services, its roots can be traced to the concept of business organisations described in '*The Wealth of Nations*' by Adam Smith. Organisational structures were initially based on division of work. Work was fragmented into smaller units with a view to enhance worker's productivity as it was thought that an artisan who works on a job for long periods of time would develop expertise. The number of units would be so produced would not only be more but would also have lesser defects. With increased experience on a particular piece of work, more would be the output from a worker. Consequently he or she could be paid more accordingly. The reduction in the cost of goods depended on the workers productivity. This productivity was enhanced by division of labour, and in turn labour productivity was enhanced by several hundred times. This leads to specilisation of labour. Management rules were created for all possible contingencies.

The next industrial revolution came after World War II when enormous economic expansions took place. There was an unrelenting demand for goods throughout the world which shaped the economic environment into what we see today. The depression was followed by war which lead to scarcity of goods. The focus was on quantity rather, scooter, cycle, refrigerator, house, or utensils, was better than nothing at all. In the fifties and sixties the concern of managers was to meet the rising demands of goods and they found out newer ways to enhance production to meet the ever growing demand of goods. Manufacturing capacity of companies was the prime concern.

Money available in market was scarce and even companies which built up productive capacity soon found it quite difficult to finance their businesses. Companies which built too small a capacity and built it relatively late, lost the opportunities and their market share reduced due to their inability to produce and meet the demand of customers. Hence many companies had to resort to complex planning, budgeting, and controls. The organisational structures became pyramidical and whenever a company desired to grow to meet more production requirement it added workmen in the bottommost line.

Departments, sections and divisions, etc. were created and the work was supervised through closely monitored plans. Budgets were made and approved department-wise and managers exercised strict control over them.Workers were required to be trained in different skills so the training needs were simple. The training was for short durations as it was required to build only working skills in specialised and fragmented areas. With passage of time whitecollar jobs were also fragmented. The number of tasks increased and became more complicated and difficult when it came to managing total operations. The processes became so complex that these went into the back drop and instead the departmental boundaries became more firm and clear. The gap between the lower level and top level management likewise there was a wider gap between the customers and the top management since their total attention was to increase production. Power and responsibilities were diffused through large and monotonous bureaucracies and controls became less responsive.

But now the business scenario has changed. Competitiveness has mushroomed the entire business world which has become fluid and unpredictable. There is no status quo. Market growth, customer's demands and preferences, product life cycle, technological changes, competition, rules of business, regulations and statuary laws, entry of new competitors-all are changing very fast.

In 1989 the Berlin Wall gave way. The 1990s saw unification of East and West Germany and break-up of the Soviet union and Yugoslavia. At the same time the European countries worked to make the European Union (EU) and European Common Market. In India, even though the growth rates and the level of per capita income have been lower, the industrial structure has undergone massive diversification. The share of agricultural allied activities fell from 54.91 percent during the first plan to 32.82 percent during the seventh plan period. The structural changes with regard to employment have also udergone changes. The work force engaged in primary sector livestock, agriculture, forestry, fishing, etc.) decreased from 71.7 per cent in 1901 to 68-61 per cent in 1981. Agriculture still continues to be an important organ in Indian economy. About 30 per cent of national income comes from the agricultural sector. But in the US agriculture accounts for only about 7 per cent of total work force.

The main problem in India today is the high birth rate coupled with falling death rates. The heartening feature is that in the last three decades there has been a decling trend in population growth rates.

The industrial policy resolution of 1948 and 1956 involved conscious and deliberate heavy investments in the basic and heavy industries in addition to consumer goods industry. Industrial productions grew at a rapid rate and India has achieved the tenth position in the list of industrialised countries. This growth is also reflected in the commodity composition of India's foreign trade. The economic reforms that were started by Rajiv Gandhi in 1985 have paved the path for liberalisation of Indian economy. Some of the important decisions taken by his government were decontrolling of cement and licenses issued to private sector to produce cement, raining of ceiling asset limit of big business houses from Rs. 20 crores to Rs. 100 of MRT Pact, and launching

a scheme of broad banding for 25 categories of industries meaning that within the overall capacity, firms were given freedom to produce a range of commodities.

The three main objectives were liberisation, globalisation and privatisation of new economic policy. The licence-permit-raj was to be finished. There was reduction in import duties and on quantitative restrictions on imports and export. On February 8, 1997 the Ministry of Commerce dismantled restrictions on 162 items for import and out of them 69 items for which special import licence was required were made free for imports. Foreign technology agreements were given encouragement. Measures were taken to achieve higher growth rate of national and per capita income, employment, self reliance, reduced inequality of income and wealth etc. The economic reforms lead to higher growth rates, controlled inflation etc. It is pertinent to note that problems which remain unaddressed viz. poverty, employment, self reliance and growth coupled with social justice etc. require multi pronged attack. The economic reforms need a little more orientation in this regard (Refer Exihibit 5.1).

Exhibit 5.1 Global Positioning of Companies

With globalisation Indian manufacturing can no longer be viewed as simple–conversion of raw materials into finished goods. According to a survey conducted by IIM Ahmedabad following facts have come to the fore.

1. Innovation and supply chain management which are crucial for sound growth of any company is sadly missing in Indian companies and this could be disastrous for them with international competition heating up.
2. In India, labour costs are only 10 percent and materials and overheads form 66 and 24 percent of the total volume of costs. Indian manufacturers have traditionally been concentrating on labour costs.
3. On a seven point scales, quality, was found to be on top and innovation and R & D among the last priorities. While companies have concentrated on flexibility, managing change and other aspects of business, they have hardly focused on fundamental aspects of manufacturing and the way it is organised.
4. Variety of improvements have been made including investment in IT with no clarity as to how they plan to use this information for decision making.

Source: *Business India* January 25th – February 7th, 1999.

In such a context, the emerging role of global managers is even more demanding. They need to improve corporate performance by rising up from the mind set of local and domestic competition and feelings of nationalism to that of global well-being,

competition and existence. Both global and local managers focus on profits and market leadership. But global managers have the added responsibility of preserving the economic competitiveness of the nation which reaps a major part of revenue. The decision making will now be based more on economic planning. The Japanese, US and EU markets are seen facing problems of economic stress causing debt loads and fierce competition. There are slowly shifting from military dominance to economic leadership in global affairs.

The competition in any industry depends on threat of new entrants, bargaining strength of customer, barging strength of suppliers of goods and services, the risk of product and service substitutes operating in the environment full of contestants who wish to achieve market leadership and the Indian business scenario today has been fully exposed to a very fierce competition.

COMPETITIVE FORCES AND STRATEGIES

The objective of a strategy manager is to secure his company's desired position in industry against various competitive forces (Refer Exhibit 5.2). Competitive forces retard growth and even threaten survival of a company, but the strategy manager has to study them to create a situation whereby these forces either may turn favourable to the company or at least fail to predate in his company. The strategy manager does not draw any conclusion from the apparent intensity and nature of the forces but dwelves below the superficial effects and analyses the competition. Thus the essence of formulating strategies lies in effectively dealing with competitive by forces understanding their origination, operation and effects and by formulation and implementation of suitable strategies.

Exhibit 5.2 Location of Business

The central theme of Porter's hypothesis is location of clusters, i.e. the group of companies specialising in a specific area and location at one place. Clusters affect competition in these basic ways.

- Companies become more productive
- Rate of innovation increases
- Rate of growth is enhanced with regard to new businesses
- The knowledge and motivation is almost next door. Clusters also attract more talent…

Source: *Business Today,* November 22, 1998.

Competition should not be viewed too narrowly or pessimistically since it leads to growth. It erupts due to several situations in business environment, customers, etc. There is a constant fight for market share among the competitors. Each company

wants to increase its market share, and designs strategies to do so (Refer Exhibit 5.3). Competition is also rooted in economics of the environment in which a company exists and both the environments i.e. the remote as well as immediate affect the competition and its intensity. There are numerous examples which illustrate this point. The leakage of fatal gas in Bhopal lead to the death of many people due to inhalation of the poisonous gas. Here large amount of money was distributed to rehabilitate the victims. This money which flowed into the market created a boom in the consumer durable market. Disbursement of bonus produces a seasonal effect as can be seen in various industrial towns where the purchasing power of people is suddenly enhanced. This not only results in the arrival of new products, services, etc. but also in new sales schemes and techniques. Competitive forces present in environment go even beyond the various apparent combatants in a specific industry and this fact should be well appreciated by strategy managers (Refer Exihibit 5.4).

Exhibit 5.3 Business Scenario of Indian Car Markets

The Beginning of 1999 has been with redefining of ground rules for competition for the Indian car markets. The new entrants in the small car segment are enjoying bigger markets compared to that by Opel Astra, Ford Escort, Daewoo Cielo, Honda City, Subishi and Maruti Esteem, all but together. In India the consumer is today looking for reliability and sturdiness to withstand the lunarscaped roads and low prices in car with driving pleasure as common denominator.

It is a history when MUL won its no contest war against premier Automobiles and Hindustan motors. Today it faces stiff challenge with many new entrants. In 1996 the Economic intelligence unit estimated sale of 8.75 lakh cars a year by end of decade. By 2005 it said that the figures would cross 13 lakh a year. The markets, however, are not growing at this rate. Against this back drop, the war of cars has commenced. The MUL is seeing their rebels play the same strategies of product innovation, pricing and reaching out on customer with best offers as quickly as possible. The methods vary from a snappy image through vigorous advertising to easy financing and to mileage per liter, etc. The new technology in cars is now taking a forefront. The heartening thing about small cars is that its overall growth has been 10–12 per cent last year compared to that of overall growth rate industry. Hence this blood-letting may continue for some years to come.

Source: "Size Does Matter", by A. J. Darukhanwal, and "War of the Wheels by Robin Abrea and Shefali Rekhi, *India Today,* October 19,1998.

Exhibit 5.4 Unionism and Its Effect on Business Environment

The trade union leaders, upon request from finance minister, to indicate their views on methods to improve the industrial and overall growth to strengthen the level of physical and human infrastructure to accelerate the growth of employment, suggested the following. Wide-ranging discussions brought forth suggestions for the unorganised labour.

- Allowing worker to buy disinvested shares of PSUs, representation of worker's unions in BIFR, and speedy disposal of cases by BIFR.
- Enhancement of the exemption limit for the personal income tax upto Rs 1 to 1.2 lakhs and exemption of dearness allowance from the payment of income tax.
- Cess on diesel tax, and abolition of road tax. Strengthening social security system for the underemployed, unemployed and the unorganised labour. Provision of more funds for social sector and employment generation by at least 10 million per annum.
- Ban on exports of agricultural products and increased duty on imports.
- Expedite wage negotiations with trade unions. Increase in ceiling limit with regard to payment of bonus to workers.
- Increase in budgetary support to sick units so that statutory payments can be made to workers.
- Reforms in agriculture and land reforms. Effective implementation of minimum wages fixed for different sectors.
- Allocation of at least of one per cent of the provident fund for construction of houses.

Some trade union leaders expressed concern regarding conditionalities being imposed by the multilateral institutions, our participation in the WTO disinvestment of government securities, enactment of patents bills and utilising pension fund for other purposes.

Source: *The Statesman,* January 14, 1999.

The basic forces which affect competition in an industry can be listed as follows:

- potential entrants
- Suppliers

- Suyers
- Substitutors

Potential entrants create a threat on market share of existing companies. Market share which exists in a particular product or service and is shared by existing companies gets further divided due to entry of a new company. These new entrants may not only compete in quality, price, deliveries, and services but may also innovate and come up with innovative products and services making products of existing companies totally obsolete (Refer Exihibit 5.5).

Exhibit 5.5 Shifting Strategies—The Siemen's Way

J. Schubert MD of Siemen's expressed that markets in India have witnessed fundamental changes, thus creating a need to change ways of doing business. The market dynamics have been affected due to new entrants, big and small and have lead to fierce competition. Some of the latest entrants do not carry burden of the past value adding structures. They have the liberty to import and add value or manufacture locally, thus culminating in price erosion in shrunk market. For the year Oct. 97 – Sept. 1998 there was decline in orders by about 22 per cent. The company decided for restructuring in manpower and capital expenditure. Many changes took place in addition to merging the motor business with switchgear.

The company has taken other turnaround measures and is determined to stay…

Source: K. Padmanaban, "Siemens Ltd: Shifting Strategies," *Industrial Economists,* 15 – 29 January 1999.

Suppliers fix the cost of inputs to a company. The right time, right quality, right price and at right place of supply of materials is vital for buyer. In some companies suppliers form consortiums thereby slashing the profits of that company by quoting a higher price and getting order by turn. When a new company ventures, the prices are either heavily reduced such that the new entrant finds it very difficult to service or various other pressures are put upon the new entrant to bring their activities to a standstill. A company which manufactured power generation equipment quoted for shafts to a company and secured the order as its price was highly competitive. But faced great difficulty in executing the order, since the staff of the buyer company did not cooperate. This was because the company which was already doing business with the buyer company generally quoted very high rates and shared the accrued benefits with the staff who were responsible for clearance of order and execution of project.

Hence it is important to understand the various factors which lead to competitiveness in an industry. The source of competitiveness is to be clearly defined and understood. The strategic framework of a company is based on relationship of the

competitive forces. The study of various active forces and their interaction reveals the strength and weakness of the company based on which strategies are formulated. The resultant of these forces determine the positioning of the company in the competitive environment. This gives a nowledge about the critical issues that a company must pursue to maxi-mise returns. The priority of strategic changes that would yield results also get carved out and the trends in industry offering opportunities and threats get uncovered. Based on these analyses a company may also decide upon its grand strategies.

FORCES DRIVING COMPETITION

The competitive forces which determine the profitability of a company in a given environment are of great significance to strategy managers. The strongest force is most important as it causes major swings in industry equilibrium in a direction favourable to itself.

Let us consider for instance, a new entrant with a new and low priced product in an industry. A company which may be enjoying an unthreatened status in that industry may be forced to reduce its profitability. Sometimes due to other reasons viz. brand name, better ergonomics, improved appearance, reduced weight, additional functions, etc. (Refer Exhibit 5.6). The product of the new entrant may attract buyers even if it were expensive. Probably in such situations the company facing the threat may decide to include all the desirable features of the new product in its own and deliver better products to the customer.

Exhibit 5.6 MUL—Finance Scheme for Cars

MUL, in order to promote sales of its cars in increasingly competitive market has come out with a 7 year car financing scheme. The company has targeted at the middle class salaried segment which accounts for a staggering 83 per cent share in car market. Growing competition had forced MUL to expedite and make simple the loan approval procedure.

Source: *Economic Times,* February 24, 1999. (PTI)

In the engineering industry changes done in design result in change of entire material thus throwing a company out of business. We can quote several instances where aluminium replaced steel and fibre glass replaced wood and aluminium. The advent of computers threw slide rules into oblivion. In the near future laptops may make PCs obsolete.

Different forces take their prominence in industry over a period of time. We have witnessed an era when quantity was important and later on the emphasis shifted to quality. In the Indian market, price plays a significant role and bids are still evaluated purely on the basis of price in most of the buying done by the government. The time

cycle for delivering an equipment is slowly gaining its importance and this is more so in sectors which are in the process of creating wealth viz. power equipments. Contracts today specifically ask for short deliveries and in addition to low price, timely delivery of equipments is being emphasised. In cases where the losses due to slippage in dates are substantial, heavy penalties are levied. The independent power producers, state electricity boards and other power producers want the equipment in lowest possible delivery time. The Japanese are now planning a customised car based on modular design to be delivered in a time period of three days.

Each industry has its own basic structure, technology, and economic characteristics which causes emergence of specific competitive force. The strategy manager must understand the dynamics of environment of that particular industry in order to frame workable strategies. The strategist must know the factors favourable and unfavourable to business and develop strategies to cope up with the situation. One of the important strategies may be to maintain the position of a company in an environment which is highly charged with competition. A similar situation is faced by industries dealing with services. In case of services the competition focuses on quality of service at a definite cost. Today service is being related to time factor also. In process industries, timely service is very vital and absence of it may result in huge losses to a company. In today's business world, time has become the dearest factor and in all sectors including communication, health services, transportation, information technology, education, etc. time dimension has acquired significant importance.

Each of the competitive forces consists of various components of varying strengths. Some of these components are discussed below:

PORTER'S GENERIC STRATEGIES

1. Overall cost leadership entails vigorous cost reduction programs from experience, cost controls and cost minimisation in areas viz. R&D, manufacturing, design, quality, sales force, advertising, etc.
2. Differentiation implies creating something which is unique in design, technology, value, features, service, network of distribution, etc.
3. Forces implies concentrating on a specific buyer group, segment of products, geographic market, customer's specific requirements, etc. The focus strategy is developed keeping a particular target in focus and policies developed accordingly.

The objective of any company in general is to make a niche for itself so that it may gain market share through cost leadership, differentiation and focus.

THREAT OF ENTRY

For any company which makes an entry in an industry, its success or failure is dependent on barriers present in industry, the reaction that the company gets from other competitors and its ability to overcome various barriers. If the barriers are not very

tough the entry may be easy. Otherwise the company can expect vehement opposition from its competitors. The objective of a new entrant in industry is to grab a part of the share and create profits for itself. The existing players use a variety of ways to stop new entry. The major barriers to entry are listed below.

Economies of Scale

As the volume of production increases cost per unit tends to decrease due to distribution of fixed costs over larger quantities. The economies of scale reflect the corresponding decline in unit costs as the throughout is increased. The substantial cost reductions are due to the impact of increased volume of production and by upward increase in it through increase in the inputs over a period of time. The effect of scale of economies is present almost in all functions, and technological factors contribute to dip in cost curve as volume of production is increased.

Some of the following factors are important to note.

1. The improvement in technological process is sometimes made for high volume of production.
2. There are many resources which cannot be divided and used and can be used profitably only when used in fairly large quantities.
3. Generally speaking, the forward and backward integration of manufacturing processes and businesses can be justified for large organisations, operating comparatively in stable business environments.

One can see the effect of scale of economy in many business activities. The discount one gets over purchases of large quantities is a simple example. When economy of scale is present, there are many costs which get distributed over larger quantities thus making the proposition attractive. The investment required for a company for doubling its capacity is much less compared to the benefits that are accrued.

The economy of scale prohibits new entrants in business due to likelihood of cost disadvantage. The scale of economy in production, sales, design, purchasing, and research are probably barriers for smaller firms to enter into such fields as main frame computer, power equipment, power production, etc. The economy of scale can pose a hurdle in almost all fields to a new entrant.

Product Differentiation

The brands create customer loyalty. Many brands of tea, coffee, detergents, electrical appliances, etc. exist in market catering to the needs of various segments of markets. The customers develop a belongingness to some of these brands and for a new entrant it is quite difficult to alter the brand image in their minds. Identification of a brand may emerge from a variety of factors viz. customer service, being first in the industry, product differences, swadeshi, made from herbs only, etc. In the case of cosmetics, common cold drugs, investments, soft drinks, ice-creams, etc. the brand loyalty is found to be quite strong. In order to make it more difficult for new groups to enter into a business, economy of scale and brand loyalty is coupled to create greater hurdles.

Need of Capital

For high technology firms, R&D expenditures could be quite high. The rate of returns are also comparatively very high. In high capital intensive companies it would be quite interesting to analyse ratio of capital investment over sales.

In almost all industries, the growth of a company when compared with growth of industry reveals the changes of relative market share for each competitor and this figure must be analysed in terms of capital expenditures made. The investments made by each player in acquiring its market share. Sometimes companies make capital investments under a well thought out technology plan to upgrade their technical capabilities. Strategic funds in a typical company include the following:

- Investments in assets like production capacity, tools, space, new acquisitions, if any.
- Working capital requirement due to strategic commitments.
- Expenses on developments viz. sales promotion, R&D, management systems, etc.

In a typical company usually various earnings viz. depreciation, new debt issuing, new equities, etc. are used in dividends, debt repayment, new asset acquisitions, working capital and developmental expenses. The need of large financial resources creates a barrier to new entry and particularly when investments are not recoverable from developments, advertising, sales promotion, etc. The capital which is so scarce in business today is required not only for fixed assets but also for meeting customer credit, inventories and losses due to teething troubles caused by new products. In some capital intensive industry it may be quite difficult for new entrants as the companies already in business may leave no stone unturned to ensure that the new entrant fails.

Competitive Cost Dynamics

Effective management of the total costs of business is the fundamental concern of a company performing in a competitive environment. The internal strength of organisations to deliver products at a lower cost compared to that of its competitors is essential for effective management. They should be able to address the concept of competitive cost structures. The experience curves give the empirical relationship between direct manufacturing cost versus volume of production. The curve shows that cost of producing an item reduces as the volume of production increases. The cost arrived at from the experience curve can be obtained from the following equation.

$$C_T = C_O \left(\frac{P_T}{P_O} \right)^{-A}$$

where,

C_O, C_T = Cost per unit at time zero and T.

P_O, P_T = Volume of production at time zero and T

A = Constant, depends on industry

The systematic decrease in cost with increase in volume is due to following reasons :

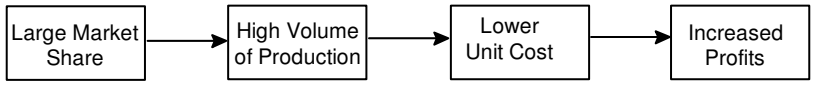
Learning As a worker learns more and gains experience, the productivity increases, rejections go down and he produces more numbers in a given time.

Specialisation The product after being produced repetitively for several cycles gains maturity. The person gets specialised and would tend to introduce standardisation which would bring down costs.

Improvements Workers contribute to improvements in materials, processes, tools and techniques, design features, etc. leading to higher productivity and cost reduction.

Systems rationalisation Over a period of time management systems get standardised improving productivity. The paper work system is also streamlined thus reducing process time.

Know-how The know-how of a product is developed by way of experience and experimentation. Many manufacturers conduct detailed studies on the product of competitors and make improvements in their original design. The chain of experience curve may be summarised as follows:



New entrants in an industry may face problems due to proprietary technology, knowledge of source of materials, acquired assets at lower prices, favourable locations and good contacts. In recent times good contacts and knowing which joints-joints of business organisational structures of companies with which business is to be conducted-are to be oiled have become important success criteria in addition to good quality of materials, performance, etc.

Market Mechanisms

New entrants must develop channels in market wherein the products manufactured must be available for the consumers. A new cosmetic or a food item must find its place on the shop shelves. For this, large commissions may have to be ciritially given. In case the existing market channels of distribution are already completely tied up with the competitors, the new entrant may find it extremely difficult to break the prevailing chain. Sometimes they will have to create their own network of distribution of products. The retailers or the distributors play various tactics to grab a higher percentage of commission from new entrants. Once a product is established commissions may dip down.

Government Policy

Government policies may not be conducive for a company or business to enter a market. Government imposes various barriers like licences, quota for raw materials,

regulations on air and water pollution, etc. which restrict entry of new companies. Sometimes the rules are so complicated that the new entrants operate with great difficulty in such business environment. Recently the West Bengal government banned use of plastic bags made from recycled material which has lead to shut down of many small companies. Diversification of these companies for making plastic bags from virgin material has resulted in scarcity of raw material thus causing difficulty in keeping their people employed. Strict regulatory norms have been improved on factories around Agra have been brought thus making the entry of a new company quite difficult. The story of meeting export obligations of many companies viz. Pepsi, Nestle, Whirlpool of India, Biocon Industries, etc. has posed problems for many new entrants and probably the government may have to evolve a dividend & balancing requirements as alternatives.

Changing Business Pace

Today changes are very fast and obsolescence is rapidly growing. We know that compact discs which are in great use today will become obsolete within a short period of time. The personal computers market in India which is still growing will soon lose ground due to laptops. The slashing of prices in car market for grabbing a share will also affect the two wheeler industry which may turn to rural markets. The pace of changes has become so fast that in some cases a model of an equipment may become just after it renders a customer. The technology changes are also quite rapid and new entrants coming up with latest technology find themselves out of market within no time. The printing technology for instance, has undergone drastic changes with computer and scanning facilities available at the doorstep. Patenting of proprietary technology create barriers for new entrants unless they come up with new, better and cheaper technology.

Sometimes strategic decisions taken by big players in market creates barriers for entry of new companies. These decisions may be related to raising advertising levels, expanding distribution networks, slashing prices, offering additional benefits, etc. The integration of companies in an industry lowers scope for new entrants. Many companies have integrated with their suppliers with a view to improve quality of incoming materials and some of them have plunged into providing necessary services to their customers with a view to retain their market share or to venture into profitable area of servicing. These changes prohibit entry of new companies to some extent.

Suppliers

Suppliers can hike prices of goods, not follow the delivery schedule and decrease the quality of goods and services thereby twisting the arm of a company with which they do business and demand for better prices, credits etc. This would lead to rise in price of goods but with limited freedom thus making the situation more competitive for that company in a given industry. The clout exercised by a supplier in market depends on many factors.

1. When there are only a few companies supplying a product or service suppliers become powerful. They even form a consortium and share the total orders and dictate their conditions.
2. When the need is for a specific product, which is proprietary of a company and has substantial switching over cost the supplier becomes powerful.
3. When developed for a specific product and heavy investments in tooling, manpower, etc. are made the supplier becomes powerful. It usually happens in cases where products are developed by an R&D group with the help of suppliers. Sometimes when special machine tools, measuring instruments, computer software, etc. are bought by companies, they learn to use these from the suppliers when they are perceived as more powerful.
4. The suppliers at times offer specialised services viz. in situ balancing of machines, analysis of flow pattern of oil in a bearing case, design and development of dedicated software for information system etc. and in such cases the supplier group becomes powerful.
5. Some suppliers intergrate in a forward direction and acquire business of a company by becoming their competitors. Such situation has been faced in many areas in the power industry where suppliers directly contact the electricity boards and supply to them various instruments measuring devices, meters, etc.
6. When a particular company is not an important customer (in terms of volume of business and turnover) the suppliers tend to neglect it as their performance is not directly tied to the company or industry in question.
7. The supplier group becomes powerful when they deliver products and service of high standards thus contributing to their customer's success.
8. Some suppliers have a high core competence with regard to technology and they exercise their strength to gain maximum advantage in a given situation.
9. Suppliers enjoying a high market share and stained market growth, earn high levels of profit with reference to average of industry, have demonstrated a high level of aggressive competitiveness. These suppliers may have low cost structure, strong technical and marketing base and exhibit high level of machine utilisation etc. and are perceived as powerful in industry.

Buyer Group

A buyer group may become strong in the following situations.

1. Usually a buyer group is strong when it purchases in large volumes. This is more so in industries where the fixed costs are high.
2. In the case of standard products the buyer group is strong because such products can be bought from an open market and there would be many suppliers to offer those products or services. Example include like railway booking by agents, property selling and buying, steel sections, aluminum sections, flush doors, thermometers of standard types, etc. The buyers claim

for quantity discounts and do selection purchases. Cases where the price of a product forms a small percentage of the total bought out materials, the buyer are comparatively less sensitive.

3. Companies which have lower profitability have great presence to buy at most competitive rates. Company rules in some cases may be to buy at lowest rates from market creating a highly competitive market for the sellers. Companies which have higher profitability usually do not haggle too much on price and more so in cases where the product in question does not form the main constituent of their purchases in terms of volume and costs. Usually these companies concentrate on competitive buying of their A class items which form the major percentage of the costs of purchased goods.
4. In some cases the quality of a product being bought has stringent specifications and the buyer cares only about its quality and not the price. In such a situation the buyer exercises his right to buy the desired quality of products. This usually happens when the output of buyer's group is affected by the materials supplied by a company. The quality of sheet steel, copper, insulation, etc. may affect the quality of a motor directly and hence any motor manufacturer will not be willing to compromise on quality of these items for lower price. This is usually true for hotel industry where the quality of raw food materials affects business and hence lower quality cannot be compromised for small margins on price. On cases where a manufacture uses equipment from the supplier in his own equipment as for example or filed equipment, electrical power generation equipment etc., the buyer group buys more emphasis on quality. The buyer group is emphatic on quality aspects. This is because substantial financial losses may be incurred in the event of breakdowns due to poor quality of components. When an equipment bought from the supplier is crucial to the operation of process plant, the quality of the equipment is of paramount importance and the buyer group strongly emphasises the same.
5. In cases where buyers have capability and need to integrate towards a direction in which they exercise a check against the suppliers they dictate their terms on their purchases. Many companies do not find it economical to manufacture C class items i.e. items which form comparatively a low percentage of total cost of manufacture and which are required in large numbers. Hence they prefer to buy these items. However, they do possess the technical competence to manufacture these items themselves when met with a crisis.
6. In the four wheeler industry the ancillary industries often face the threat of the key producers themselves manufacturing components like gears, levers, wipers, etc. Thus power of the buyer can be related to the power of the consumers when they are perceived as a group. The same is true for industrial buyers. Only the weightage of each of the factors varies-the approach basically remains the same in both cases. The consumer groups are quick to respond whereas the response from industry is comparatively slow. The

consumers are more price sensitive. In antiques and products of the designers, choice uniqueness is more important than functionality or use. They are not differentiated on the basis of quality and are quite expensive. The behaviour of retailers is also similar, however, they become stronger when they can influence the behaviour of consumers. This trend has been observed in items of personal use like shaving creams, razors, blades, electrical appliances, sporting goods, cassettes, etc.

Effect on Strategies

The power of buyers and suppliers is not static and continuously changes with business situations. These changes maybe due to strategic actions of companies to achieve certain defined objectives or due to technological, social, economic or, legal factors. In the ready-made garment industry, the well known Indian names have lost their market share due to fierce competition from new by established brands from other western countries. The trends of television industry have also undergone changes with old players either losing their market share on going into oblivion. The prices have been slashed to such levels that survival of big competitors has been endangered. The strategic posture of a company can be altered by their selection of buyers or sellers. This is because it is only rarely that all buyers or sellers enjoy equal power. In cases when a company sells to an industry this situation exists in different companies of that particular industry as all companies in that particular industry are not equally strong buyers.

Product Substitutions

The multitude of products, materials, components, etc. which are emerging everyday in the market can affect the strategies of a company. Whenever a supplier group becomes very powerful with its proprietory products, companies tend to go for substitutes, although these are used only after a rigorous testing to ensure that the substitute is either equivalent or better than the original.The concept of substitution usually works by gaining an advantage on price, quality, life, ownership cost, ergonomics, apearance, etc. The substitute products in the case of the automobile industry are very common in the Indian market. The spares marketed by the original manufacturer are quite expensive and hence many companies start manufacturing these similar product which are sold at much cheaper rates. Substitute products are common in two wheelers, television, furniture, electrical goods, cosmetics, educational products, etc. It is noteworthy that the quality of the substitutes may not be of the order of original components or parts, nevertheless these get sold in abundance. The substitute products not only reduce the profits of a company during the bonanza of boom times but also reduce their market share in the long run. In the Indian market duplicate products are sold in abundance and manufacturers of original products are usually unable to protect their interest. By the time an original manufacturer wakes up to take any legal action, the company producing duplicate goods vanishes from the scene taking away its profits. Even in the pharmaceutical field, this type of business is flourishing in different parts of the country.

In the field of insulation, fibre glass insulation materials replaced the usual bitumen insulation and the former in turn will be substituted by a number of other insulation products which are being developed by scientists and engineers. Fibre glass even replaced many structural parts such as asbestos and steel roofing sheets since it allows passage of light thus reducing electrical costs in factories due to lighting. The substitute products usually enter the market when the price of the original product is unattractive. When there is scarcity of materials, substitutes come into play, for example when silk used for building parachutes became scarce during the World War II, the substitute nylon was invented.

Fight for Position

Competition exists in any industry. A company attaining the desired competitive position is based on various factors such as price, introduction of new products with added features like reliability, ease of maintenance, and improved ergonomics, advertising the drawbacks of the competitor's product, etc. Sometimes the competition is very fierce due to the following conditions:

1. Liberalisation of economic policies leads to swarming of the industry by new entrants who make the competition more fierce.
2. Where industry growth is slow, various companies compete with each other for market share.
3. When products lack differentiation, many suppliers deliver the products making competition more stiff.
4. When switching over costs for products are low many manufacturers take up manufactures of the products thus making environment more competitive. This is also true in other segments like distribution, selling,etc.
5. When demand of certain products takes a nose-dive and the products happen to be involving high fixed costs or are prone to decay, the prices go down and there is increased competition amongst the suppliers.
6. Certain factors like natural calamity, poor harvest, and spread of epidemics cause the requirement of certain products or services to be quite high, thus leading to competition.
7. In certain industries which are highly capital intensive or where exit is difficult, a management may not like to switch over to new business thus keeping the environment charged with competition.
8. The entire industry may suffer from over capacity leading to competition.
9. It is usually difficult to produce good quality items at lower costs and jereusers are unable to appreciate quality, many manufacturers mushroom to intensity the competition.

It is found that mergers, acquisitions, and diversification lead to creation of new policies result in the entry of new personalities causing a change in fabric of competition. Technological progress can alter cost of products, thus affecting the competition. The

growth rates due to maturity of an industry may lead to narrowing down of margins and eventually becoming unattractive for a group of suppliers.

Based on each factor companies choose appropriate strategies to improve their business.

Multiple Rivals

Vision in business has substantially grown in the recent years. The government policy of liberalisation has lead the companies to redefine their business. They are now not only aiming at products but also the functions in which the customers are interested. Slogans which focus on functions of products and services rather than products thus come out thus giving a wider meaning to competition. We also know that products are designed to perform certain functions and when a product or service ceases to perform the desired function, it loses its value. Hence the focus today is more on functions rather than products. The geographic boundaries business have also lost their meaning in the modern world with information technology playing a crucial role. Today a specialist in India may work sitting in his house and serve a company in the USA through the internet. Competition is essentially becoming international in nature. Therefore companies are focusing not only on the present competitors belonging to their own geographic areas but also on those companies which may become potential competitors in future. As a result of these fluid situations, the definition of industry which was hitherto to encompass companies in tight boundaries of products and geographical locations, is fast losing its importance.

The present situation necessitates the companies to expand their business and penetrate new potential markets. Companies also have to be cautious about hidden competition that may suddenly emerge and catch them off-guard. Hence they are being more proactive in their approach. Today almost every company takes efforts to keep track of new products, systems, markets, etc. to be in tune with the changing time. The remote markets no more remained remote. Companies cannot afford to concentrate only on competition in the vicinity. They have to reach out and sense the fierceness of competition that may be predatory. However, as a strategy, they have to avoid head-on collisions with the competitors. The strategy of cultivating customers through frequent visits and pumping in lot of information about the products and services is widespread. Product differentiations are created through quality, added functions, participating in customer's success, developing business relations with customers or creating psychological impacts through marketing, forward and backward integration, carving out technological leadership, reducing time in the delivery cycle times and giving service anywhere and at any time to the delight of the customers.

FORMULATION OF STRATEGY

Once the cause and effect relationship amongst various factors is established the next step would be to analyse the strength and weakness of a company. It is important to

identify the strengths and weaknesses with respect to each of the forces acting in the industry environment (Refer Exihibit 5.7 and 5.8).

Exhibit 5.7 Tackling Uncontrollable and Controllable Factors

	Basic Approach	Sensitivity Evaluation
Uncontrollable Factors	Predicting the likely business scenario	Deciding other relevant scenario
Controllable Factors	Precipitating on selected strategies and action plans	Proactive planning for starting the mechanism action plans

Exhibit 5.8 Need for Strategic Orientation

It is a matter of joy for garment industry because when all Indian Export have shown a downtrend, the garment export has registered a growth of 10 percent in 1997-98 over the immediate past year. The market for Indian companies is in over 100 countries consisting of US, Europe, Middle East etc., however, the share is only 2 per cent in the world market. New competitors like Indonesia, Thailand, Bangladesh, etc. are fast emerging in addition to the present giants like China, Hongkong and Turkey.

Various challenges being faced by the Indian companies are the planing out of quota under Multi-Fiber Arrangement (MFA) enjoyed by India by 2005 as per WTO agreement, nucleation of regional trading blocks viz. NAFTA, EU, SAFTA, etc. leading to discrimination of non-members, dwindling margins due to increased competition, principal markets EU, Japan, Australia, etc. remaining sluggish, the loss of advantage of cheap labour due to technological developments, etc.

The garment industry has been facing many problem viz. inconsistent availability of foods quality of fabric, non-availability of packing material, poor transport infran-structure, unstructured and unorganised small and medium scale units, relying on sub-contracting plagued by long lead times and poor quality, disqualification of a large number of exporters by Apparel Export Promotion council for not fulfilling the export norms, mid-term downward revision of drawback rates, etc.

The industry must take bold steps to turn to new markets in Japan, Middle East, South Africa, etc. and should shed off its excessive dependence on cotton-based garments. The government should speed up the operations viz. clearance form DGFT, customs, banks, ports, etc. There is also an urgent need to provide funds for upgradation of technology.

Source: S.N. Panigrahi, "Garment Export: A Strategic Shift Needed," *Industrial Economists,* 15–29 January 1999.

The crucial strengths and weaknesses of a company must be evaluated to arrive at the present posture of the firm with regard to each of the factor like ease of entry of competitors, where its stand is against entry of substitutes, what its position is with regard to buyer and supplier forces, etc. This study and analysis would lead to devising an action plan to meet various objectives.

A most general approach would be as follows.

1. A company would like to place itself in accordance with its core competencies such that its position is protected against competitive forces.
2. A company would like to take strategic actions such that its position would improve in industry.
3. It would like to be proactive towards the changes and convert them to growth opportunities.
4. A company would be interested in controlling the factors causing changes for its own benefit and creating a competitive balance before the opponents are able to recognise.
5. It may like to trigger off a change that may catch the opponents off guard.
6. It may like to position itself so as to confront competition in some areas and avoid in some others.

QUESTIONS

1. What is the importance of analysis of Industry?
2. What are the various competitive forces that are present in a business environment? How do they affect strategies?
3. Discuss the threat of entry. How does the business environment react to new entrant?
4. What is the impact of economy of scales on new entrant?
5. What is product differentiation and how does it affect a new entrant in business?
6. How do you rate need of capital and competitive costs as a factor for a new entrant?
7. Discuss effects of market mechanisms, government policy, and changing business pace on new entrants.

8. Under what conditions do suppliers become strong?
9. When does a buyer group become strong?
10. How does the power of a supplier and buyer affect strategies of business?
11. What are product substitutes and how do they affect strategies?
12. When does competition become fierce in a business environment?
13. What approach should a company adopt for formulating its strategies based on the analysis of environment?

CHAPTER

6

STUDY AND EVALUATION OF MULTINATIONAL ENVIRONMENT

STRATEGIC CONSIDERATIONS

Multinational companies face a variety of complex situations. It is vital for them to consider the multinational environment while doing business. Since the countries in which an MNC operates have different operating environments, its subsidiaries also have varied experiences according to which their strategies and policies also vary. The driving forces, customers, competition, stakeholders, markets etc., are different in different countries. Similarly, the social, economic, technological, competitive, legal and regulatory factors in the different countries influence the business.

Companies make a thorough investigation of their possible business profile in other countries and take efforts to fulfil their objectives of growth and business leadership. The main purpose of any business is to make profits. Strategies and policies are formulated to maximise returns on investments. Many companies which have their head quarteres in the USA run substantially profitable business due to their foreign operations. With the advent of computers the globe has shrunk in the areas of information flow and exchange (Refer Exhibit 6.1). Multinational operations in India have exponentially grown in recent years and are expected to grow even more and at a faster rate in future. Managers of today realise that an understanding in a multinational environment is becoming more important. Not long ago the transnational corporations in India were regarded as evil. They were viewed as companies with missions of imperialism and which were designed to threaten the political and economic sovereignity of the country where they operated. They were viewed as these destroying development of local technological base by suffocating the entrepreneurship in markets that they entered by pumping in more money.

Exhibit 6.1 Electronic Immigrants

A social change due to electronics is going to take place and electronic immigration may become a very sensitive international trade in the new millennium. The service workers may now telecommunicate across the national boundaries through computers and may perform a variety of tasks and compete in the global arena.

Sources: Marilyn M. Parker, adapted from *Strategic Transformation and Information Technology Paradigms for Performing While Transforming*.

The changes in liberalisation and globalisation during the last five years have brought about a change in this viewpoint. There is a gradual shift to the idea that foreign investments would bring in new technologies, professional approaches in management and an improved quality of business culture along with the needed capital which is required to boost the economy (Refer Exhibit 6.2). Narasimha Rao's government opened the markets for foreign players.

Exhibit 6.2 Alsthom & ABB Merging Generation

The global merger of power generation businesses of Swiss multinational, Asea Brown Boveri (ABB) an Anglo French engineering group, Alsthom will lead to capability mix coupled with economies of scale and will enable competitive cost levels. The merging is into a 50/50 joint venture with revenues of $11 billion. The decision came with an objective of being successful player in the demanding and dynamic market where a comprehensive range of products and solutions, a commitment to technological renewal and a presence is required. With the synergies flowing from the merger, this joint venture will make its presence felt in the Indian sub-continent.

However, the joint venture company would be second to BHEL which has a market share of about 80 per cent, others with only 3 to 4 per cent share.

Source: Shubham Mukherjee, *National Mail,* March 23, 1999.

But while learning to collaborate with foreign firms, Indian companies do face various problems. The Indian partners prove to be no match for their foreign counterpart in matters of finance, technology, enterprenuership and trained manpower which reveals the in-built flaws of these ventures. In some cases hasty selection has over burdened foreign partners. This was because most transnationals thought that fully owned subsidiaries were not permitted by the government. In actuality, 100 per cent

route was easier (Refer Exhibit 6.3). Many transnational companies feel that they had been tricked by the government, however, the adhocism and the casual use of discretionary power had been responsible for these state of affairs. The set norms were usually absent in the proposals of transnational companies thereby engulfing them in a cobweb of suspicions. The foreign companies also were probably unsure of the government's committment to the process of globalisation due to fluid political situation in the country. In a document by CIS titled 'MNCs; Indian Strategy Needs Rethinking,' issues related to deal breaking and slow down on investments were deliberated upon. The document opposes unconditional foreign investments, but how long transnationals would collaborate with Indian partners who have virtually nothing to offer.

Exhibit 6.3 ABB'S Transformers

ABB has set up a transformer manufacturing plant at Maneja, Vadodara. ABB, a world leader in the business of transformers, has 24 manufacturing units across 17 countries with a 21 per cent global market share...pa

Source: *Powerline,* August 1998.

EVOLUTION OF MNCS

Multinational business involves a variety of strategies. These strategies can be considered as many fragments which may be summarised on the following steps.

1. In the first step of the strategy, only import and export activities are involved. There is no significant effect on current management orientation with regard to product lines, quality, etc.
2. In the second step foreign licensing and transfer of technologies are involved. This step also may not entail any change in management orientation, structure, and operation.
3. In the third step the activity of direct investments in overseas operations may be involved. This may include setting up of manufacturing facilities, transfer of technology or even management of these foreign units. It is in this last step that careful strategic decision is required to be taken since large capital outlays may be involved. Timely results are required for complete involvement in management, operations, planning, etc. and also to develop and decide strategies for each of these areas. Management effort is also directed towards development of overseas skills in various aspects including culture, legislature, economics, politics, etc. However, the policies of a company in parent country dominate. Company may slowly increase its capital outlays and assets which may form an appreciable percentage of the total capital outlay. Some companies may speak more of their multinational nature by

highlighting their international business intentions while others may choose to downplay the same as part of their strategy.

CAUSE FOR INTERNATIONALISATION

Every country specialises in some product, service, technology, business, etc. In order to make best use of market conditions and the expertise, companies operate at the international level (Refer Exhibit 6.4). France is well known for its advances in electric traction, nuclear power, and aviation industry, hence any enterpreneur in these areas would like to approach companies in France. Japan leads in the fields of optics, solid state physics, process metallurgy, etc. and hence has contributed to technological growth in these areas. Nowadays, we see Indian markets flooded with Japanese brands of music systems and televisions. Swiss watches have been attracting people from around the globe. Russia has made advances in the field of metallurgy. India is famous for its handicrafts.

Exhibit 6.4 World Economy and the Big Corporations

The top two hundred colossal corporations now control over a quarter of the world's economic activity. These firms are creating products and finances that bring economic benefits to a third of the world's people. The study by the Washington based Institute for Policy Studies says that there are now 40,000 corporations in the world whose activities cross national boundaries. These companies ply overseas market through some 250,000 foreign affiliations. .pa

Source: *Economic Times*, November 1998.

Until the 1960s many multinational companies operated as autonomous subsidiaries in each host country, each catering to the specific needs of its own home market. The management at the head quarters focused mainly on finance function, transfer of technology, export coordination etc. The competitive advantage that an MNC enjoyed was evident from its competence in transfer technology, manufacturing know-how, development of brand loyalty and marketing capabilities which varied from country to country. The MNCs proved to be more efficient than their competitors (local manufacturers) in the host country with regards to price, quality, and management of know-how.

Standard forms of management and administrative procedures were used to cut down the overhead costs. Once a company entered a country and was able to manage its subsidiary in that country, it was easier for it to expand and enter other businesses at very low incremental costs. Their negotiations were with the government of the host country and did not enter into open competition (Refer Exhibit 6.5).

Exhibit 6.5 Factors Determining Mergers and Aquisitions

News about mergers and acquisitions has become quite common in Indian business scenario. The price in any deal is the most involved factor. When we see any business at conceptual level (the assets and intangibles), its components can be visualised to yield different economic returns to different people depending upon their capabilities. If both the parties perceive a business of same value, an acquisition or a merger may not even occur. It is the theory of differential efficiency alone which probably leads to a deal. Hence the process involves assessment of the both the parties by each other. This assumes even a more important dimension in joint ventures. With this strategy the negotiating variables embodying the transaction are analysed. Typical negotiating variables can be initial sale consideration, deferred or annual payments (royalty, etc.), management cooperation, price of imports and outputs, dividends, sharing of costs, etc. For arriving at a result, financial modeling is resorted to. The structuring of transactions for maximising interests of both the parties involved is another dimension which is crucial. The leakages (sales tax, stamp duty, income tax, etc.), government regulations on foreign investments and takeover code, capital structure, financing needs, and business considerations are other vital factors for structuring the transactions. Mode of transactions, transaction vehicle (a subsidiary) and the human element are some of the factors required to be given due consideration.

Source: Raghunath T. V., "Stitch It Up and Stitch It Down," *Economic Times,* February 24, 1999.

By the 1970s the business scenario underwent major changes worldwide. The national responsiveness was no more a criteria. This situation began its existence in India around 1991. The competition had already broken out on a global scale and many companies from Japan, Europe, and US started pursuing international expansion due to trade liberalisation which openend the doors for new market opportunities in industrialised as well as less developed countries like India. The national market arena transformed to a global one particularly due to business strategies of the Japanese companies. They gained strong bases in the host countries through their lower-priced and higher quality products compared to the hitherto established companies. Many companies became more specialised in their production operations to gain economy of longer production runs through use of more automated equipments and used their experience curve for competing rather than manufacturing the complete range of equipment in one country (Refer Exhibit 6.6). With a global strategy the companies started their business in countries where manufacturing costs, labour costs, etc. were lower

and could make best use of laws related to taxes thus benefiting from tax differences. The companies set their transfer prices to take advantage of tax structures in various countries. The strategic coordination also reaped benefits due to different interest rates, exchange rates, credit terms, government subsidies etc. in different countries.

Exhibit 6.6 Joint Venture in Air Conditioners

Since economic liberalisation, the air conditioner market has steadily grown in India by 15–20 per cent. Hitachi Ltd. has gone ahead with investment of about 160 million in joint venture with Amtrex. The name of the company will now be Amtrex Hitachi appliances Ltd. pa

Source: *Industrial Economists,* 15–29 January 1999.

During the 1980s, as a strategy many MNCs diversified in related fields or industries. As more companies diversified, a point was reached where a diversified company was considered more superior than a non-diversified company. The expertise in core technology various industries by the MNCs (Refer Exhibit 6.7). Honda diversified into manufacturing lawnmowers, power generators, garden tillers, and cars—all on the basis of strong Engine Technology.

Exhibit 6.7 Morality of Corporate

The average life of a typical MNC is usually 40-50 years. Out of 12 giants on Jan 1, 1900 only GE will witness Jan 1, 2000. Out of the total of 500 companies listed in 1970, about one third have either been acquired, merged or broken into pieces. This has happened in India also, wherein out of 50 Indian companies in 1939, 32 were British companies which are no longer there, 18 companies were the national business houses and 7 were private companies—Tata, Birla, Lalbhai, Wadi, Walchand, Mafatlal and Shriram are still going strong. Their corporate morality appears to be the phenomenon everywhere. .pa

Source: R. Gopalakrishnan, "Competensity: The New Paradigm," *Industrial Economists,* 15–29 January 1999.

CONSIDERATIONS IN INTERNATIONALISATION

Companies which internationalise their operations consider various factors while doing so. Some of the important factors are listed below.

1. Scanning the international situation is necessary for any company to exploit the opportunities that come its way. The threats that a business may face in future and the development of necessary preparedness to deal with various business situations would be revealed as a result of scanning. Scanning is

done through reading of journals, magazines, patent reports, etc. and meeting people in business in these countries.

2. Developing connections with academicians, R & D organisations, and research organisations often give an insight into the on going activities in a country. Personnels in these organisations can be helpful to in framing joint projects for mutual benefits of both the countries involved.
3. International visibility of a company must be enhanced through participation in seminars, meetings, trade fairs, exhibitions etc. News letters, magazines, journals etc. which contain information about the various activities of an organisation may be published and circulated to customers all over that country.
4. Some multinational companies go for joint ventures and technology transfers and take up joint projects to develop contacts and to build their image. company. They may also use their influence to stall entry of a new competitor.

A company should thoroughly assess the environment of industry before entering into joint venture. The postion of a host country with regards to business of company should be carefully examined. A careful evaluation of the vital international issues which affect the host country must be made (Refer Exhibit 6.8). The economic progress, political stability, nationalism or swadeshi feelings (Refer Exhibit 6.9), plan for expansion of facilities, balance of payments, technological policies etc. are some of the pertinent factors which must be analysed to get more clear idea of environment of the host country.

Exhibit 6.8 Omdoam Drug Industry Faces Export Problems

Industry sources report that clearances from US Food and Drug Administration (FDA) are becoming increasingly difficult for Indian drug manufactures. Initially the export was easy but now US government agency tell that they do not have staff to send down to India to inspect plants and additionally they also started saying that they must approve the chemicals.

Source: *Business World,* Sep. 22 – Oct 6. 1998.

Internal assessment of the factors that would cause the company to be successful within a country must be clearly identified. These strengths would provide a bargaining leverage to the company in the host nation.

Exhibit 6.9 Maruti's Winds of Change

Swadeshi is a very appropriate slogan for India due to presence of its large technical work force along with other resources. This concept was already working at MUL before it was coined as a

slogan in the present context of globalization. MUL has 95 per cent indegenisation to prove it. It imports items requiring huge capital investment.

***Source**:* Based on Interview of Yoshio Saito, Chariman of MUL,given to N. C. Mohan and J. Surya, *The Times of India,* November 21, 1998.

Based on the preference of the host nation, the elements should be ranked. It is important that the resources and strengths versus global capabilities must be analysed. Various resources viz. capital, labour,materials, skills, infrastructure etc. may be considered for analysis. Some of these factors which are vital for any company to be examined are discussed below:

1. Economic Factors
   - Size of GNP
   - Projected growth rate
   - Foreign exchange needs of host country
   - Market share matrix
   - Rate of growth of market
   - Tax rates, personal incomes, corporate taxes, etc.
   - Tax treaties with home and host countries
   - Tariffs and laws of tarffs
   - Profit margins enjoyed
2. Political Factors
   - Form of government
   - Stability of government
   - Attitude of people towards foreign investments
   - Inclination of customers or competitors towards foreign investments
   - Policies of favouring certain industries
   - Government policies related to new businesses
3. Geographic Factors
   - Modes of transport
   - Efficiency of transport
   - Connection of site by rail and road head
   - Availability of local raw materials
   - Availability of power, water, fuel and other amenities
   - Climatic conditions
4. Human Resource Factor
   - Availability of trained manpower
   - Problem related to language and methods to overcome it
   - Way of life of local people, discipline etc.
   - Social problems like militant groups etc.
   - Unionism and laws related it

5. Capital Resource Factors
   - Cost of borrowings
   - Convertibility of currency
   - Banking systems
   - Other sources of money
   - Rates at which money is available
6. Business Factors
   - Marketing agencies and their systems
   - Distribution networks
   - Stocking facilities
   - Competitor's analysis
   - Available technology in host country

DIMENSIONS OF MULTINATIONAL ENVIRONMENT

Strategic planning for companies at a multinational level is a more complex process since it involves the home and the host countries. In the case of companies operating in a single country, most factors that have to be known for the purpose of strategic planning can be easily obtained. But a multinational company has to face a host of factors which may come to surface only when business is actually commenced. Some of the factors contributing to complexity of analysis can be summarised as follows:

1. The multinational company encounters with multiple political, legal, technological, social and cultural environments.
2. The rate of change of these factors further complicates analysis.
3. The social and economic conditions in two countries may vary widely. Likewise the business environments may also be different thus adding to complexity.
4. The planners in the host country may find it difficult to clearly communicate all the above aspects to the home country. Similarly if may be difficult for managers in the home country to understand these factors in the correct perspective.
5. Multinational companies may face severe competition from companies in the home country and have to consider social, cultural and ethical dimensions to be competitive.
6. Various organisations with the host country may impose restrictions on the strategies selected by a multinational company making the situation more complex.

CONFLICTS FOR MULTINATIONAL COMPANIES

The interest of the company is the main or only focus when a multinational company designs its goals and policies. The financial policies of multinational companies are so framed that they lead to furtherance of its goals while only little attention is given to the goals of the host and home countries and the employees of two countries in question.

Conflicts emerge due to various policies concerned with the shifting of earnings from one country to another for purposes of avoiding taxation, duties etc. and minimisation of risks in order to accomplish profitability and creation of surplus. Conflicts also arise due to differences in measurement and control systems that exist in different countries. We must appreciate that all the rules cannot be written down to the minutest of details and even if this is attempted, interpretation of each of these rules, policies, or requirements may vary from country to country depending on various cultural and behavioural factors. The differences in measurement, control and reporting systems, result in varying interpretations of reports, policies, rules, systems, etc. thus leading to conflicting situations. Thus consistent procedures and methods of analysis should be established for line staff and managers. It is for this purpose that, a company normally trains people from host countries. Procedures for planning and effective reviewing also have to be designed and installed. The system of accounting, government regulations about disclosure of financial statements, and attitude towards measurements are some of the important factors which are to be streamlined to avoid conflicts (Refer Exhibit 6.10).

Exhibit 6.10 Price Variations Narrow Down Due to Currency

The birth of Europe's single currency is likely to ram home to consumers in the European Union the large differences in prices they pay for various goods ranging from beer to cars. The companies will come under pressure to narrow the gap. The price disparities which are as high as 50 per cent will have to be bridged. Prices differ on average by 23 per cent in Euro-11 zone, twice as much as in US, according to a study by Lehmann brothers, which hopes a downward convergence of prices. In home markets prices are a little higher due to captive customer base and hence companies are keen to compete in other countries. The Euro is also likely to increase pressure on government to bring takes closer rather than provoking an increase in cross-border shopping.

Source: Amelia Torres, "Single Currency to Make Firms Narrow Price Gaps," *The Sunday Times of India,* December 27, 1998.

Problems of poor and ineffective management can be well addressed through a step-by-step procedure emerging out of strategic planning by a company. The objective of any business enterprise is to create an environment for effective communication and develop new methods for planning and development through coordinated efforts in order to achieve of well integrated companies and also to make people understand the intentions of the company at the grass root level. Some of the factors leading to conflicts are summarised as follows:

Language

English is a language spoken worldwide, yet pockets of people in different countries do not understand English at all. Even in India many workers do not understand English quite well. Thus it is imperative for the managers to learn the local language.

Many companies in India today are trading in consumer goods, clothing, etc. with countries which were once a part of erstwhile Russia and these traders who visit those countries in large numbers have learnt their language. A Marwari businessman in West Bengal learns to speak the local language fluently in order to perform his routine work. The same is true for a north Indian doing business in Chennai.

Culture

The office and factory culture countries substantially differs in different countries. Even within a country there may be varied beliefs, cultures, and behavioural patterns. The festival seasons, dress, food habits, and also beliefs greatly differ. It is important for a manager to understand, study carefully, and appreciate these differences. Once the differences are identified, suitable strategies can be evaluated (Refer Exhibit 6.11).

Exhibit 6.11 Dimensions of Culture

It is suggested that there are four universally applicable dimension of culture. Each dimension is measurable in terms of its absence or presence.

Power Distance
This dimension is useful in addressing the basic issues of human inequalities arising out of prestige, wealth, power etc.

Uncertainty Avoidance
There is a tolerance of uncertainty about future (with regard to changing company policies that might create stress due to uncertainty of jobs) which varies in different countries.

The Individualism
The dimension addresses typical relationships between the individuals and the collective society within the framework of national cultures.

Sex Roles
The activity of socialisation through various areas like schools, families and media creates a pattern that allocates specific characteristics to each sex. Some cultures project and women with material function.

Source: G. Hofstede, *Culture's Consequences*: *International Differences is Work Related Values*, Ca: Saga Publications, Beverly Hills, 1980

Economy

Conflicts in the understanding of the real issues and problems which must be carefully addressed arise due to a host of economic factors like the living standards of people, per capita income, and buying power. Economic conditions in a country give an idea of the buying power of people. Economic growth patterns indicate possible growth patterns of market companies which are inclined to start business in another country should carefully study these patterns. Various car manufacturers, proved to be wrong in their perception of India as a big market for cars due to their oversight on various vital economic factors.

Government Interference

The Government of a country may, as a policy, exercise strict control over certain industries. It may also impose certain regulations on price, marketing, availability, etc. and these must be carefully looked into by an MNC. The political climate and stability and law and order situations in a country must be its prime concern. In a democratic set up, the voice of the people is of great significance. Various swadeshi groups in India which trade against foreign companies strongly oppose some MNCs. These groups encourage people to stop buying goods, particularly pesticides, seeds, medicines etc., is unable to take any measures to protect the rights of these companies.

Human Resource

Cheap and trained labour is a factor which would attract MNCs. Availability of trained human resource may not need any investments with respect to redesigning of production methods layouts etc. In India trained manpower is available at much lower costs. An average Indian works for more number of hours per day compared to his counterpart from the western world. The remunerations demanded is also comparatively low. These, coupled with the willingness of the government to promote invesments in the country, have attracted many MNCs.

Finance

Finance available from local financing companies and their terms and conditions are important and need to be examined by MNCs. Companies should carefully explore the cost of procuring money from the markets which influences their business decisions. Financial conditions varies according to the business cycles and sometimes it is extremely difficult to get money from markets thereby shooting up the interest rates. During times of recession, money simply may not be available. Particularly in India, one of the prime reasons for permitting foreign investments has been non-availability of finances for development of infrastructure.

Facility for Market Research

A lot of data is needed for conducting market research and this is obtained by talking to customers, users, manufacturers, dealers etc. These are organisations which conduct such studies for various companies. The MNCs may make use of these studies to generate data. Usually students pursuing management courses take up market research

projects as part of their curriculum and generate various reports which can be used by companies. Alternatively companies may get help from various educational institutions for conducting surveys. Likewise practising consultants can also provide data, based on which they may carry out relevant research work.

Advertising Media

A product is publicised by advertisements in various media. The use of a particular media depends on how well it is exposed to the people. In some countries the literacy percentage may be low and thus advertising in news papers, magazines, and journals fails to attract people. So other forms of so, advertising on television, radio, etc. are adopted. Companies also advertise through sponsoring of sports events, music, drama festivals, etc. They promote their product sales through door to door selling. In fact advertising technology has grown a lot in the recent years and has added to cut throat competition as is evident in case of detergents, home appliances, and consumer durables.

Currency

Countries have their own currency and governments put restrictions on foreign exchange. These restrictions create various problems in the business world all of which must be addressed by a company before venturing into business in another country. Covertibility of currency is an important aspect of international business and this factor is also given due consideration.

Transportation

The MNCs should study the operation of various modes of transport in use within a country. Timely delivery of goods and receipt of raw materials may be vital for many industries and at certain times this issue may become quite critical. In the case of power equipments sequential and timely delivery of various equipments that go into their construction is quite important, and delays may result in huge losses to a company. Sometimes very big and heavy equipment may be required to be transported to remote areas for setting up a factory. This requires the availability of adequate means of transport. The development sometimes, companies develop their own transportational infrastructure to avoid delays.

Communication

An effective system of communication should be available in a country for attracting MNCs. In earlier days, telephones, faxes, and e-mail were available to a few groups. But today the scenario has changed. These facilities are abundantly available and are also quite inexpensive. With the computer prices going down due to government policies, transmittal of data has been simplified to a large extent. Private companies have also entered the field of communication to compete with the department of telecommunication thus bringing about a crash down on prices.

Control

An optimum control may be required for the successful working of an MNC in a country. A limit of control should be drawn and it should be decentralised to ensure proper functioning. Earlier there were many formalities to be completed by companies to start a business but today the rules have been simplified and time for approvals and other formalities considerably reduced.

Contracts

Contracts are usually binding on both parties, however, sometimes contracts may require reviewing and re-evaluation. A culture of honouring contracts and abiding by the terms and conditions of the contracts is necessary for executing them. In some countries there is a poor law and order situation bad and people seldom respect laws. This leads to many legal problems. People find new and ingenious ways to break laws and escape legal actions. Under such situations, MNCs may face difficulties in operating and protecting their business interests.

Unionism

In some countries labour unions play a very positive role and help in building harmonious relations between the management and workers. In others the union activities get plagued by the petty self interests of leaders, or political parties may start exploiting the union groups for their own selfish ends and may paralyse the total operations of a company.

We can cite several examples where unions became so powerful that the fight between the management and workers lead to the closure of almost all companies in the industry. At one time, textile business in Maharashtra was very badly affected by unionism. In West Bengal also vigorous union activities has resulted in closure of many companies. Aspects related to unionism must be carefully examined by companies.

STRATEGIC PLANNING

MNCs exist in a very complex business environment in a foreign land and hence a careful analysis of relevant environmental dimensions is vital to their survival and growth. Their applicability of decisions in a specific country should be considered. One decision is dovetailed to a multitude of factors thus affecting many areas of operation. A manager faces with complex situation wherein he has to take decisions on multiple products, environment, technologies, resources, markets and its segments, employees, etc. and on various issues faced by corporate and its subsidiaries. Strategic options may be many, but the one which is decided for implementation has to be evaluated considering many complex interacting and interdependent factors.

Strategic choices of MNCs are made even more complex activism of stake by the holders and globalisation. As a result of activism of stake holders politicians and bureaucrats of the host country force demands, even illegitimate one on the company to which it has to blow down. Globalisation places a country in a highly competitive

environment wherein customers demand customised products and services against the standard package offered by companies.

CHARACTERISATION OF MNCS

Based on a model developed by Michal E. Porter, businesses can be characterised on a scale from multidomestic to global industry. The purpose of categorisation is to understand the general characteristics of industry of which the company is part.

Multidomestic Industries

In these industries the competition within an industry does not affect the competition in other countries. The dimensions of competition are unique to a particular country. In this category we consider industries like consumer finance, insurance, distribution, retailing etc. and also businesses controlled by policies of government of host country.

In multidomestic industry environment, usually a company is managed as an independent entity. The management is empowered to take strategic decisions as per the demands of the local environment. However, decisions are largely based on the basic strategic framework of policies of the company. This depends on many factors viz. the demand of the drivers of business in local market for specific product features according to their preferences, the fragmentation of industry with several players, dependence of company on corporate for inputs, prevailing distribution and retailing channels, economics of scales of operation, etc.

Global Industries

A globalised industry is one where the competition in a specific industry crosses the national boundaries. A firm operating in different countries, will take a strategic move in a country keeping in view its effect in another country because its position may be either jeopardised or be to its benefit by such moves. Competition is not limited to one country but affects the entire industry spectrum in the world. Computers, air crafts, electronic goods are some examples of this industry. MNCs in such cases cannot treat their companies in various countries as independent units and would have to decide their strategies keeping companies in all the countries in view. The extent to which a particular industry is global is governed by its requirement of higher R&D expenditures that may require recovery from many markets, homogeneous product preferences, losses due to number of competitors in fray, lower trade volumes, dominant multinational companies in a market meeting customer's need through consistent product designs and satisfying customer's needs and expected return of value for the money spent, etc.

CHALLENGES FACED BY MNCS

We can never classify any industry as purely global or multidomestic. It is between these two extremes that most of the industries usually operate. An MNC which is in competition in a global industry cannot afford to be non-responsive to local markets

and customers. The vice-versa is also true—in a multidomestic industry an MNC cannot afford to ignore global opportunities coming its way. In fact MNCs have to rightly maintain a balance in their performance to take care of the needs of global as well as multidomestic industry environment. There would be some activities focused to the global operations whereas some others are focussed to the multidomestic business environment. Thus strategic decisions to the amount and nature of coordination between the two would be required to be taken by a company. The intensity of competition in host and home countries may be different and a company may have to take decisions as per its preferences for expected results in selected markets. The real challenge lies in balancing its decisions and actions to accomplish desired results.

LOCATION OF FUNCTIONAL ACTIVITIES

Various functions like marketing, designing, research and development, manufacturing, purchasing, etc. are involved in any business activity. Each of these functions may be located in different countries or cities. An MNC will have to decide about location of each option, however, the best combination that may suit the working of a company and volume of business activity is to be decided by the company.

Some companies prefer their marketing and research, and development activities to be centralised and thus cater to the needs of various divisions in different countries. Others may want these activities to be spread out in different countries. Similarly some companies may decide to carry out the assembly of products in one country whereas components going into assembly may be manufactured in one or more countries. Such strategic decisions are taken keeping in mind various vital key issues that would enable easy operation (Refer Exhibit 6.12).

COORDINATION OF FUNCTIONAL ACTIVITIES

The units located in different countries perform various functions for which they need some coordination. The degree of coordination required has to be decided by an MNC. Sometimes coordination requirements may be very low, however, at times these may be quite high. A company may decide the degree of coordination requirement as part of its strategy. Some companies like Coca-Cola, Pepsi, Kelloggs, IBM, etc. coordinate their R&D and marketing activities and maintain their quality and brand name worldwide.

MYTH OF MULTINATIONAL POWER

There is a general belief that multinationals dominate all other businesses. The first hundred largest companies control 60 percent of global assets. They are powerful as individual corporations as they are responsible for more than half of the trade of goods manufactured and serviced. They have also contributed towards changing the life styles of people around the globe. However, the present trends show that most of the MNCs are in a true sense not being multinational. They have failed to

establish or identify together for their benefits. It probably did not occur to them that shaping of the future was responsibility of business organisations. It was generally considered by most of the organisations ,that the shaping and designing of the future, is the responsibility of the government and not of the business corporations. Thus the power of multinationals got shrunk within boundaries of their organisations.

Exhibit 6.12 Locational Issues of Functional Activities

Functions	Locational Issues	Coordination
Business Operation	Location of manufacturing facilities, employment, living standards, etc.	Networking to meet requirements of turn over, quality, payments, profits, etc.
Marketing	Product Mix selection, market segment size, customer needs versus product features, incentives brand image, etc.	Brand image, sales turnover distribution and supply, pricing cycle time involved, etc.
Service	Types of services offered, service cost, quality of service, location of service organisations, etc.	Norms and standards of services, costs, availability, etc.
Research and Development	Availability of researchers, facilities, number and location of R&D facilities.	Exchange of R&D issues, interaction on research matters. Product development as per customer needs, etc.
Purchasing	Regulations related to purchasing contracts, etc., availability of supplies and their strengths weaknesses etc., location of purchasing activity.	Management of vendors spread out in various countries, taking benefit of economies of scale market knowledge.

Another wrong belief is that multinationals are losing grounds to the smaller firms. The theory, 'The bigger the world economy, the more powerful would be the small players', was propounded in 'Global paradox' by John Naibitt. In fact the core people in any organisations are well paid while the workers in the periphery who are sub-contracted and who fuel the growth of small firms are not so well paid. As the core grows, the periphery may shrink and options of life time employment by the multinationals may become prevalent. It is necessary for global companies to coordinate their

functional activities to be able to compete across various countries in which they do business by making their options on employment based more on a long-term vision instead of myopic alternatives.

STRATEGY OPTIONS

Various dimensions can be considered for deriving basic international strategies. However, the following six distinct strategic options may be available to a typical company willing to become multinational.

1. Give license to foreign companies to use the technology developed by the company to produce and distribute its products.
2. Carry out production of goods in one country and distribute the products through exports, using its own channels or other existing, channels in other countries.
3. Chalk out strategies for the country where company chooses to operate by being responsive to needs of customer and withstanding competitive forces. Usually strategic decisions differ from country to country there is seldom any coordination between its offices in two countries.
4. Device a low cost strategy and meet demands of markets all over the world. The strategy of the company would be to achieve a low cost position in relation to its competitors.
5. Differentiate products and services in each country where company operates based on the same attributes and make its presence felt. A close coordination among all the countries is then required.
6. Follow a global strategy focused on strategically important market of with closely knit coordinated efforts to gain leadership.

DIFFERENCE BETWEEN MULTICOUNTRY AND GLOBAL STRATEGIES

Multicountry strategies arise due to vast differences that exist among various countries. For instance there is a vast cultural difference between India and the USA. Other significant differences are economic, political, competitive etc. A company which wishes to produce and market a product in these two countries cannot follow a common set of strategies in both the countries. The overall international strategy is the collection of strategies followed in each country. It can also be said that multicountry strategies are suited for industries where multicountry competition drives the business.

A global strategy adopted by a company is the one by virtue of which it competes globally and remains the same in all countries with very minor country to country variations. A global strategy essentially involves coordination amongst all company offices in the world and in various countries and it aims at selling in all those countries where a significant market exists.

COMPETITIVE ADVANTAGE THROUGH GLOBAL STRATEGIES

Global players generally use their R & D, low cost of manufacturing through use of low cost technology, producing goods of value to customers for lower amount of money spent, and well knit distribution, and deploy it to their maximum advantage through closed coordination amongst their companies in various countries for overall lower costs and attract customers through product differentiation as part of their global strategy. This specific advantage is not available to the multicountry operator. Also a domestic competitor due to absence of such a network as available to the global company, may find very difficult to compete with a global company on some fronts.

MULTINATIONALISATION OF CORPORATE MISSION

Multinationalisation of companies brings about radical changes in their strategies. The decision of a company to go multinational exposes it to several challenges, threats, opportunities, risks etc. The direction of growth and the timeframe in which it wishes to achieve a defined position in the competitive environment must be first deliberated upon by the company and strategic intentions cast before going multicountry or global.

The corporate mission of companies develops in stages during its growth. The basic values for which it comes into existence are of great importance—some of which may emerge from the strengths and proprietary knowledge of entrepreneur. As the company grows, it faces more complex and intricate business situations wherein it alters its mission and defines new bench marks for being successful.

Every company has its own bench marks that it derives based on various factors. Some of these can be reduction in production costs, improvement of product quality, quick development of new products, increased international participation, seeking diversification, improvement customers service, reduced cycle time etc. The existing level and stretched levels that a company would like to attain are clearly quantified and defined.

Some of the performance objectives usually considered are growth rate, profit ratios (gross margin, return on equity), reinvestment rates (capital investment as percentage of sales, R&D expenditures as percentage of sales) debt equity ratio, dividend payout etc.

STRATEGIC ALLIANCES

Strategic alliances are neither mergers nor full partnerships. There are various areas like joint research effort, technology sharing, joint use of production facilities, assembly of finished products etc. which fall under this category. Strategic alliances enable companies to compete global levels, in different countries and yet maintain their independence. Big firms in developed countries enter into strategic alliances with small firms in underdeveloped countries for pumping in their products. The basic reasons for which companies enter into strategic alliances are to reap benefits of economics

from scale in manufacturing and marketing, to fill technological gaps and acquire market access which is otherwise quite difficult. All strategic alliances are not fruitful and they do have some problems. It requires a lot of communication and trust building and involves high coordination costs. In order to make strategic alliances successful, some ground rules must be followed. These can be summarised as follows:

1. A compatibility with partner should be built with clear and better communication and development of understanding and trust. The returns of this effort may not be immediate but in the long run it definitely pays.
2. The products and services chosen must be complimentary in nature rather than competitive. The companies should join hands to synergies.
3. The speed of transfer of knowledge should be fast and its amalgamation into the fabric of the receiving company even faster.
4. The sensitive information should be adequately screened off.
5. The alliances are usually temporary for mutual benefits and should be terminated once they lose their meaning.

STRATEGIC INTENT

The international market has many competitors having different strategic intentions. Based on their intentions, the classification of the companies can be made as follows:

1. Some companies strive to become global leaders in specific areas and they form their strategies accordingly.
2. Some companies strategically defend their domestic dominance in the home country although they may be doing substantial business elsewhere in the world market.
3. Some companies have high responsiveness to host country and they do business in many countries and are proactive to the markets of host countries.
4. Some companies focus only on domestic markets while keeping an eye on the international business situation only with the purpose of maintaining their position in the home market.

MNC MISSION STATEMENT

When companies expand across national boundaries to explore new markets or production opportunities they have to review their desired directions of growth. They may. It is known that in the strategy design process, scanning of environment plays a crucial role and hence a company process environment plays a crucial role and hence a company in a new environment will have to gather information that may be necessary and assimilate the same in strategic management process. Environment really becomes plural for companies. The home environment and the environment of the host country, both affect the strategies. Hence it becomes important for companies to review their mission statements in light of the new environment and decide upon the new probable and desired results.

The mission statement should permit executives of a company to explore new alternatives in the new environment which affects the decision making process of an organisation. It is found that diversities of various forms viz. financial, cultural, political, and economic occur in various countries and hence mission statements should permit this freedom to its employees. The executives from India view organisations as social systems whereas those from USA view it in the form of contracts. Hence an Indian, a company mission statement not reflecting this social aspect may not be Welcomed or properly understood. The multinational contingencies should also get adequately reflected in the corporate mission statement. Due to internationalisation of operations, new capabilities are developed in a company and the mission statement must cover this factor as well, for it to be comprehensive.

With regard to service, market, technology, manpower, etc. a company must review its mission statement. A company which excels in domestic market in these and some other factors can exploit its potentials when it goes global or multicountry. However, multiplicity of contexts will require reranking of its priorities and may also require redefining the primary market and customer profile. Some trade off may be necessary in product or service design to suit specific needs of customers in a specific country and the mission statement should permit this flexibility.

The internal mechanisms by way of which a company fulfils its mission statement must be reflected in it. In case a company decides to follow some norms of integrity or to establish a centralised corporate activities, it should reflect the same in its mission statement. On the whole a company must be prepared to address in its mission statement all the requirements of business that emerge from internationalisation in such a way that the employees and others have a true picture of company.

With regard to company goals of survival, profitability and growth, a company should carefully analyse environment of host country before incorporating these factors in mission statement. A host country may be hostile towards MNCs who believe in making profits as their sole motto. In third world countries social welfare and community development gets priority over rapid economic growth. This scenario may be fast changing, however, opposition to profit goals in certain industries does exist. When Hindustan Machine Tools went in for manufacture of watches it was a dream of the then Prime Minister to make available a watch to every Indian and hence the selling prices were kept below the cost price and today we see the plight of HMT. The same is true for scores of other government undertakings, however, today with liberalisation the profitability has become common denominator for India and no company whether in government or private sector does its business without keeping profit in focus. Rajasthan Electricity Board which was hitherto in the hands of Rajasthan government and was having losses to the tune of thousands of crores is on its way to privitisation. Profits when perceived as a result of corporate atrocities, in the context of a multinational, may only contribute to failure of MNCs and may even endanger their existence. Hence the MNCs should design their statements of mission crossing the myopic needs of profitability and economic growth and focus on a higher order mission. It

should aim at bidirectional and reciprocal benefits to home and host countries. As soon as a country becomes aware of technologically obsolete products being dumped or hazardous products being produced by an MNC for the sole purpose of profits it faces opposition from people and government. A company may choose to be profitable at the same time it should express its responsibility towards the social cause of the host country. The major claimants of an organisation must feel satisfied and for this to happen the mission statement should have effectiveness dimension in addition to economic dimensions. These factors and dimensions should clearly be identified by MNCs on which may depend the very prosperity and existence of a company. In fact a multinational creates a geographical dispersion of corporate resources and operations through people who are exclusively located at the headquarters in the home country but also through people in the home country. Hence for the purpose of unifying a company into one fabric, a mission statement taking all possible factors into account must be evolved.

COMPANY PHILOSOPHY, IMAGE, AND SELF-CONCEPT

During to rapid changes that have engulfed industrial and business environment today, every organisation would like to define its corporate philosophy. In a domestic market, understanding of environment leads to almost uniform corporate values and behaviour. The philosophy may be unwritten, still people understand the same. Multinationalisation brings about a change in environment and the related corporate values. This is because a company would then face many variants emerging from plurality of cultures, behaviours, business environments of different countries, etc. A company will have to take strategic decisions regarding prioritising its vision and decide which philosophy has to be given top priority considering multiplicity of various factors of environment. It may be practically impossible for a company to define an overarching philosophy which would be equally welcomed in both host country as well as home country. It is pertinent for each of the subsidiaries to verify that the company philosophy is not clashing head-on with prevalent social norms. Due to fast communication in the present world it may not be possible for companies to insulate their basic philosphies in different countries, although they can be tailored to suit the environment of individual nations. This is required to be done keeping in view the conflicts amongst major groups in a country and the capabilities of these individual groups. The corporations thus significantly enlarge their conscience towards the specific behaviour of environment and adapt for their own trouble free survival. The mission statement must therefore reflect these attitudes of a company to develop basis for strategic decisions and for day-to-day operations. The self concept of a multinational goes to build up a company philosophy. A company studies environment with regard to its own strengths and weaknesses in each of the operating regimes. The agility to survive in a multiple, dynamic and competitive environment gets substantially jeopardised if strategic decision makers do not understand various forces, their interaction and impact on company, and design strategies accordingly to cater to the complexities. In fact a company has to

develop a fast responsiveness to changing environment which is scanned and analysed by strategy managers.

Various activities through which managers may be proactive to environmental changes can be summarised as follows:

1. Defining strategies and modifying them to attain a position of leadership in services, product designs, marketing, technology, etc.
2. Designing a foolproof marketing and distribution network to increase speed of operations.
3. Studying and analysing key environmental dimensions that lead to fruitful coalitions.
4. Making joint venture for evaluating the impact of political processes on environment.
5. Identifying processes affecting business environment in the host country.

The reactive and proactive actions that may be required for strategic decisions should be clearly identified with the above philosophy and a self-concept of organisations developed. A public image which is used as a marketing tool and which is clearly related to acceptance of firm in market and its products also attracts the buyers. Dimension of public image is quite critical and should be well considered between employees and customers. A company should help to solve the social problems faced by employees and the society at large through its actions which would naturally be based on strategic decision-making processes.

QUESTIONS

1. What are the strategic considerations for a multinational company?
2. Discuss evolution of MNCs.
3. What are the causes for internationalisation of business?
4. What are various considerations in internationalisation of companies?
5. What are the various factors that an MNC considers while formulating business strategies?
6. Discuss various dimensions of a multinational environment.
7. What are the various conflicts that an MNC faces?
8. What are the various characteristics of an MNC?
9. What are the challenges faced by an MNC?
10. What is the difference between a multicountry and global strategy? Discuss various strategy options in both cases.
11. What do you understand by corporate mission of an MNC?
12. What do you understand by strategic alliances and strategic intent? Discuss in brief.
13. What do you understand by company philosophy, image and self concept? Discuss in brief.

CHAPTER

7

FORECASTING THE BUSINESS ENVIRONMENT

NEED FOR FORECASTING

Today, changes are rapid and too frequent and in a way quite necessary for overall growth of economy. There have been quantum changes from 1970 onwards and today in the business world anything that is consistent is only change. In the times to come when changes would be predatory, it would be crucial for managers to invent new ways of surviving in the ever-changing business environment. They would have to build up the capacity of a firm to face the onslaught of changes by being more agile and flexible for adapting themselves to changes. They would have to find out new ways of creating opportunities of profitability and growth. New rules of business will have to be written to meet ever-increasing expectations of drivers of business. To be prepared for such on going eventualities, managers will have to prepare themselves for really understanding the remote and the immediate environments of business and mechanisms of changes that affect their industry.

The changes have not only affected smaller companies but also the giants of various industries. In fact the organisational models that are available with us today for giant companies prove as their handicap in their process of adaptation due to their large inertia and consequent slower response towards changes in environment. Hence there is an urgent need for companies to shed-off extra inertia and develop agility (Refer Exhibit 7.1) since these large corporations will also be involved in the transition process. The situation that the automobile industry is facing today is due to incorrect business environment forecasting for which many giants are paying a price through under-utilised manufacturing capacity, piling-up of inventories and the locked up capital and operating cash. Companies operating in the home market saw a penetration by foreign competitors and used all the possible tactics of various elements like price, service, technology, and used them as levers for competitiveness.

EXHIBIT 7.1 Agility and Flexibility-Competitive Strategies

Agility cannot be merely seen as a performance issue in today's business context. It can be used as a key competitive strategy in environments where business situations are unpredictable and companies are under pressure to respond to the changes by creating suitable capabilities. The flexibility includes basically four dimensions of volume, product, mix and delivery, and agility being a step ahead of flexibility also implies that flexibility in the volume, product, mix and delivery, coupled with low costs, high quality, better services and more reliability and dependability.

While forecasting does not promise flexibility, it enhances the capability of reacting faster at low costs as one can be proactive. One should also to accumulate, process, and use data for effective designs, keeping in view the agility dimension.

Source: Based on Interview of Stag Arne Mattsson, *Business Today,* September 22, 1998.

A similar situation was faced by the auto industry in the U.S. when the industry saw about 20 per cent penetration of the U.S. car market by foreign competitors coupled with oil embargo and prices of fuels rising by leaps and bounds. The Japanese did a pioneering work in market research and grabbed the market share at the cost of Detroit.

In service and consumer goods industry, the expectations of customers are sky-rocketing, and there are companies who accept the challenge of designing products and services to meet customer's need to their delight. Everyday, a new product concept is born, making the existing product, system or service obsolete. The obsolescence has become very fast. The process of obsolescence is faster in some industries compared to others and particularly in the field of computers, electronics, information technology, etc. It is so fast that when a customer is in the process of buying some of the gadgets he would be buying something which is already obsolete.

Changes have affected the very nature of enterprises, role, and relationships of business, measurements, architectural platform of business, and the effects have lead to tremendous changes, making it mandatory for business to do introspection and be prepared to accept them instead of brooding over them.

A CEO today faces challenges of recalibrating various strategies, plans, agenda, and causes of actions to be able to navigate in rough weather of competition and unprecedented changes (Refer Exhibit 7.2). Dynamics of business has forced managers to have an appropriate application strategy and a suitable architectural strategy to successfully survive. Traditionally, organisations had information systems built around the information flow between the various subunits of an organisation. With changes in structures due to changes in speed of operations, information systems will have to be changed.

Exhibit 7.2 The 5 F Concept

The CEO of Aptech, the premier computer training institute in an interview elaborated that their company follows 5F concept, which has been very effective. The employees are fast and focussed. The working is flexible and atmosphere friendly with 360 degree feedback concept.

Source: Based on Interview given to Sunita John**,** *Business Standard,* February 19, 1999.

To simplify understanding of strategic management and to provide a planning tool, an organisation has to ask simple questions about its business. The generic question can be

i. What business is being done by the organisation?
ii. What forces (positive and negative) and what critical success factors are present?
iii. What strategies the company has?
iv. What forces are changing the business environment?
v. What business is likely to be in?

The abilities of companies to correctly anticipate possible market dynamics and initiate appropriate actions before a competitor does is called as competitive advantage. Market dynamics gets affected by some of the important business drivers that can be listed as follows:

i. Employees who want the best compensation and security of job.
ii. Stockholders who look for growth and money at varying degrees of risks.
iii. Banks and other lenders who want utmost integrity.
iv. Regulators who insist on conformance.
v. Customers who seek good quality at lower price coupled with prompt delivery of products, quickest, and best possible services.
vi. Competitors who strive for their market share and conformance to business ethics and code of conduct.
vii. Suppliers who look for orders and timely payments.
viii. Governments who make policies, issue licenses, permits etc.
ix. Political parties who demand a price for trouble free operating of companies.

STEPS IN FORECASTING

Organisations must gear themselves to be able to forecast business environment and make strategies accordingly for being successful. Accurate forecasting of the constantly changing components of an environment is a vital part of strategic management.

Following steps are necessary to be taken by a strategic manager.

i. Scan and select relevant and significant factors from environment that are critical to a company.
ii. Identify sources that would provide significant information about the behaviour of environment, its composition, responsiveness etc.
iii. Examine and evaluate alternative approaches or techniques for forecasting that may yield useful results.
iv. Imbibe results of the forecast in strategic action programs through strategic management process.
v. Effectively manage the forecasts and forecasting process and identify critical aspects of the forecasting process.

Step1: Selection of Critical Environment Variables

Changes are affecting the world. The future is looking at sharing the unlimited resources more equitably to the advantage of all human beings. We know that presently the majority of human kind is barred from benefits that are available to the first world, however, the third world is soon catching up with it.

Today, the numbers have become far more important in the entire decision process and the growing number of people in the third world may therefore dominate the political and economic developments of the globe. The first world has been constantly ignoring the strengths of the third world and they did not even have a policy for them until recently when EU had to announce the same.

It is estimated that the population of the world will grow to about 10 billions by 2025. In the essay on principle of population, published by Thomas Malthus, it is stated that starvation will soon sweep the world (2030) and we find that the latest projections on population growth have been alarming. Although the world wide rate of population growth has been falling, in poor societies there has been a good reason for having more children. The children are considered as assets who can do useful work and provide security in their old age. Out of many children who are born few survive, hence, more children become necessary.

Food, one of the important resources, is becoming scarce on this planet. The green revolutions have not turned out to be so green due to errosion of soil and reduction in diversity due to monoculture. In future, one may hope that food may be mass-produced in factories, with genetically engineered cells grown in artificial lands making use of the sea that remarkably remains unused for this purpose. The population, which is connected to every problem, including that of food, has been a cause of turbulent business situation and also for creating new business avenues. It affects economic, social, technological, regulatory, and political environment.

Earlier, population had lesser impact, however, due to its erratic, radical, and contradictory growth patterns in the second half of the country, it has created a revolution in the business world. The growth in population is leading to competition for jobs,

education, promotion, housing, food, etc. compounded with awakening of women and other racial minorities about their rights. The problems get further multiplied when they do not retire and refuse to give up status, power, employment etc. as is evident in politics and jobs of government. They affect the consumption patterns, life styles, decisions, and eventually the business opportunities. In case the growing population has the purchasing power, new markets will bloom to satisfy their needs. The economic interpretations of population growth are complex, requiring strategy and changes in trends due to migration, mobility, birth, marriage, and death which will in turn further complicate the situation. The changes in political, technological and cultural environment are triggered due to these changes and to make an assessment of the total changes becomes increasingly difficult.

In addition to the population, various other factors related to this aspect can be the form of government. The democracy that believes that people are the markets, is found to lose its meaning and what we have today is demogogy. The caste, creed, religion, and beliefs have shadowed the function of governance. The rule of minorities has come in the forefront. Thousands of minorities have become aware of their rights and want to play an active role in power. The transition is quite painful and costly, yet it is inevitable. There is a fight between people who cynically want to occupy seats of power. Representation of more and more people in governance will become imminent in near the future. Thus new models of democracy, which are also being explored by communist countries will emerge.

The strategy managers must develop sensitivity to recognise the critical aspects of these and additional dimensions to be able to appreciate their impact on strategies for the future of their companies for survival and growth.

Step 2: Who Should Select the Significant Variables

It is the duty of the top management to develop vision of the key factors that could affect a business in long run. This vision is developed on the basis of studies, surveys, incubation, thinking, and analysing various events and the related data that is compiled by executives and groups of executives specifically assigned to this particular job. In a typical company, the General Manager of long-range planning department at corporate level may collect all the data on political, economic, social, and technological environment and continuously benchmark his own organisation with competitors. The person at the corporate office may not have access to all the data of the multitudes of products of his company and his exposure may be quite limited. In such cases, product managers may assist in providing the necessary data for analysis and presentation to top management. In some cases, consultants may also be appointed for studying and analysing the data. Company task forces may also be created for collection and analysis of some specific data, which may be relevant for taking some urgent decisions. In fact, the key issues in environment forecast may be related to economy, society, politics, technology, industry, competition, customer profiles, suppliers, and creditors and human resources etc., and experts in each of these fields may be deployed by a company to

identify the significant variables that would affect the strategies of a company; however, significance of each of the variables will have to be decided by top management who has to take decisions on strategies.

Step 3: Selection of Variables

Once the list of key variables is prepared, it is vital to examine these variables that would affect the future of a company. Some of the variables may be very important for the present and the other would have been important for the past. There would be some variables important for the future of the organisation, and these are to be clearly listed out. The variables are usually in great numbers and hence, to comprehend, a list of dependent and independent variables must be prepared. These different variables would have different weightage factors and a distinct correction with objectives of the company. Some variables would be crucial whereas some variables may not be so crucial to the strategic directions of growth. The following guidelines would help to reduce the number of variables.

i. The variables with very high, moderate, and low probability are to be ranked. The ranking may also be done with maximum, moderate and minimum impact. It would be wise to exclude variables with very low probability and low impact.

ii. Any major event, which might have happened may be once in a life time, may be ignored and not accounted for forecasting environment.

iii. The dependent variables, may be separated out and a tree created to account for dependency.

iv. Different variables may be clubbed if required for analysis purposes.

It may be quite difficult for strategy managers to for all possible variables due to limitations of cost and time and hence only those variables that are important, may be considered in analysing business environment. Variables, that are responsible for a steep rise or decline in performance need the attention of top management. It is pertinent to relate variables with time also. A variable may be quite insignificant during some periods of time, whereas at other times it may assume greater significance due to change in climate, policy, strategy of competitor, strategy of company itself, etc.

Step 4: Information Gathering

We all know that the quality of information is very important for taking meaningful decisions. The quality of information largely depends on sources of information. Quality of information is defined by its form, correctness, accuracy, and timeliness etc. Collection of information from various sources has to be done very intelligently and one should not be casual about it. This aspect of information gathering has to be clearly understood by all concerned in an organisation and the management must educate them on this aspect. It is also essential to see that information is not biased and is based on facts. No doubt that a lot of information is available from business journals, however, it is essential to generate additional relevant information through

surveys. The strategy managers may also take the help of consultants who specialise in information gathering.

Information and communication are important aspects of strategic management in any company. In fact all the administrative systems are information-based and operate through information driven mechanisms and most of the managerial time and energy is spent in processing this massive and dissimilar information, and creating significant communication with interested parties, external, and internal to the firm.

Hence the term communication means a more sophisticated and elaborate managerial activity, which is responsible for creating meaningful relationships at all organisational levels and at the level of stakeholders. The system involves gathering, processing, and evaluating large volumes of data. The information needs to be filtered, diagonised, and discriminated for it to be able to get assimilated.

The Japanese place great emphasis on information specialists, information integrators, and information processors and users. The information management systems are of basic importance for them for succeeding and surviving. The information integration approach is viewed as a proactive, preventive function rather than being reactive, after the fact. The non-specialised career paths have emerged as a consequence of an approach that does not allow formation of specialised information-based islands. The basic skills of information integrator are.

- A good knowledge of business and its processes.
- Creativity to use information in strategies.
- Project management skills.
- Leadership and political skills.
- Ability to gain confidence of diverse groups.
- Knowledge of communication systems and information technology.

FORECASTING TECHNIQUES

There are basically two approaches to strategic forecasting. One approach is based on quantitative model whereas the other is qualitative in nature. The quantitative approach appears to be more convincing, however, in actual practice the intuitive or qualitative model is found to have more acceptability, and results obtained by this model have been found to give practical solutions. In the immediate environmental analysis, quantitative techniques may be easy to be adopted; however, in remote environment analysis, qualitative techniques can be easily used for analysing legal, political, economic, and technological and social environments.

The choice of techniques is dependent on various factor such as:

i. Nature of decision.
ii. Accuracy of available information
iii. Cost of information and its analysis
iv. Required time to arrive at meaningful conclusions
v. Capability of forecasters
vi. Availability of previous experience data etc.

Economic Forecasts

Today, it has increasingly become important to address the environmental trends and anticipate possible surprises. Behaviour of competitors has become very important as any change introduced by them in their products, policies, strategies etc. may substantially affect business of other companies operating in the same environment. A deep and thorough knowledge of structural dynamics of industry has become vital, and significant knowledge of competitor's actions can lead to high quality strategic thinking. The value creation capabilities of a firm is reflected in its market value, which is the stream of cash generated through time. The economic evaluation of these cash, flows is done through computation of Net Present Value (NPV) discounted at the corresponding cost of capital. Usually, the forecast based on the economic factors are related to remote dimensions such as economic condition, inflation, currency parity, currency transfers, wage levels, raw material costs, consumer price index etc. The economic conditions also get altered due to wars, famines, and other natural calamities. Economic forecasts based on some of these and additional factors serve as a basis for forecasts. Some of the additional factors may be sales, market shares, growth rates of population, wages and price indices etc. and economic condition in general.

Economic Models

Today, computers are being heavily relied on to make decisions. An intriguing application of computer is to model the decision-maker. These models have been found to be very useful in different analysis and have delivered surprising results. The models have provided more insight to the problems by bringing out the relevant factors to the forefront and also their weightages for arriving at decisions. For preparing such models, a decision support system is required to be built. Other systems that are required to be built and operationalised are decision insight systems, expert systems, artificial intelligence etc.

Various economic models were developed by private companies to make the decision-making process mechanised. In these models, complex simultaneous regression analysis technique is used to account for economic events of significance that take place in the corporate sector. The method is found to be extremely useful when large changes are expected; however, a lot of intuitional support is required for interpreting the results.

During 1970s, econometrics became one of the fastest growing fields and three associated functions Data Resources, Chase Econometric, and Wharton Econometric Forecasting emerged. However, the changes have been so rapid that econometric models also failed to serve the purpose. One of the major drawbacks of these models is that they heavily rest on judgement of the model builder.

Time series models and judgemental models are the other alternatives often used. In time series, a curve is fitted into historic trends and the future is forecast on the basis of seasonal and cyclical changes. The technique is simple, accurate and has proved to be beneficial to the planner.

Trend analysis is an extension of time series analysis, wherein the future is projected on the basis of past trends. This requires past data to be made available. Past data required in trend analysis is analysed to develop a connectivity of trends and explore the reasons of past trends. This analysis can be carried out for the knowledge of trends of any of the significant factors viz. turnover, market share, price trends, growth rates, rejection rates etc. It is beneficial to use longtime trends as a basis for future projections rather than relying on short-term variations. It must be well understood that trend analysis extends the past data to project the future and any sudden changes in the trend would definitely upset the trends.

Judgemental models can be used where time series analysis and trend analysis are not possible due to the absence of any past record. The analysis consists of a typical force field analysis of critical possible factors and weightage factors for each of the forces causing the change and decision is taken based on the opinion of line managers. The salesman, for instance, can be used to generate data on customer preferences for specific products and services and similarly experience of production manager and designer can be utilised to decide on weightage factors. The result of the analysis depends on the feedback given by customers and hence it must be ensured that the response of customers is correct and balanced. Customer surveys may be conducted using phones, door-to-door contact technique, personal interview etc. These surveys give indepth information on customer behaviour, uncover their specific wants and needs, and their preferences. The customers usually look for:

i. Primary performance
ii. Secondary features
iii. Reliability
iv. Durability
v. Ergonomics
vi. Aesthetics
vii. Perceived overall quality.

A customer can be contacted during the following activities:

i. Personal selling
ii. Advertisement
iii. After sales service
iv. Invoicing
v. Technical advice on product.
vi. Order placement
vii. Progress of order processing
viii. Credit realisation
ix. Customer complaint

There are basically six broad categories wherein market research can be carried out:

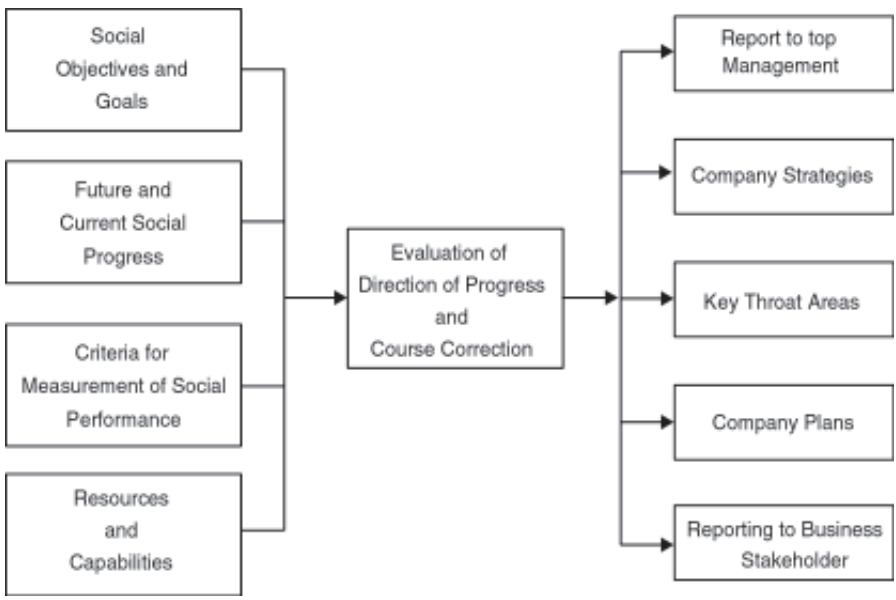
- Analysis of life styles
- Watching the customer moves

- Testing of concept
- Buying motive trend analysis
- Perceived use value analysis
- Analysis of competitor's products and services

Social Audit and Forecast

Social audit is a systematic assessment of meaningful and definable factors which underline the domains of a company's activities that make a social impact. It is a form of measurement. The social audits can be largely conducted by the company through measurement of its performance in terms of its social indicators against the pertinent macro social indicators. The macro social indicators are the measures of a company performance in meeting the needs of society, such as health, safety, education, housing etc. The corporate audit consists of indepth factual analysis of performance of the chosen companies or industries, with regard to some specific areas of social concerns. The corporate constituency group attitude analysis consists of measuring the extent of pressures that the groups of people exert on companies in achieving their own goals (Refer Exhibit 7.3).

Exhibit 7.3 Social Audit



Based on the above audits, companies can conduct a comprehensive analysis of social trends and the underlying attitudes that have profound impact on the performance of the company. Several approaches can be used for these forecasts, including time series analysis and judgemental techniques. The scenario development technique is

also used, wherein a future scenario is stipulated, based on strategies of a company.

We know that social changes do not occur overnight and one cannot specifically predict when environmental changes will occur and will create an impact on corporate strategies. Some of the primary fields, wherein social changes can affect company strategies can be summarised as follows:

i. Demographic characteristics
ii. Rate of growth of urbanisation and its impact on social values
iii. Speed of education and literacy
iv. Distribution patterns of incomes
v. Changes in ethical values and perception
vi. Health and average life span
vii. Expectation from businesses

Political Forecasts

It is quite difficult to draw a clear line among various factors that we have discussed. Most of these overlap. What may appear to be an economic reason may be actually political or technological in nature. This is of not much significance till the strategy manager is able to understand these factors and is able to estimate impact of these on corporate strategy. The semantical classification may not be very accurate, however, study of complexities of mechanisms of these changes and their effect on strategies is to be clearly understood and accordingly forecasts prepared.

Political environment for a democratic country like India begins with its constitution; however, whatever is written may not be directly applicable to businesses . As a strategy manager, one would be more interested in various provisions made by the government. The functionaries of political systems take certain actions within the basic framework of constitution, the which are more important to be understood by a strategist.

We know that the economy of a country largely depends on the politics and political system it has embraced and the shift in political factors like size of government, number of political parties and variations in their ideologies, plans, budgets, defense spending, tariffs etc. These and many such factors related to economic policies have a profound impact on various businesses. In present days, the political environment of a country gets affected by the political climate of its neighbouring countries and also due to political situation of super powers. Some companies who depend for resources from other countries where a crisis exists are thrown in turmoil due to decisions taken by the government. Due to strained relationships between Pakistan and India, sugar import from Pakistan after being continued for some time, was banned in light of Kargil war. Dependence of companies on foreign customers may also be threatened due to change in legislation brought about by political groups of that country. Readers may remember the case of nylon skirts being exported to USA and due to invoking of laws on flammability of nylon material, goods worth crores of rupees were forced to be withdrawn. The interdependence of countries makes it imperative for them to consider international political scenario for carrying out their

business. A number of methods and approaches have been developed to forecast the international political environment and some of these are as follows:

i. Monitoring of economic indices in different countries of interest against political variables.
ii. Study of critical political catastrophes in various countries of interest and development of situational models, which caused these for forecasting the future.
iii. Study of changes in political trends, political swings, voting pattern etc. to predict formation of government of political parties with specific programs.
iv. Study of developments in a country or a group of countries assessed on a scale of selected factors like social development, technological rate of growth, natural resources, domestic tranquility, political system, natural calamities, agenda for prime concern of government etc.
v. Critical study and evaluation of political manifestoes of various parties and their rate of accomplishment, public image, etc. to forecast the future possibilities.

With the study of the above and other relevant factors, it is possible to forecast major changes that may take place in a country. Today, many companies in the world are carrying out forecasting of political situations and some are even proactive in controlling the political situation in a country. They invest money in a country of interest to bring favourable political parties to power. USA has been often accused by third world countries of engineering politics of their countries for its own benefits.

Technological Forecasts

Technology has far-reaching effects on business. Technological developments are at the fastest rate today and affecting businesses in many countries. Technology, directly or indirectly affects all kinds of macro and micro environments. The advancements in the field of electronics has miniaturised the world. The advent of computers has changed the meaning of work and market place. The most stable industries like food and textiles are getting grossly effected due to technological innovations and at still faster pace today. It is speculated that in the near future we would see many more inventions and innovations and even a more fast pace of technological developments. The old methods used by doctors of studying the symptoms and treating patients is no more acceptable. Surgeries have become more microscopic. Human beings are being replaced by robots to do repetitive jobs and work in an environment, which is hazardous. New methods of storing energy have been found out. Hybrid seeds and seedless varieties of fruits and vegetables have been developed. The major areas of technological advances possibility would be in the following areas in future:

i. Transportation
ii. Energy usage and production
iii. Extend and control life
iv. Development of more eco-friendly materials
v. New technologies in food production, cultivation on sea, etc.

vi. Extension of sensory capabilities of man.
vii. Mechanisation of physical and intellectual processes

The technology mission of the Government of India highlights the following basic areas of focus:

i. Promoting Literacy
ii. Child immunisation
iii. Increased oil seed production
iv. Linking remote areas through telecommunication

In the world scenario, newer developments like lasers, nuclear energy, satellites, desalination of water, electric cars, miracle drugs, newer ways of entertainment, missiles etc. have made it imperative for companies to invest in technological forecasts. The probable technological development is necessary to be known for strategy managers to be entrepreneurial rather than being reactive. This would require development of risk-taking capabilities and plugging failures due to many forces present in the environment ready to make them extinct.

For predicting technological environment some of the following categories should be kept in focus:

i. Form of product groups
ii. Processing technology
iii. Form of raw materials
iv. Developments in unrelated areas with regard to an industry
v. Record of inventions, innovations, diffusion of technologies, collaborations, technology transfers, major research and developmental projects.

One of the important techniques, which can be used for forecasting is brainstorming for various new ideas. During brainstorming, new ideas are generated in a group. Gordon technique, attribute listing, checklists, morphological analysis techniques are some of the other techniques used to tap the creative potential of people. The group members are encouraged to give wild ideas and freewheeling is permitted in the group. The group builds over an idea with new ideas. The promising ideas are selected through evaluation technique.

The Delphi method is also used for a systematic analysis and drawing a consensus from participating experts. The Following steps are usually followed:

i. Survey of expert opinion is carried out.
ii. Anonymous evaluation of ideas by experts is conducted.
iii. Effort is made to achieve convergence among the experts through revision.

STRATEGIC MANAGEMENT PROCESS

The forecasts made become a significant part of strategic management process. The information generated can be fruitfully used by strategy managers in the process of evolving strategies keeping in view the vision of the company.

It is important that the various assumptions made in the forecasting environment

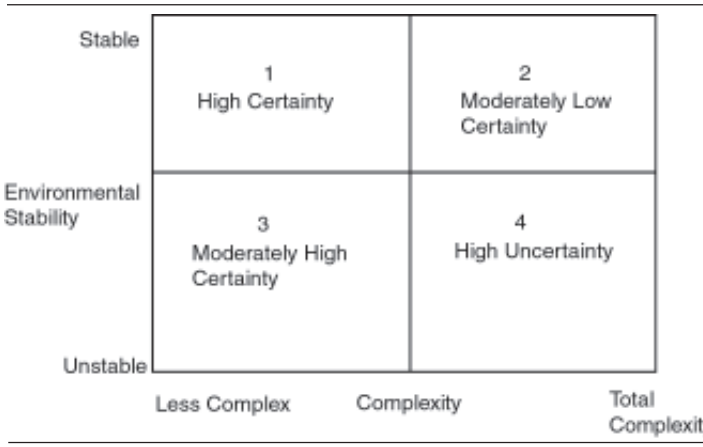
be clearly understood and appreciated. The results of forecasts should always be seen in light of various assumptions made to develop more clarity. If these assumptions are not taken care of properly, companies working out strategies and following them may even run the risk of a closure.

The forecasts open avenues for development. The gaps that emerge due to study of forecasts can be planned to be filled up through research of causes of these gaps, exploring various profitable and workable ways to fill them and making an effort in filling them up. Companies may even change their vision and mission statements and may like to alter their strategies for growth and survival in view of research made. The forecasts should be able to present likely gaps in various factors that would hinder a company achieve its desired position and grow from the present position.

The forecasts are usually not one hundred per cent correct. There always exists an elements of uncertainty. Also, the analysis is not very objective as it is done with several assumptions, hence the element of uncertainty prevails in the forecasts. The objective of the strategist is to reduce this uncertainty to a minimum. The uncertainties can be reduced to a large extent by gathering correct information from the right source. It is necessary for a strategist to have intuitive capabilities through which he must be able to understand relationships among weaknesses, threats, opportunities and strengths pertaining to a company and formulate strategies accordingly. Sensitivity towards trends, data, events etc. reflected from the environment must be developed by a strategist to gauge their real impacts on a firm (Refer Exhibit 7.4).

Of all the forecast factors, there would be some factors, which would require top priority attention; however, there would be dimensions, which may not require immediate attention. Similarly, some of the factors may be critical for the success of a company, whereas others may not be as important.

A ranking of these factors and dimensions may be done to arrive at the most critical or important factors and systems devised to measure their trends.



MANAGING THE FORECASTS

To effectively manage the forecasts, it is vital to look into some critical aspects of forecasting, which is discussed below.

There may be a very vast spectrum of various data that might be available or which could be generated; however, all of it may not be significant in the context of an industry or a company. There are factors, which are remotely connected and some of these may have direct impact on the environment related to the company. Some of the data is of immediate concern, like market share, sales volume, profits, competitors and their profile etc., whereas some of the data may be connected with remote causes. It is therefore necessary that a collective perception of required trends and data is necessary.

The munificence of an organisation's environment means the level of resources available to the organisation. These may be plentiful or scarce. A rich environment attracts competitors, thus making the environment lean. Monitoring of this aspect of environment for forecasting is necessary to be done as it may at times become critical for a company.

Dynamism refers to the degree and rate of turnover in environmental factors. When the rate and degree of turnover is low, the environment is stable and vice-versa. The fashion industry usually operates in an unstable environment. Stable environment allows usage of routine ways and reduces mistakes. Under an unstable environment, fast adaptation is necessary for survival. This is quite true for seasonal businesses like sports, food, publishing, and printing etc.

The complexity refers to the degree of similarity or diversity among various factors in the environment of an organisation. Environment is said to be homogeneous when similarities are more, otherwise it is referred to as heterogeneous environment. Homogeneous environment leads to specialisations and simplified operations along with stiffness in operations. Heterogeneous environment, demands multiskills, job rotations, diverse knowledge etc. Hospitals and hotels operate on heterogeneous environment whereas a typical research laboratory or a design office operates on homogeneous environment. Due to the fast pace of changes that are being witnessed today, it is being increasingly realised that most of the business environments today are gradually becoming more heterogeneous.

The concentration or dispersion of various factors over the environment is important for adopting methods for forecasting. Concentration of factors reduce costs of travelling to forecast them. As the dispersion increases, cost of collecting data may also grow up. When factors are concentrated it leads to concentration of business activity as well, as we see in case of the most metropolitans.

The environment is sometimes turbulent whereas at other times it is calm. The turbulence is caused due to stimulus resulting from interconnections. When interconnections increase, any change in the remote environment may also cause turbulence in the local business centers. Today change in prices throw the world market into turbulence and so is the case due to threat of war, instability in a region etc.

Concensus refers to recognition or dispute over specific domain of a company. Some companies exist by their name as specialising in some specific areas. In an environment where competition exists, the competing firms identify that a consensus exists that a recognised number of competitors are in the fray. The domain is switched

over through differentiation, innovation etc.

The above factors, which lead to uncertainties, pose a challenge forecasting. The uncertainties can be,

i. Uncertainty of correct information
ii. Uncertainty of correct source
iii. Uncertainty of effect and cause mechanisms
iv. Uncertainty due to obsolete data (which becomes obsolete very fast)
v. Uncertainty due to assumed probabilities

To conduct forecasts, availability of reputed and cost-effective source may become a constraint. The strategy managers should organise to get accurate data at low costs from state and central governments, trade and industry associations, consultants, researchers etc.

Some companies wish to conduct forecasting by using inhouse facilities, due to causes of accuracy of analysis, quality of forecasts, and paucity of time etc., however, people must be specially trained in forecasting methods, data acquisition techniques, analysis methods etc. With accumulation of experience, the companies can do forecasting themselves. In the process they would also learn about the weaknesses and strengths of various forecasting techniques.

QUESTIONS

1. What is the need for forecasting business environment of companies?
2. What are the various steps in forecasting a business environment?
3. What are the various techniques of business environment forecasting and on what factors are there techniques dependent?
4. How is strategic manage process related to forecasting?
5. How in your opinion should a strategy manager manage the forecasts?
6. What are the uncertainties in forecasting and how do they affect strategies?

CHAPTER

8

Internal Analysis of Company Profile

The basis of formulation of result-oriented strategies is clear definition of the mission of business, which is well understood at all levels of business, an accurate analysis of the external environment through study of significant factors, study and analysis of the internal environment of a company. This is so because an entire organisation must focus on moving towards business excellence and the true meaning of this, translated in the business mission statement. Understanding the purpose of business, strategies evolved to accomplish the challenges and opportunities posed by the competitive environment through building of inherent strength, and an analysis of the internal environment to take realistic steps to integrate people, systems, facilities etc. for survival and growth is the major task and challenge management faces. Companies pursue opportunities or create new opportunities based on their key internal strengths that develop over a period of time in any organisation. Various key internal strengths in a company can also be developed by imparting training to the people in the organisation. However, as the companies mature they go on adding to their strenghs over a period of time. Some companies provide specialised training on the execution part of strategies and task forces are formed and trained on various aspects of implementation of strategies. In order to decide which are the various areas requiring training inputs it is vital to carry out internal assessment of the company. Internal analysis of a company is very crucial although it is very complex and challenging. The complexity is because of the involvement of trade off analysis, value judgements and guesses that are essentially to be made. Coupled with this are the challenges posed by objectives and vision of a company that are to be transformed into a reality. Data base of a company may be collected and analysed to substantiate the judgements and arguments, and explanations for behaviour of data in a certain fashion may be given. The complexity is multiplied due to opinions that pour in from every corner of an organisation,

however, an objective evaluation of internal analysis of a company is necessary for evolving effective strategies. Objectivity in analysis is imbibed by correctness of data, which must be generated from the right source. In a company, data on strategies was collected and the members who filled up the forms belonged to the group which was about to leave the company within a few months. Obviously the survey did not reflect the representative group of the company and the CEO of the company did not accept the data as being correct. Another survey, which was conducted immediately afterwards showed entirely different trends. Hence it is vital that the data collection should be done with utmost care and reasons for significant variations checked and rechecked before taking decisions.

The purpose of internal analysis of a company is to draw a profile of its strengths and weaknesses. This profile forms a base for the strategies that a company should adopt. The basic structure of analysis that is usually adopted is to study the organisation structure (authority and responsibility relationships), cash flow, work flow, communication, and the technology process through the defined organisation structure. It must be appreciated that the study of these processes is quite difficult particularly in large companies due to multiple functions, systems, rules, working instructions etc. There are many areas of repetitive tasks, overlapping functions and varying approaches, which make internal analysis tedious and unsystematic; however, it is recognised as an important step in strategic management.

SYSTEMATIC INTERNAL ASSESSMENT— A KEY TO DEVELOP COMPETENCE

Systematic internal assessment of a company is vital for it to effectively create opportunities and also use favourable opportunities in environment of a business. The benefits from opportunities can be maximised if a thorough analysis of company's strength and weaknesses is conducted vis-a-vis opportunities (Refer Exhibit 8.1).

Exhibit 8.1 Situations of Managerial Tasks

Changes necessary to infuse new strategy	Past performance with regard to prevailing strategies: Effective	Past performance with regard to prevailing strategies: Ineffective
Many	**Selective Mix** When changes required are many and existing executives show good performance then selective mix experience and new knowledge may be used.	**Turnover** When changes are many and existing executives are ineffective, outside managers are required to replace the existing managers to provide new experiences, enthusiasm, skill, etc.
Few	**Stability** When changes required are few and internal managers are effective, emphasis is generally on retaining the existing managers, reward them and develop their capability.	**Re-orientation** When changes required are few but existing managers are ineffective, then outsiders are required to replace the managers in key areas and competence from internal sources brought by protection redeployment, etc.

Systematic internal assessment is extremely important for small business also. Small firms often face problems of paucity of resources, cash crunch and market changes, however, these firms are quite flexible and agile and can adapt themselves quickly to the changing demands of the market. They can quickly gear themselves up to accomplish special requirements of markets. Due to paucity of resources and fluctuations in market, they have to make the best use of the limited resources and available opportunities to reap benefits. It is important for them to do consistent and objectively internal analysis of their company before taking a plunge.

DEVELOPMENT OF A COMPANY PROFILE

One of the purposes of internal analysis of a company is to develop its company profile. The company profile is a blue print of the company's strategic strengths and weaknesses. Evaluation of these factors in the light of strategic requirements of environment is necessary for any company for maintaining a definite strategic posture. Since organisational processes are complex, management experts have found various approaches to identify strategic internal factors, their origin, and evaluation.

Functional Approach

Functional approach consists of identifying the primary and various secondary functions of processes, activities, and events that take place in an organisation. Amongst the various factors that may be present in the environment, there would be only a few factors that would be favourable and would contribute to success. These factors will not only vary for each company but also for each industry. The factors that would be present in the food industry would be quite different from those present in the steel or garment industry.

Examination of past performance, various factors at working level, and strategic factors give a lot of clues for studying the internal contributors and also help in developing strategies to combat failures. Why did a firm perform so poorly in sales in spite of the fact that it had a good product or why did the market share of a product grow even when the marketing strategies were not so good are some of the key aspects of internal analysis. Answer to these questions uncover a lot of information about a company. Critical analysis of firms will show that some companies adopt vigorous advertising, whereas others may choose to go in for mass production and mass distribution as their strategies for pens, lighters, etc. without bothering much about well-known strategies of the pricing and quality, and some others may cater to a specific market segment maintaining quality and a definite price tag. Their focus is primarily on satisfying the requirements of middle income groups who very often buy these goods. Analysis of sales, costs, number of orders, speed of operations, number of rejections, delays, scrap generation etc. reveal many vital factors that have to be considered about a company. The factors must be picked up by fragmenting lines of production, design, marketing and sales etc. and questions like why, how, when, what else etc. should be put to analyse the functional chain.

In the functional approach, the analysis aims at identifying the function of each activity, system procedure, method etc. If the desired purpose or objective is not being served, then alternatives are to be evolved, which would serve the purpose. The evaluation, may be in various fields like distribution, technology, time of operation, quality, services, etc. This analysis brings forth the functions of each activity, like structure, event, policy decision etc. into focus. The analysis is done keeping in view the various strategic factors of competitors and evaluating the overall capability of a company.

Value-Chain Approach

The organisational processes can be considered as systematic integration of various business processes in different departments to create or add value. The value chains cross the functional boundaries of various departments and even boundries of companies. The value chains have an output-input relationship and which key internal factors significantly make this value chain operate by adding several folds of value is important for company. There may be operations, activities, events etc. which do not directly contribute to this value chain but they may be important for proper functioning of value chain. Creating or adding value incurs cost and one of the objective for maximising the benefit is to reduce cost. In order to reveal the costs going into a value chain cost modules are also developed. The strategically important activities performed by an efficient firm at lower costs and with higher speeds with regard to established and agreed bench mark is vital for a company.

While analysing the value-chains, departments are to be disregarded as they are essential entities of structures. The focus should be more on processes or activities like design, produce, markets, delivery, installation, commission etc. There are also primary activities that form part of the core of the value chain and that they are primary in nature can be known by developing models of processes without them. If such models reveal that business processes are rendered useless by dropping these activities, then it can be safely concluded that they are primary activities. The support or secondary activities in any organisation could be after-sales service, inspection, quality control, statistics etc. In the following paragraphs the primary and secondary activities have been further elaborated.

Input activities Activities pertaining to inputs to the process, that is, receiving, storing, distribution to each division, material handling, inventory control, scheduling and sending rejected goods to the supplier fall under this category. In any organisation there are several business processes and sub-processes, each having inputs and outputs where in output of one process becomes an input to some other process. Thus organisations have what we call internal customers. External customers usually come in contact with the commercial or marketing division and the requirements of external customers are passed on to various other divisions by the commercial or marketing department thus giving them inputs. These inputs are of vital nature and hence it is important that they should be clearly understood by those concerned.

Transformation processes Activities by virtue of which the inputs are transformed into outputs (value addition) fall under this category. These activities may be machining, grinding, welding, assembly, testing, packing, painting, concentrating, polishing, cutting, erecting, commissioning and so on. These are typically the processes that add value to raw materials. The examples given refer to only core processes while there are more processes also involved like planning, machine-loading, budgeting, deploying people etc. In addition, there are processes linked to administration, personnel, salaries, welfare, healthcare etc. which though secondary in nature are important for the effective functioning of the primary processes.

Output activities Activities that are associated with the output handling of the division, departments or firms, that is collecting the finished goods, storing and making the product reach consumers are covered under this category.

Marketing and selling activities The activities associated with understanding the customer requirements, advertising, sales promotion, quoting for products, distribution channel selection, pricing etc., fall under this category. These are the key activities for which an organisation exists and lead to a meaningful relationship with external customers.

Service Whenever a product reaches a consumer, he or she expects to get a prompt service as and when required. When a customer owns a product he pays a cost of owning that product but as time passes its ownership cost increases due to wear and tear, breakdowns become frequent, and the customer may expect some services by the company to keep the equipment in good running condition. There are several processes related to the service function and good service becomes a competitive factor for various companies.

Support activities These are basically to support the key activities. They usually do not directly contribute to competitive advantage, market share, sales volume etc.

Purchasing Under this category, activities pertaining to procurement of materials, services, machine tools, technology, design know how etc. are covered. Procurement of materials at the right time and place, of right quantity and quality, and from the right source are some of the important considerations. Business strategies with regard to these factors must be clearly specified to meet various challenges posed by the environment. These factors, in some way or the other, affect the value-chain in a company.

TECHNOLOGY DEVELOPMENT

Activities pertaining to creating new processes, product designs and services for improving effectiveness of the value-chain are considered in technology development. Technology development may not be done by a firm solely in its own laboratories. Outside help may be requisitioned. Collaboration agreements with market leaders in the field may also be made to acquire new technology. Help of well known institutes may be taken to develop new technologies for companies. Newer technologies are developed to increase the speed of operation, improve quality, cut down costs, and acquire a leading position in the business.

HUMAN RESOURCE DEVELOPMENT

Activities carried out for correct placement and development of individuals working in the company is termed as human resource development. It may be noted that all such activities take place across the boundaries of functional entities and encompass the total value-chain intra-structural activities. These include general management activities, that is accounting, finance, planning etc., which are essential to the value-chain but not necessarily farming a part of the value-chain.

INTERNAL ANALYSIS—VALUE CHAIN APPROACH

The value-chain concept can be used for internal analysis of an organisation's capabilities. The value-chain approach provides a systematic method of analysis and gives the blue print of a step-by-step approach. The distinct value-adding activities of a firm are identified along with the activities listed above, and key internal factors that may be source of core competency are identified. It is necessary to examine each activity and key internal factors with respect to bench marks in the industry to assess whether it is a strength or a weakness.

ORGANISATIONAL ADAPTATION

Organisational adaptation implies that the total organisation or part of it involves itself in activities that have a compatibility with the environment. In fact, managers are in constant search of alternatives, which would enable them to help organisations to adapt to situations, changes, and the environment etc. One of the ways of adaptation is making the technical core of an organisation shape up as per the latest trends and keep it protected from the onslaught of an external environment. Thomson named these strategies as coping strategies, which are designed to keep up with the environment. Environmental forces of change are sometimes so strong that they disrupt the on-going technical competence development, and coping strategies are designed to keep these insulated from the direct effects of environment.

Some of the basic strategies in this regard are as follows

Buffering Strategy

Buffers are for absorbing shocks. Environmental uncertainty leads to generation of many distrupting forces that tend to disturb the equilibrium of technical processes. On the input side, a company may decide to build up inventories such that market fluctuations do not hamper on-going works.

Restaurants, hospitals etc. fall into this category. On the output side, the goods can be piled up in the market and may be even dumped in order to avoid inventory-carrying costs. In this way each department of an organisation can use the buffering strategy. Nowadays, companies follow the concept of just in time and aim at reducing inventories to the lowest possible limits that are tending towards almost zero inventories.

Buffering involves high costs and therefore it is quite impractical for small companies; however some large companies have been practicing it as their strategy.

Smoothing

Whenever demands are in peak and supplies or means are scarce, the prices go up; however if prices are reduced during the low-demand period, the demand tends to rise thus smoothing the demand curve. This strategy has been intelligently used in phone services by reducing the rates after office hours.

Rationing

Rationing is a technique used for giving priority to the most sought after business alternative at the cost of the others. Rationing may be imposed by an organisation on use of paper, use of telephones, use of expensive consumables, vehicles, and touring etc., to control the costs.

Boundary Spanning

In boundary spanning organisations increase their boundaries and assume new roles so that they are able to positively influence the environment in their favour. The boundary spanners collect vital and pertinent information that may be useful to an organisation and equip the organisation to face challenges. Strategy managers often play the role of a spanner within and outside the organisation. They act as conduits for the organisation through which information exchange with the environment is made possible.

STRUCTURAL COMPLEXITY

The environment can be viewed as a whole consisting of segments and accordingly organisations can be fragmented into departments and functions to take care of the environmental uncertainty falling in their domain. The marketing department may cater to consumer needs, the finance department may look into economic considerations, the technology department may focus on changing spectrum of technologies etc. This helps in quicker adaptation; however, the complexity introduced due to structures brings in specialisation, leading to breakage of links among each of these functions, and thus the customers voice may be lost in the entire process.

MANAGERIAL SUCCESSION

Many organisations, owing to the presence of many senior management professionals at the middle level, are forced to create a team of young and energetic managers who can take up challenges with vitality and have additional specific skills to meet the challenges posed by the environment. These managers are trained in establishing link with key environmental dimensions and also manipulate the environmental domains that the organisation wishes to control.

NATURE OF INTERNAL ENVIRONMENT

The nature of internal environment is dependent on several factors. Some of the important factors are discussed below.

Organisational Aspects

Employees and physical facilities are the basic organisational resources that may be optimally deployed by a company to maximise its returns. There are several other resources, such as money, materials, systems etc., which must be effectively optimised for meeting the objectives set by a company. The cost of availability of resources may be different for different organisations. Non-optional use of resources may create other problems for organisations besides problems of lower productivity.

Behavioural Aspects

This implies the types of response that an organisation gives to external stimuli of change. Quality of leadership, philosophy of management, work culture, etc. affect organisational behaviour. Some organisations are adaptable while others are not; similarly, there are organisations that control their costs and focus on optimal use of resources. Some organisations value their customers more than others, while some companies may keep good service to their clients on their priority list.

Synergic Influences

In certain organisations, it is found that two strengths combine to give much-fold benefits than would have been available individually by each factor. Synergies may exist in companies in production and quality, quality and market, pricing and distribution etc. Some companies may synergise their functions effectively and reap the benefits, whereas others may be unable to do so.

Core Competencies

Some organisations have core competence, which is developed by them through careful planning and as a strategy for achieving a desired growth rate or to meet certain challenges posed by the external environment. Some of the core competencies can be product quality, innovative designs, speciality products and services, unique design features developed by R&D, low cost sources, trained man power etc. The unique capability of an organisation, which enables it to capitalise on specific opportunities through a distinctive competitive edge, gives the firm a distinct position in the market. Companies have to identify based on their objectives and strategies, the core competencies that they would like to develop.

Capability Factors

The capability of a company can be assessed based on various factors as discussed below. Capability of a company refers to its preparedness to successfully face any situation arising due to changes in its external or internal environment.

Financial capability There are various factors, which determine the financial capability of a company. The capital structure, cost of funds, financing patterns, capital investment, fixed assets, dividend distribution, accounting and budgeting system, working capital management etc. are some of the factors based on which internal assessment of two companies can be done.

Marketing capability Marketing capability of a company is assessed on the basis of several factors by which the company's strength can be estimated. Some of the important factors can be product mix, positioning of brand, packaging, pricing, variety, sales promotion, advertising, distribution, company image, marketing systems, etc.

Production and operations capability The ability of an organisation to use its production or operational capability in line with its strategies is vital. Various factors that relate to assessment of production or operational capability are capacity, location, layout, work system, automation, planning, availability of raw materials and components, inventory, production facilities, flexibility in changing production lines, layouts, facilities etc.

Capability of personnel The capability of employees in an organisation is evaluated based on various factors. An assessment of these factors is needed to measure internal environmental key factors of an organisation for meeting its objectives through defined strategies. Some of the important factors are trained manpower, manpower-planning, selection, compensation, retention of personnel, communication, quality of managers, union management relationships, collective-bargaining etc.

Management capability Management capability lies in organising in full the activities of an organisation. These may include coordination amongst various groups, planning for growth, designing various systems for meaningful information flow and control, that is, strategic management appraisal, billing and invoicing, corporate-planning, identifying risk propensity, orientation needs, values, norms, capacity to do work, keep records, maintaining relationship with the government, regulatory agencies, financial and public institutions, etc. and contribution to culture, change mechanism, structures, society, etc.

The capability of the organisation is evaluated based on a questioning technique wherein various questions related to finance, marketing, production, operations, general management is prepared and answers researched. The areas of weakness and strengths are decided based on bench-marking with the competitors for each of the factors. It is quite difficult to find out correct answers for questions raised in the company. For a competitor, however, persistent effort in this direction is required to make a complete assessment of internal key factors. Various other sources of information may have to be explored for getting the correct answers through dealers, distributors, customers, stockists, users etc.

Technology management capability Today, managing technology has become vital for companies. The technology spending ratio, that is the ratio between the

amount of current investment in technology to the total investment and new technology to the existing technology ratio, which is an assessment of level of investment outlayed to innovative and sophisticated new processes as compared to replacement processes, has gained considerable importance. Similarly, the knowledge ratio, which is the ratio of number of knowledgeable workers, as a percentage of total workers has become vital for companies as high knowledge intensive companies are being born every day. The return on knowledge assets has become an important measuring tool for being a business leader.

For assessing the key internal factors of a company, these dimensions have become important and hence must be carefully measured. For assessing internal health of an organisation, the technology patent to stock price ratio, that is, number of patents divided by price of stock of company and research to development ratio, which is the ratio of money spent in each category of products, have to be measured. It must be remembered that no single technological achievement lasts forever as a competitive advantage. Creation of wealth is closely linked to knowledge of a Company, which a company imbibes by virtue of its systems, through employees. Companies carry out research themselves or by results of research on the latest technology, which yields to them better profitability.

EVALUATION OF KEY INTERNAL FACTORS

It is quite difficult to demarcate identification of factors and their evaluation. The basic philosophy behind identifying the key internal factors or core competencies is to study the spectrum of strength and weaknesses, which is basically a process of evaluating various factors.

Some of the symptoms that appear in companies are discussed below to give a glimse of their strengths and weaknesses.

(a) Exchange of a lot of information, redundancy of data, and re-entry of data shows that the natural business processes in a company have been fragmented, and the responsibility of carrying out the identified processes effectively, is not clearly fixed.

(b) Generation of inventories, buffers etc. signify that organisational systems are not quick to respond and cannot cater to uncertainties, or the structures are too rigid and the system too sluggish. A large volume of inventories also hint at poor coordination and insensitivity of people in organisation toward costs. Companies working with bigger inventories believe more in the following laid-down procedures rather than appreciating the reasons for which procedures were made.

(c) High level of control in the value-chain signifies presence of undue fragmentation of the business value-chain. If a company has too much of non-value adding man-hours, compared to the value adding man-hours, then it shows that the company has mistrust spread all over. Basically, control is a

non-value creating activity, and most of the companies today are aiming at reducing the span of control.

(d) When there is a lot of re-work, it signifies lack of feedback along the value chains. Feedbacks provide a means of correction and if they are not given or well-received, then all the doors for improvement are closed. Companies usually have a system of analysing non-conformities, deviations, and concessions on performance in various factors like quality, late deliveries, rejections, high costs, etc.

(e) Due to many contingencies that may be present in the value-chain, the business processes become more complex as various elements get added to take care of contingencies. Thus, a process is created for taking care of all possible contingencies culminating in a less productive value-chain, stiff and complex processes, and sub-processes. A thorough analysis of the internal factors of an organisation may reveal a long list of issues and factors, but it may not be wise to concentrate on them all at once. The factors must be ranked, to help in formulation of strategies, keeping in focus the present opportunities that are available and the likely competitive environment that a company might face in the future. The potential strength and weaknesses must be determined keeping the vision of the company in focus and a realistic benchmarking done in relation to competitors.

The word strength has been used several times in the text. Let us understand this term in detail. The strength of a company signifies its distinct capacity, competency, competitive edge or advantage compared with its competitor in a given business situation or environment. This may be capacity addition, addition of a new and more versatile machine tool, or addition of a more competent manager who decides to introduce new systems, methods, layouts, etc. in order to enable the company achieve a coveted position in business.

The word weakness signifies the company's inability to work effectively and efficient, compared to its rivals. Strengths and weaknesses are relative terms. These are evaluated with reference to a competitor and hence depend on the business environment faced by company. What is considered a strength in the present situation may turn out to be a weakness in a changed business environment. In order to understand whether a factor is a strength or weakness, it is to be evaluated under different perspectives. These perspectives give a better understanding of the factor vis-a-vis the company's position in the competitive environment.

Assessment with Reference to Past Performance

Use of an experience curve is not new. Historical experiences have been skillfully used by strategy managers to evaluate key internal factors and categorise them as strength and weaknesses. This is also quite easy for managers as they become aware of capabilities and problems faced by the organisation they are working for. Various internal factors in production, marketing, selling, designing and so on are well known to working managers, and they can very easily assess the strengths and weaknesses.

Experience leads to blinkers on the vision of managers and provide a lot of security against the unknown, and hence there is a risk of developing tunnel vision. Using only historical experience for identifying strengths and weakness can be dangerous in situations where obsolescence is quick. Experience provides solutions to known problems, but if the problems and challenges are new it may be difficult to deal with them using known conventional methods. One may have to innovate and find newer ways of meeting the challenges.

Study of Product and Market Evolution Processes

Products and markets undergo changes over a period of time, and studying these patterns one can provide a framework for analysing a company's strengths and weaknesses. When a product is initially launched, its sales volume is usually low. As the sales picks up, a lot of customer feedback pours in and the product features undergo change. Rapid technological changes also contribute to changes in product design in terms of the value it offers to users and the market share of the company. As the market share grows, competition sets in. Brand loyalty, product image, effect of price on competition, cash flow patterns etc. can be important factors to assess the strengths and weaknesses of a company competing in the business environment. The growth rate of a product sometimes declines because of newer products, features, differentiation and competitive strategies of competitors etc. The focus shifts from R&D to efficient production, distribution, selling, etc. The financial controls, cost advantage, relationships with customers and suppliers gain more importance. Thus it is necessary to consider the stages of development of the product and the market situation while carrying out internal analysis of a firm to clearly identify the relative strengths and weaknesses during the life cycle of a product in the company. Strengths and weaknesses are not related to product design and R&D alone; Other factors related to finance, planning, management etc. are important. However, it is easier and relevant to correlate study of strengths and weaknesses with relation to product life-cycles because it is the products and services after all, that a company offers to its customers, and around it are hinged all the functions and operations of a company.

Benchmarking with Competitors

Strengths and weaknesses are relative terms, with reference to competitors, which exist or which may assume this role in future. In a specific industry a company has specific marketing skills, brand image, product quality, product features, managerial expertise, technical knowledge, distribution system, cost reduction program, levels of integration etc. The relative capabilities of a company, with respect to the competitors, can be assessed to define one's own strength and weaknesses. Strategies are then formulated by companies with a purpose of either surviving, or attaining a desired position with regard to market share or any other defined objective. Firms can assess significant favourable differences, which can be used to formulate their strategies. Sometimes it may be quite difficult for a company to acquire skills in various areas at the same level as that of a competitor, and the company's strategists may decide to choose some other course of strategies for meeting laid-down objectives.

Analysis of Industry

Some companies in an industry are quite successful while others are not. Each company thus evolves over a period of time by creating certain rules for successes in business. When industry analysis is carried out taking a host of companies into account, keeping in focus customer needs and considering factors pertinent to that particular industry, the strengths and weaknesses can be largely identified. These strengths and weaknesses can be assessed for future business in industry. This technique is simple and quite often used by various companies. This technique can be used to analyse not only the past performance in the industry but also the present position of companies and their vision, mission and strategies to achieve a position in the competitive environment of business.

ACCURACY OF EVALUATION OF INTERNAL FACTORS

It is quite difficult to assign numerical values to internal factors as these are quite subjective in nature; however, a few factors can be numerically evaluated. Measurement of internal factors is also quite difficult nevertheless, accuracy of these measurements is important. Measurement of these factors is done to assess effectiveness of a company through comparison of factors in the light of historical experiences, study and analysis of industry, and evolution of products and markets over a period of time. Various ratios can be devised to measure financial, market, technology, operating, cultural and social factors etc. Analysis of financial ratios gives a good understanding of the firm's growth and strategies. These quantitative techniques of analysis do help to arrive at meaningful results. All the internal key factors cannot be quantified. Techniques like criteria weightage matrix can be used to quantify the non-measurable factors like brand image, quality of products as perceived by customer, prestige etc.

The internal factors are virtually part of internal business processes of an organisation, and are interconnected as if interwoven into the internal environment of the organisation and therefore each factor cannot be considered as totally independent of the other. Assessment reveals various competitive advantages, around which a company designs its strategies, basic essentials of business that must be met by a competing company and key factors, which enable the company to plan for and acquire distinct competencies, skills and knowledge. As a result of internal analysis, strategy managers come out with a clearly cast company profile with distinct strengths and weaknesses. The entire exercise may be considered as an organisational process forming the very important part of total business activity. It is necessary that the analysis should be timely, accurate, and thorough to yield fruitful results.

APPENDIX 8.1

FINANCIAL STATEMENT APPROACH FOR INDUSTRY AND COMPETITIVE ANALYSIS

In earlier days planning was an internal activity of any company, but today companies cannot afford to look only inwards. Today companies have to address careful understanding of environmental trends and uncover surprises.

An industry is defined as a group for companies, which offer products and services, which may not be exactly the same of each company but are close substitutes for each other as far as primary and secondary functions are concerned. Consider two companies manufacturing close substitute products. If the price of one of the products of one of the companies increases, the demand for it would taper. Thus we see that pricing, which is closely linked to profitability, cash flow, cost of capital etc. and a hoard of other factors affects competition. Hence, financial statement analysis, i.e. analysis of balance sheet, income statement, and statement indicating changes in financial position, become vital instruments for measuring the health of an industry and also health of various companies operating in similar financial environment. We know that financial statements of all companies differ quite a bit, and to draw useful information from financial statements it is better if these are standardised.

Usually the following analysis is done to derive meaningful information.

RATIO ANALYSIS

Financial ratio have been very widely used to analyse financial health of a company. Financial ratios are a group of dimensions with the help of which a firm can be characterised and its health estimated.

There are five categories of financial ratio as follows:

a. Liquidity ratio
b. Leverage capital ratios
c. Profitability ratios
d. Turnover ratios
e. Common-stock security ratios

Liquidity Ratios

High liquidity implies that the firm can quickly convert its assets into liquid cash. Usually cash is required on an urgent basis and a firm, which can arrange it without much of a problem when it is due, is called as liquidity.

The liquidity ratios are classified as follows.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Quick or Acid Test ratio} = \frac{\text{Cash} + \text{short term liquidable Securities} + \text{Accounts receivable}}{\text{Current liabilities}}$$

$$\text{Defensive days} = \frac{\text{Cash} + \text{short term liquidable securities} + \text{Accounts receivable}}{\text{Projected daily operating cash}}$$

Leverage Capital Ratios

These ratios show the leverage in the firm and its ability to fulfil its long-term commitments to debtholders.

$$\text{Leverage of long-term debt} = \frac{\text{Long term debt}}{\text{Equity of share holders}}$$

$$\text{Leverage of total debt} = \frac{\text{Current liabilities} + \text{Long-term debt}}{\text{Equity of share holders}}$$

$$\text{Timely interest earned} = \frac{\text{Operating income}}{\text{Annual interest payment}}$$

Profitability Ratios

This indicates the company's capability to create profits.

$$\text{Return on assets} = \frac{\text{Net income} + \text{Interest after tax expenses} - \text{Tax benefits of interest expenses}}{\text{Total assets}}$$

$$\text{Return equity} = \frac{\text{Net income to common}}{\text{common shareholder's equity}}$$

$$\text{Sales margin} = \frac{\text{Revenues} - \text{Operating expenses}}{\text{Revenues}}$$

Efficiency or Turnover Ratios

These ratio indicate the measure of performance in utilisation of assets.

$$\text{Total assets turnover (Number of times assets sold)} = \frac{\text{Period sales}}{\text{Average total assets}}$$

$$\text{Average collection period (Number of days for credit collection on goods sold)} = \frac{\text{Average accounts receivable}}{\text{Daily sales}}$$

$$\text{Inventory turnover (Number of times inventories sold)} = \frac{\text{Period sales}}{\text{Average inventory}}$$

Common-stock Security Ratios

From the point of view of the shareholder, some factors are worked out on per share basis.

$$\text{Earnings per share} = \frac{\text{Net income available for common}}{\text{Number of shares outstanding}}$$

$$\text{Book value per share} = \frac{\text{Shareholder's equity}}{\text{Number of shares outstanding}}$$

$$\text{Dividend per share} = \frac{\text{Dividends paid on common}}{\text{Number of shares outstanding}}$$

$$\text{Market to book value} = \frac{\text{Price per share}}{\text{Book value per share}}$$

Other Ratios

Depending on the nature of industry, some other important ratios may also be worked out like average sales growth in percent, R&D expenses as percentage of sales, capital investments versus sales, company growth versus industry growth etc.

STANDARDS OF COMPARISON

We know that above ratios are pure numbers, and hence some standard is required for comparison purposes to draw a conclusion. The preferred methods for defining the standards are as follows:

Cross-sectional Analysis

Financial ratio for all the companies in an industry may be calculated at a particular time, taking into account data of a specific period. Mean or median of these companies may be calculated for that specific ratio and a comparison made with reference to this calculated value.

Time-series Analysis

When our interest is to see the behaviour on indicators over a period of time (i.e. many years), we carry out time-series analysis. The above calculations are done for each year for indicators of interest, and graphs are plotted to analyse the trends including mean or median of the group of companies. Econometric models, and Box Jenkins analysis may also be used for this purpose.

QUESTIONS

1. Why is internal analysis of companies important for formulating strategies?
2. Justify the statement that internal analysis of companies is a key to develop competence.
3. What are the various approaches to develop a company's profile?
4. What do you understand by buffering strategy?
5. Discuss various dimensions of nature of internal environment of a company.
6. How do you evaluate key internal factors to a company?
7. What is the effect of accuracy with which various internal factors of a company are analysed?

CHAPTER

9

LONG-TERM OBJECTIVES AND GRAND STRATEGIES

LONG-TERM OBJECTIVES

Companies formulate objectives keeping either long-term or short-term growth objectives. Long-term objectives cover usually a longer period of time, say about five to ten years of time span. In this chapter we will discuss about long-term objectives of companies. The objectives are basically open-ended attributes and signify the future states and outcomes in a company. The goals on the other hand, are close-ended attributes and are quite exact. The goals are expressed in specific terms. The objectives define an organisation's relationship with its environment, help it to pursue its mission and purpose, provide basis for strategic decision making, and provide a standard for performance appraisal. Hence, it is necessary that objectives must be understandable, specific, measurable, controllable, challenging, and should be set keeping various constraints in view.

It has been well recognised that short-term objective of profit maximisation is definitely not the best approach, if one wants to achieve sustained growth and profitability. Management of a company will have to choose whether it wants to sell off all the inventories, cut R&D budgets, layoff workers etc. to get immediate gains or they should decide to reinvest their profits in growth apportunities by exploiting resources to their best, doing market research to meet customer's needs and improving performance. Most of the managers focus on growth. Work, goal and objective may have different connotatations to managers depending on their level of operations (Refer Exhibit 9.1). We know that production or sales goals affect profits and vice versa. Functional goals of each individual in an organisation get dovetailed into overall management objectives. Lack of visualisation of goal may affect the total management objectives. Hence,

Goals bring unity of purpose in an organisation.

Goal facilitates planning, coordination, and formulation of strategies.

Goals create a basis for controlling and motivating people to work in a defined direction. Refer Exhibit 9.2 for pyramid of goals.

Exhibit 9.1 Strategic Decision Levels and Required Skills

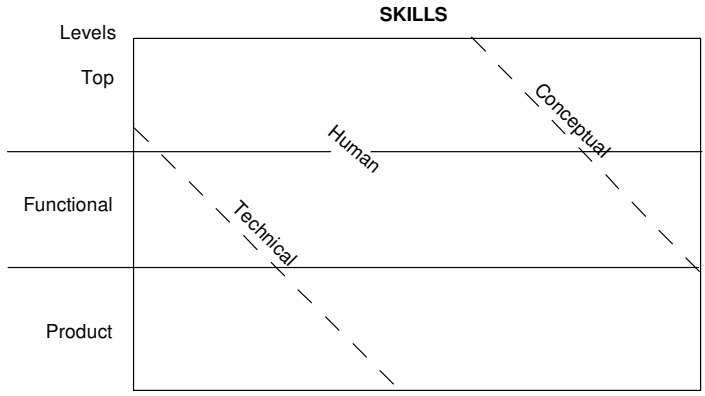


Exhibit 9.2 Pyramid of Goals



Usually following areas are chosen for setting objectives.

Productivity

Every company wants to be productivity-oriented. They want to improve the input-output relationships. If productivity of systems, designs, production, operations etc. is good, the profitability would be higher. The productivity can also be increased by reducing the cost, scrap generated, increased speed of operations etc. A company may set objective for improving productivity by reducing wastage and cost, system

simplification, empowering its people, training personnel in multiskills, opening avenues for workmen to implement suggestions in their own operations etc., and by increasing functional worth of its products and services. It has been the effort of managers, to improve labour productivity by introducing various systems of measuring labour productivity and paying compensations accordingly, however, new technologies and methods have been developed in the last decade to substitute human labour with machines for reasons of higher productivity even in difficult working environment.

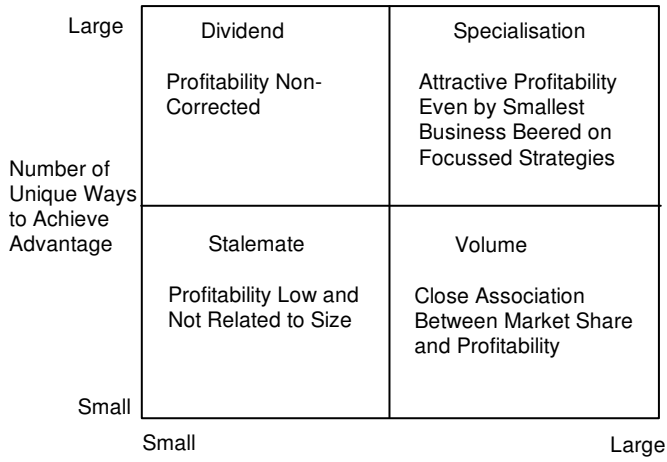
Profitability

An acceptable level of profitability is a must for any organisation through which it generates surplus for its continuity of operations. Companies which are strategically managed usually have profitability as one of their objectives as it is through profits alone that they can survive. Higher profits also mean efficient and effective working of an organisation. Companies, which cannot make desired profits find it almost impossible to survive. Due to fierce competition the profit margins have shrunk as customers have become more aware of returns on investments, hence companies will have to gear themselves for efficient management of their resources to generate profits.

Competitive Position

Every corporate wishes to become a business leader. It wants to take a position of business leader in its own field. In a given environment there are many companies in competitive fray having their own core competencies and based on their strengths they try to gain a position of leadership. Sales volume and market share are often used as indicators for leadership. The leadership could also be in the field of technology. Attaining a position of leadership itself becomes competence of a company which it may use to further consolidate its position (Refer Exhibit 9.3).

Exhibit 9.3 Size of Competitive Advantage



Employee Development

In order to attain a position of leadership, companies have to concentrate on development of their people. We know that behaviour of an individual is towards satisfying his or her needs. The intensity of needs of different individuals is different. The striving for the things employees want and need, is what is motivation and hence management must give ample opportunities to its employees to fulfill their needs and feel motivated. One of the most important needs of any employee in an organisation is to acquire higher position. They value growth, and career growth opportunities keep them motivated. Process of growth cannot be only one way, and companies must open new ways of identifying growth potential of its employees through identification of training needs and organising workshops, courses and seminars for employees to actively take part for adding to their knowledge. Sometimes employees are trained in specific skills related to their jobs and on other occasions they may be given inputs related to their company to make them aware of vision and operations of company. Hence, many organisations include employee development as one of their objectives (Refer Exhibit 9.4).

Exhibit 9.4 Secret of Being Effective Leader

Based on a study conducted of 200 companies, it has been identified by Goleman that three aspects of Emotional Intelligence are important for an effective leader. Emotional intelligence factors are awareness of self, regulation of self, and empathising. The emotional intelligence helps leader to draw participation of people towards meeting organisational objectives and this can definitely be learned.

Source: *Business Today,* November 22, 1998.

Employee Empowerment

Employee empowerment is closely linked to employee development. Employee empowerment inculcates more confidence in employees to take more and new responsibilities and thus contribute their best to the growth and prosperity of organisation. In some companies power related to decision taking is highly centralised, which causes delays and may even result in wrong decisions due to complex nature of problems being faced. In such situations some fragmentation of business processes to empower more employees to share the responsibility of decision taking, yields better speed of operations. Some companies have altogether done away with a separate quality control function and have empowered the operators to carry out self inspection. Many companies keep employee empowerment as part of their objectives (Refer Exhibit 9.5).

Exhibit 9.5 Comparison Between Classical and Participative Organisation

Classical Design	Participative
1. Employment do not feel free to discuss job problems.	1. Employees given opportunity to discuss job problems.
2. Absence of free flow of ideas for improvement.	2. Free flow of ideas for improvement
3. Motivation confined to physical, security and economic aspects.	3. Motivation through recognition, participation.
4. Unfavourable attitudes of employees.	4. Favourable attitudes of employees.
5. Information flow in top-down	5. Information flow through out the organisation.
6. Interaction almost absent.	6. Interaction is open and extensive.
7. Decisions are taken at top.	7. Decisions pertaining to a level taken at that level.
8. Goal setting is only at top.	8. Goal setting through participation.
9. Goals may be unrealistic.	9. Goals usually realistic and achievable.
10. Control is centralised.	10. Control is dispersed.
11. Control is by others.	11. Control is by self.
12. Performance objectives are low.	12. Performance objectives are high.
13. Absence of human resource development.	13. Human resource development emphasised.

Employee Relations

Good employee relations in a company are vital for its growth. Some companies have defined policies on maintaining good employee relations and make efforts in this direction. Omega industries has designed various schemes for their employees like health care, educational allowance, and equity participation. The company distributes milk and food grains to its employees and arranges for education of children of employees. Doctors visit premises of the company and carry out health checkup of employees and their dependents. Companies do not want any disturbance in their company and seek good employee relations. They keep unions in good humour and build harmonious relations with employees by taking care of their health, education of children, canteen facility, participation in management etc.

Technological Leadership

Some companies spend a lot of money on their R&D activities and try to maintain their technological leadership, which gives them extra leverage for profitability, market share,

growth, image etc., hence many companies declare their objectives keeping technological leadership in focus. Some companies develop specific technologies which give them an edge over their competitors and they exploit this edge to get more market share as is evident in advertisements of consumer durables like refrigerators, specifying about the compressors or freshness of food through use of a special heat insulator or frost free facility. Similar is the case for cieling fans, mixers and grinders, food processors, ovens and other consumer durables. (Refer Exhibit 9.6).

Exhibit 9.6 Problem of Customer Retention and Technology

The financial services institutions are facing tough times due to fierce competition wherein customer retention has become even more difficult. It is being increasingly felt that capital must be conserved and skills of internal technologies upgraded to develop better understanding of customer needs. Technology is not to be viewed merely as the cost of doing business but to acquire skills to change the cost structures and capabilities. The technology should form the part of the very fabric of customer service, anytime and anywhere. The benefits aimed at are improved customer satisfaction, reduced need of training, and maintenance and more successful business.

Sources: Prashant Singh, "Marry to Satisfy," *Economic Times,* February 18, 1999.

Public Responsibility

Companies express their social responsibility by including objectives in their list related to social development. They usually exceed government regulations in this regard. In order to present their image as a responsible corporate citizen, they include objectives to this effect.

CRITERIA FOR QUALITY OF OBJECTIVES

The objectives set should be specific and clear, multiple to include all important facts of business, valid for a specification period, verifiable, and related to reality.

The quality of objectives can be examined in the following dimensions :

1. Acceptance The objectives should be set which are acceptable to the people for whom they are set. Objectives that are consistent with the perceptions and preferences of the managers are often pursued by them and if they feel that they are unfair, incorrect, and offending, they leave no stone unturned to see that they are defeated.

2. Flexibility Due to the fast changing business scenario, it is necessary that objectives must be flexible and modifiable. The flexibility and specificity are two contrary requirements of quality of objectives; however, a good situational balance between

the two should be maintained. The flexibility could be induced in the level of objective rather than its very nature.

3. Measurability It is necessary that objectives should be measurable in order to induce a sense of achievement. The measurability is introduced through numerical specificity thus making them easy to understand.

4. Motivation The objectives should pose a challenge to employees and at the same time these should not be tough enough to be achievable. There is usually a wide variation in perception of group regarding challenging nature of objectives. Generality in objectives should be avoided and these should be tailor-made to induce motivation amongst employees.

5. Focus Objective should be in line with vision and mission of a company. Objective should provide stepping stones to achievement of overall mission of a company. If objectives are not well focussed with mission and vision of company, they confuse people. Focussed objectives provide a clarity of action for employees and give direction for growth.

6. Understandability Complexity should not be there in defining objectives. No jargons and complicated high sounding words should be used for objective definition. Misunderstanding of objectives can be fatal to an organisation. Objectives should be preferably in the language, which is well understood by employees of a company. High sounding words may look quite attractive but they serve little purpose for which these are defined.

7. Achievablity Achievable objectives motivate people whereas unachievable objectives frustrate people. In a fast changing business environment it is quite difficult to set achievable yet challenging objectives, which largely depends on predictability of environment.

GRAND STRATEGIES

There is a lot of variation in the businesses and the rules of businesses that are in vogue, however, can be very broadly classified into the basic framework of grand or master strategies.

A grand strategy is one which provides guidance for major actions for the purpose of meeting long-term objectives. These provide a basic direction for strategic action in line with major corporate objectives of a company. These grand strategies are thus a blue print for action.

It is not necessary to use a single grand strategy and a combination of two or more is quite common amongst industries depending on multiplicity and complexity of business. When a company is involved in multiple industries, again a combination of grand strategies may be used.

Selection of a grand strategies has been limited for their application due to the following reasons.

1. Traditional managers usually build their action plans from status quo, which leads to myopic attitudes towards growth, which is incremental in nature and not with quantum improvements. Thus a treasure of potential grand strategies remains unexplored by them.
2. Strategy managers who are aware of grand strategies lack the knowledge and experience of selecting and implementing grand strategies. Thus, managers must be trained not only on available grand strategies but also on ways and means of implementing them.

Generating Strategic Alternatives

Companies have different sizes, styles of management, work ethos and specific characteristics of industry in which they operate, hence, methods of identifying the course of action for their survival and growth considerably vary from company to company (Refer Exhibit 9.7).

Exhibit 9.7 Factors and Functions of Functional and Divisional Organisations

Functions	Divisional Organisation	Functional Organisation
Strategic		
Style	Enterprenurical	Professional
Functioning	Authoritarian	Participative
Environment		
Rate of change	Fast	Slow
Fierceness of completion	High	Low
Stake holders expectations	High	Low
Organisation		
Size	Large	Small
Complexity	High	Low
Product mix	High	Low
Responsibility		
Task variation	Gross–Functional	Limited to Defined functions
Efficiency	High–Based on Profits, ROI	Low–Based on Cost of Operations
Responsiveness	Fast	Slow
Risk	High	Low

For Small Organisations

In very small organisations, the owner is the CEO and he takes decisions regarding strategies to be followed in specific conditions. These decisions may be related to new

businesses, adding or liquidating a part of or whole of the business. The decisions are mostly intuitive and based on information that the owner gets from trade magazines, bureaucrats, and other industrialists. Implementation of strategies and actions is quite fast.

For Large Organisations

Large organisations are complex, and authority and responsibility relationships are also quite involved. Hence strategic alternatives are evolved through following processes.

i. Brain Storming
ii. Specific meetings, structured for this very purpose
iii. Advice of consultants
iv. Combination of the above

Brainstorming Speculative thinking is done through brainstorming in a group where alternatives are generated, which are later on ranked. These are reviewed and implemented for optimising certain parameters required by the management.

Structured meetings Task groups are made based on management decision, who visit all the organs or departments of the company and even develop contacts outside the company to understand the total business scenario and based on their meetings with executives and workers at various levels, finalise an action plan of possible strategies in specific areas and present the same to the top management.

Alternatives may be based on the following factors:

i. Rate of growth of economy vis-a-vis performance of company.
ii. Position of foreign exchange reserves and their need pattern.
iii. Rate of price rise of raw materials, goods, and services.
iv. Rate of unemployment in industry, company, and state.
v. Inclination of the political party in power.
vi. Rate of technological obsolescence.
vii. Social factors.
viii. Cultural Factors.

Based on the assumptions pertaining to the above factors, alternatives in strategy can be worked out. It is pertinent that expert advice may be taken due to natural myopia that executives of a company might have.

Meeting with consultants A Consultant may be involved who can study the environment and the company carefully and create solutions, which would be best in the interest of the company. It must be carefully understood that vision of a company relates to the future and hence the objectives that emerge must reflect meeting of vision. Defining of vision is not based on a flow chart but is an emotional process rather than being a rational process. Setting of objectives is a more rational process and hence consultants can be of help who should first understand the vision and then go a step further in casting out objectives.

Classification of Strategic Alternatives

The strategic alternatives may be classified, based on the risks associated with each strategy in its correct and effective implementation and the quantum of assumptions made that would prove to be correct.

The ranking can be done as follows

i Strategies with low risk
ii Strategies with moderate risks
iii Strategies with high risks

The strategies may also be classified as

i. Stable growth strategies
ii. Profit strategies
iii. Stable growth and pace strategies
iv. Sustainable growth strategies

Selection of Strategies

The key steps in selecting an alternative are as follows:

i. Analysis is made of current and projected performance and followed strategies of a company.
ii. The strategic gaps, if any, are identified.
iii. Strategic alternatives are then generated, which would close this strategic gap. The gap is the perceived difference between the target performance and the projected performance.

This could be narrow, quite large, or very large. Following alternatives may emerge at this stage:

a. If the perceived gap is narrow, it is expected that stability strategy would be followed.
b. If the perceived gap is larger, it would imply that either there is an increase in the targeted level of performance in which the case gap is positive. In case there are changes expected to take place in the environment, which would lead to poor performance in future, gap is considered to be negative.

Growth strategies would be followed in cases where the gap is positive and retrenchment strategies where the gap is negative. Large positive gaps occur due to opportunities and large negative gaps due to threats; however, one must appreciate that threats and opportunities are a matter of perception of leadership. Thus, a large positive gap is due to dynamic and able leadership believing in transformation and growth. Similarly, strengths result in growth strategies and weaknesses in retrench strategies.

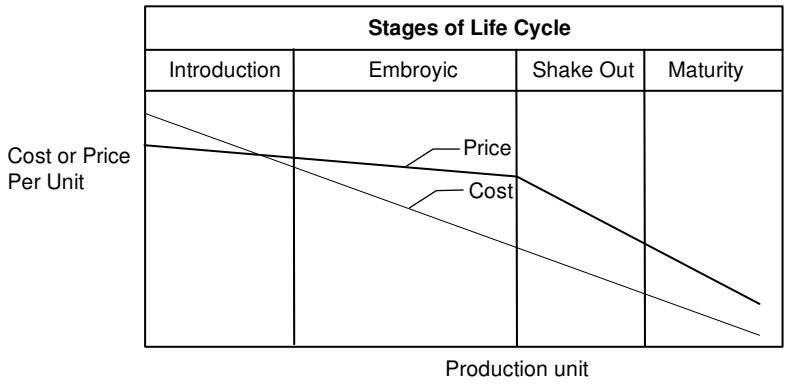
In complex organisations a combination strategy may be followed.

Product Life Cycle Approach

Every product undergoes various stages of called as embryonic, growth, maturity, and decline. When a product or service is born a lot of effort goes in an organisation to incubate and do research to make the product appeal to buyers. As the product

crosses this stage and enters the growth phase, investments in plant and machinery and other resources are made. During maturity, maximum benefits from the product are reaped by the company and during decline a new product is to be launched so that the corporate portfolio is kept balanced (Refer Exhibit 9.8). There are other methods of selecting strategies that would be covered extensively in the next chapter.

Exhibit 9.8 Behaviour of Cost and Price with Production



Concentration

When a company follows a concentration strategy the activities are concentrated in doing one thing and doing it well. Small organisations usually follow concentration strategy. It enables members to develop skills in a specific area which allow the company to compete with organisations that have more diversified activities. However, many large organisations also follow concentration strategy in specific areas. Some companies choose to operate in a single product and in a single market and rely on a single technology concentration, which they consider to be typically lowest in risk and does not entail additional resources. There is a specific specialisation achieved by the companies following this strategy. The market in concentration strategy can be enlarged by enlarging usage of specialist product and service by the customer. The concentration strategy thus gives a competitive edge to a company; however, the growth rate may be slower and there would only be a narrow range of possible investment options. The industry trends can affect their business and in severe situations they may go for market and product development (Refer Exhibit 9.9).

Exhibit 9.9 Options in Concentration Strategy

1. Increasing rate of usage
   - Increasing size of purchase through discounts
   - Increasing the rate at which product become obsolete
   - Increasing other functional uses of product
   - Increasing rate of usage by making part of habit

2. Increasing number of customers
   - Creating strong product differentiations
   - Increasing product promotion
   - Reducing price
   - Enhancing quality
   - Reducing delivery time
   - Increasing service quality
   - Introducing trails through samples
3. Opening additional markets
   - Regional expansion
   - Using new outlets
   - International expansion
   - Developing uses for other segments
   - Advertising through media
4. Developing new features
   - Adapt from known products
   - Combine functions of two or more products
   - Modify shapes
   - Change colours, motion, sound i.e. physical characteristics.
   - Magnify
   - Miniaturise
   - Substitute materials
   - Change patterns
   - Make throw away
   - Combine appeals, ideas etc.
   - Develop quality variations
   - Create more models

Source: Philip Kotler, adapted from *Marketing Management*, Prentince-Hall, Englewood.

Market Development

Market development is a fairly widely used strategy. This strategy entails selling of present products in new markets. This is achieved through entry of the company in new geographical areas for distribution and selling of products. A company may decide to explore new markets for selling its products including overseas markets.

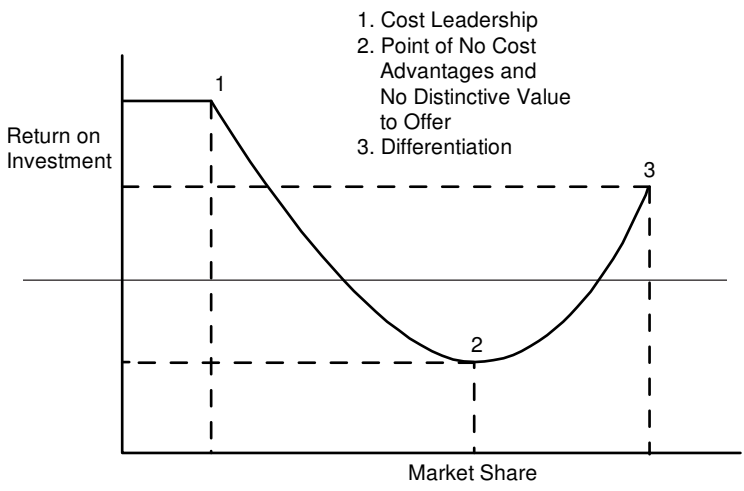
The entry to new markets means capturing attention of new customers through vigorous advertising and using different selling techniques to contact more and more customers through door to door selling with lucrative offers. The product may basically remain same although some cosmetic changes may be made. It is also possible for companies to develop various other means of market development like offering better services, demonstration of products on customer's request, exchanging new design of

product with old ones at a premium, contacting more customers through various clubs, societies, and organisations etc.

Product Development

When a customer purchases a product or service, he expects value for the money spent. While he purchases and goes for the product or service, he keeps the functions required from the product or service in mind. Every product or service can be viewed as a bundle of functions. The functions can be enhanced such that the customer is able to derive more value from the product. More functions can also be induced in a single product to increase usefulness of the product. The life-cycle cost of the product may also be reduced by enhancing reliability. Similarly, ownership cost of a product can also be enhanced through improvement in design of the product. This has been clearly observed in cars and scooters where in old design of cars consumed more fuel and also demanded more maintenance whereas cars of the new generation highlight in their advertisements that these do not need any kind of maintenance. The same is true for batteries, washing machines, and variety of equipments being sold in the market which not only claim to have ensured trouble free operation of their products but would also replace the old one by new one in event of a problem. The basic idea is to attract more and more customers and also to maintain the old customers (Refer Exhibit 9.10).

Exhibit 9.10 Profitability Patterns with Share (U-Shape Effect)



Innovation

The fast changing technological environment makes it mandatory for companies to innovate. It may be increasingly risky in some markets if product innovation is not

carried out. Innovations may also be carried out in the processes of business to increase speed of operations thereby cutting the costs. Innovations in new material, systems, product feature, and ways to satisfy new requirements of customers is constantly taking place in markets. Companies patent their innovations to derive long term benefits from an innovation. Initially innovations prove to give more profits, however, over a period of time the profits may decline necessitating another innovation. The innovation can also be made in field of advertising, marketing, and selling techniques to yield good results. Many companies occasionally use innovation as their fundamental strategy and use it as their basic way of relating to markets. The innovations give quantum jumps in profits and the cost incurred in R&D to develop the idea often appears to be quite meagre. This has been clearly observed in the areas of drugs, cameras, information technology, and other high technology items. It must, however, be pointed out that innovation strategy is more risky when compared with market development and concentration, as out of many innovations that may take place there would be only a few which would be having real commercial value. Sometimes the failure rates could be as high as eighty percent.

HORIZONTAL INTEGRATION

When managers in an organisation want their company to grow, they opt for horizontal integration. Horizontal integration means adding up or acquisition of two or more companies in the same industry.

Horizontal integration builds up synergy and can provide companies with opportunities to have fast access to new products, services, geographical regions, and customers.

Horizontal integration is best when an organisation has several strengths but faces threat from a strong competitor. The benefits accrued from horizontal integration are not the arithmetic sum due to strengths of two companies but go much beyond it. Thus competitors may almost be totally eliminated.

In the fast changing world of business today, we very often hear of companies going for horizontal integration by acquiring new companies. Acquisitions of companies has not been uncommon in the past, however, horizontal integrations have become quite common in today's business world due to expansions in business and markets and developments in communication technology which has shrunk the world (Refer Exhibit 9.11).

Exhibit 9.11 Cement Industry—Some Mergers and Acquisitions

The cement industry has seen changes by way of some mergers and acquisitions. During March 1998, Chennai based India cements made a premium offer to pick up 20 percent stake in Hyderabad based

Raasi cement. The Autoriders Group of Mumbai bought a 9.5 per cent stake in Saurashtra cement.

Source: I. Satya Sundaram, "Cement Industry: Fluctuating Fortunes," *Industrial Economists*, 15–29 January 1999.

VERTICAL INTEGRATION

Every company has inputs and outputs. The inputs are from suppliers and the outputs go to customers who in turn may be suppliers to some other company. In vertical integration, the businesses in the input and output or only in one direction i.e. only output or input are integrated. When integration is done on the input side it is termed as backward integration and when it is done on the output side it is called as forward integration.

When compared with horizontal integration we know that the horizontal integrations offer a gammut of advantages viz. expansion of operations, increased market share, improved economies of scale, and efficient capital utilisation coupled with lower risks due to proven abilities of companies involved. However, in vertical integration the reasons are not so transparent and are quite complex. Companies often go for backward integration to ensure timely supply of inputs, in good quality, and at lower costs. The dependability of input flow is increased when there are only a few suppliers and the number of competitors are large. A company may decide to integrate backwards, thus ensuring timely supply of materials as per the required quality and cost. On the other hand when competition is less and stable production of goods is ensured, a company may decide to integrate in forward direction, thus having ownership of the next stage and control predictability of demand. There are some risks associated with vertical integration as it makes it necessary on the part of strategy managers to take more challenges and broaden their areas of responsibilities.

JOINT VENTURES

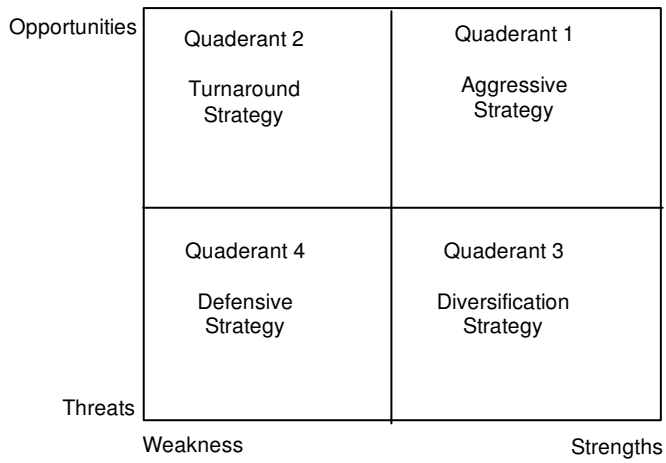
Sometimes companies are found to enter into joint ventures due to incapability of an individual company to do business. In joint ventures, necessary funds, pooling of technical knowledge and infrastructural facilities is done to meet the challenges posed by business environment. A joint venture can be a joint ownership wherein two or more companies join hands and divide the contract amongst them as per their capabilities and for fulfilling the basic criteria. Sometimes due to regulatory requirements, joint ventures become a must when a company wants to do business in a specific country. In India, joint ventures have become quite common after the doors of Indian economy were opened for global players. Most of the foreign companies enter into joint ventures with Indian companies. The joint ventures avoid dominance of foreign companies in the host country and the local skills, growth, and profits are enhanced in the host country. Joint ventures put extra responsibility on the shoulders of firms in host country, which otherwise could be channelised by a company towards its main stream. The demands may be on other resources as well, including technological expertise,

finance, facilities etc. In this aspect leasing, manufacturing under contract or license and providing expert opinion and management consultancy may also be included.

DIVERSIFICATION

Diversification means departing from a company's present business by way of acquisition or spinning off and going into an altogether new business which has synergy with existing business, thus creating a balance between the existing weakness and acquired strengths. Diversification may be made in related or unrelated fields, however, the basic objectives of diversification remain the same. (Refer Exhibit 9.12).

Exhibit 9.12 SWOT Matrix and Strategies



Some of the objectives for which diversification strategy is resorted to could be as follows:

i. Increase value of stock of firm.
ii. Increase growth rate.
iii. Increase return on investment by investing for better use of funds rather than channelising funds only for internal growth.
iv. Increase stability in profits and sales by matching with a company having seasonal business such that crests and troughs are well matched.
v. When life cycle of a product is on the verge of phasing out, going for another one which would have more demand.
vi. Fast acquision of technology, fund, trained manpower, and/or facilities.
vii. For reasons of tax losses which will be offset by earnings.
viii. Synergise between two companies.
ix. Speed up the operations.
x. Deriving strength of centralising the business.

There are basically two types of diversifications possible, which are discussed in detail as follows

Concentric Diversification

Creating or acquiring companies that are in similar business of manufacturing, designing, marketing, distributing etc. related to the product and service is called as concentric diversification. This strategy complements a strength of company and thus leads to growth of organisation. Concentric diversifications may take place because the strategy managers of the two companies know that they have common technologies, customers, distribution channels, and any other commonality that exists such that no major expenditures are involved in changing the organisational relationships, structures, and layouts etc. If a period of one year is considered for accounting, then a company may also go for concentric diversification to meet the market requirements.

Conglomerate Diversification

This kind of diversification is said to occur when a company creates another organisation or acquires another company which is altogether in a different business of manufacturing, designing, marketing, distributing etc. This strategic alternative has high attractiveness where return on investment is aimed to be higher. Various companies are compared on the basis of their contribution to the overall profits and creation of surplus funds. It has a lot of similarity with stock portfolio when a person buys shares of various companies to fetch maximum return on investment. Hence often the sole concern of acquiring a firm is its profit pattern. There is almost no concern for creating a synergy as far as product mix, marketing, designing, manufacturing, and research and development specialities are concerned. It is only the financial synergy which is aimed at. The balance may be tried for cyclical sales such that high cash plus low opportunity and low cash plus high opportunity fit is achieved. Thus profit is the only principal consideration in conglomerate diversification.

DIVERSIFICATION AND SYNERGY

Synergy effect occurs when the total output created by two or more products together is more than the sum of two, made separately, in terms of quantity and quality. It is known as 2 + 2 = 22 effect. Synergies are given as follows.

Production Synergy

In production, the additional products may require similar or existing facilities, thereby culminating in better resource utilisation either on cyclic or continual basis. There may be additional benefits derived from the by-products also. Economies of scale may also accrue benefits.

Marketing Synergy

Market derives a lot of synergy where the distribution outlet for the additional products are the same. This implies that no additional marketing effort may be required and on the contrary synergies help to benefit product sales by multifolds.

Financial Synergy

The new product or service chosen for diversification may be dependent on the operating fund requirement, usually in seasonal businesses like fans, refrigerators etc. A company may choose a product that will be sold in winter like room heaters, and use expertise of designing and manufacturing of fans such that it adds multifolds to its turnover without investing.

Organisational Synergy

The products chosen may fit well into the organisational structures and systems prevailing in a company. The skills required to make the chosen product may be available in the company. There would virtually be no need to create new departments, sections, and systems to handle the new products.

Synergies are to be kept in mind when concentric diversifications are planned and can be well exploited if current management resources in an organisation are underutilised.

PLANNING FOR DIVERSIFICATIONS

Before a management diversifies, it has many options like sailing with the wind i.e. move in prevailing direction, search for new directions of growth, use combination of the above or do simply nothing. However, systematic diversification is a progressive and step-by-step way of doing business. It is necessary to avoid unpleasant outcomes due to failures or lower performance than targetted. The damages due to unplanned diversification can be in large proportions and managers may think that probably no diversification was better (Refer Exhibit 9.13).

Exhibit 9.13 Reasons for Not Diversifying

* If you are small, don't try it
* If you have no power to sustain, abstain
* Plan carefully, see anticipated pit fails
* Be first to bell the cat
* Better ride on a new boat
* Check for your skills (marketing, production, managerial etc.)
* Adapt wherever necessary
* Don't let false ego come your way
* Don't diversify for peanuts (any tax saving)
* You don't lose much by not diversifying

Source: "Diversifying into Disasters," *Business World.* September 28, 1998.

DIVERSIFICATION AS A PROCESS

Systematic diversification is an integral part of any company to become dynamic when required. If a steady growth is desired, a company will have to continuously look for newer opportunities to diversify. Organisations suffer from inherent inertia and therefore all out effort should be made to make them dynamic. One of the key steps before diversification is to clearly define a company's business. The business definition should neither be specific nor too wide. It should amply reflect the vision of the company. In this regard, a company must carryout SWOT analysis or audit. The next step is to carry out gap analysis.

Such analysis would clearly identify the areas where a firm can effectively diversify.

COMPETITION AND ANALYSIS OF RISK

Diversifications go hand in glove with risks and hence a company must prepare itself for anticipated risks. Meticulous planning cannot eliminate all the risks, however, it can minimise them. Incurring excessive risks may jeopardise even the existence of a firm. In order to build trust and a team culture, open and frank discussions between the managers and top management must be held (Refer Exhibit 9.14).

Exhibit 9.14 Major Dimensions of Diversifications

1. Opening of Indian Economy and relaxation in policies, rules and policies.
2. Higher risk bearing attitude on the part of financial institutions.
3. An urge of Indian entrepreneurs to think big and grow big.
4. Easy availability of technocrats and managers.
5. Confidence of common on share market
6. Growing interest of foreign companies in India.
7. Explosion of Indian market size.

Source: IGNOU Course Material, MS-II, Unit-5.

LIQUIDATION

When company managers are confronted with continuously declining performance of total business or in some part of the business due to some internal weakness and/or external threats when they think bankruptcy is inevitable, they may resort to liquidation. The liquidation enables a company to convert its assets into liquid cash from sale of parts or total company and the cash thus generated is then transferred to stockholders. Procastination of liquidation may further lead to sliding of assets value of company and hence when a company is faced with critical financial situation managers may resort to liquidation strategy to get maximum return on their assets. The liquidating business tries to develop a planned and orderly action that would yield maximum returns. Planned liquidation may be worthwhile in some cases.

ATTITUDES OF MANAGERS AND STRATEGIES

Different managers have different attitudes towards risks. In an old organisation where the average age of an organisation is on the wrong side of forty five years, the priorities of managers are different and they would like to avoid risks, whereas younger generation easily embraces challenges and the associated risks. If risk is to be avoided, stability strategy would be adopted. If risk taking is higher, even with environment becoming unfavourable with mergers, growth strategy may be pursued.

The development of strategy is based on past experience. The past strategies get so much programmed that even with their failures, they are pursued and on total failures, new strategies are simply grafted into old ones. Hence changes at top become inevitable (Refer Exhibit 9.15).

Exhibit 9.15 We Have More Number of Followers Rather than Leaders

Most of the people are followers while leaders and followers both are required in an organization. The follower is usually a level below the leader. Following well is key to success and it requires specific skills of active participation, thinking rationally, and acting independently with conviction, sincerity, commitment, and responsibility. Followers may be classified as follows:

1) Sheep: They are passive followers. They follow the trail.
2) Yes-masters: They are a little better and hence participate with enthusiasm. They tend to confuse the leader that are thinking.
3) Disgrunted lot: They were once yes masters but were misguided and hence are sour.
4) Pragmatic lot: Their focus is on survival and hence they cross fences.
5) Stars: There are competent, conscious, and cooperative people and make leader's life a lot easier. They sort out disagreements, use persuasions, and resolve conflicts.

Source: *Business Today,* September 22, 1998.

Selection of strategies are also guided by external dependence as is in most of the Indian companies who have to depend for funds and technology on their counter parts from other countries. Strategies are sensitive to time. If timely strategic action is not taken, the alternative may become obsolete. Policies, competition, technology etc. change and hence choice of strategy is also dependent on time.

The selection of alternative may not always be rational and may largely depend on intuition. Power relationships play an important role in strategy selection by a company.

Political power equations also affect strategic choices. The organisational ability is another crucial factor in choosing a particular strategy.

MERGERS AND TAKEOVERS

Being quite specific, merger means when two or more companies, almost of equal size or strength, formally join together to submerge their corporate identities and form one single company in a friendly and congenial atmosphere such that a holding company is formed and its shares are exchanged for the shares of the merging companies.

When a merger is not agreed upon by two companies, takeover or acquisitions happen in which a company offers cash or securities in exchange for the shares of another company which is being taken over. Typical ways adopted for avoiding takeovers consist of raising premiums above even hundred percent, overstating of the profits and sabotage.

MERGER PROCESS

The process of screening the companies for mergers and acquisitions is from general to being more specific. The first step is to identify the industries where merger is possible. The identification is based on basic strategic conditions chalked out by company including that of size, finance, management, economies of scale, market, future business, and growth potential etc. The company then identifies the sector and collects data on sales turnover, growth, return on investment, market shares, competition etc., and most desirable sectors are than selected. In the next step, companies are chosen depending on their sales turnover, asset level etc. which gives indication of cost of acquisition. The competitive strengths and competencies are also identified which would help in the acquiring of a company.

A comparison of various companies is made, based on cost of acquisition, return on investments, future returns, risks, uncertainties, and other factors that may be vital for business. The ranking of candidates is then made based on criteria defined by the management. The criteria is usually that the returns should greatly exceed the cost of acquisitions. The concept of fit is used to analyse the effectiveness of merger by accounting for various factors, such as costs of integrating, incubation period, improving the performance etc. An index may also be developed, if required. Probable candidates would be probably those which have high market share, growing market, bigger sales volume, effective management, diversified portfolio, return, and on investment to cross bench marks. Usually companies embark on inefficiencies of the takeovers as companies having all the good dimensions may not even be available for sale or takeover. In principle, a company may take over full or part of a company. When a full company is retained after merger, integration is necessary whereas when only a part is retained, clean up of the portfolio is to be done and a part which does not fit well is sold off at premium. Adaptation may also be necessary in some cases by the integrating company.

The suitability of a proposal is measured on various dimensions, such as fund availability, likely positive synergies after merger, negative synergies that are likely to crop up, correct timing, management capability to harness benefits etc.

VALUATION OF MERGER OR TAKEOVER

Valuation for mergers and acquisitions is necessary to be made based on value of shares or stock of a company which is determined by

- Present returns on investments
- Likely future dividends
- Likely risks of future returns
- Profitability
- Likely growth rate

Valuation is done through rigorous analysis and various indices are calculated as follows.

1. P/E ratio: Ratio of P/E (Price/Earning) is calculated to get an idea of value.

$$\text{P/E ratio} = \frac{\text{Market price per share}}{\text{Net earning after tax per share}}$$

Different companies have different P/E ratio due to the following factors.

- rate at which the company is growing
- associated risks of investment
- competition
- business environment

2. Earning per share: Let market price of share be Rs. 100, and P/E ratio be Rs. 20 then earning per share would be Rs. 5. This is a static measure of performance of acquision as the share value can drop or rise. Other factors like profit and loss accounts, balance sheet etc. must be looked into to develop a scenario of performance of company.

BUILDING A SCENARIO

i. Investigate into the loss making operations within the company and divest them to generate liquid funds for running the profitable part of business.

ii. Calculate various ratios to estimate the performance of company.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

This may be compared with industry average.

iii. To check whether there is a high-level of stock and excess money block calculation of level of stock is done.

$$\text{Level of stocks} = \frac{\text{Stocks}}{\text{Cost of goods sold}} \times 12 \text{ months}$$

This may be compared with industry average value and methods evolved to reduce this.

iv. $$\text{Average age of debtors} = \frac{\text{Debtors}}{\text{Sales}} \times 365$$

This figure should be compared with the average age of debtors and if the acquirer's age is lower, methods should be devised to exercise acquirer's credit controls to reduce age of debtors.

v. The funds that are released turn debtors and stocks are pumped back to reduce current liabilities like bank overdraft, working capital loans etc., to reduce interests.

vi. On the basis of the above analysis, a new balance sheet and profit and loss account is prepared and new earning per share is calculated.

The mergers should also be valued on the basis of expected growth rates of different companies if managed independently and a comparison is drawn with their combined performance. In the initial stages earnings per share may seem to be higher but due to different growth rates of two companies, the growth rate of combined company may be lower. This method is not quite acceptable as it is based on reported earnings and not actual earnings, however, these are only projections and companies may use the pitfall to cheat by manoeuvering the earnings that are reported.

MARKET VALUE OF ASSETS

Another way of evaluating a merger is through assessment of market value of used assets of a company, if traded that would yield a definite sum of money, which would be its true worth, however, the buyer in the market may not perceive the assets for the functions for which they exist. There are certain assets like building, furniture, office equipment, which have generally the same functions when used anywhere, however, dedicated equipments may have different worth for buyers. These may sometimes be required to be converted to enhance value and hence the conversion costs, if any, should also be considered.

REPLACEMENT VALUE OF ASSETS

The written down replacement value of assets may be calculated using the following equation.

Written down replacement value

$$= \frac{\text{1- Age of assets}}{\text{Total economic life of asset}} \times \text{Current price of asset in market}$$

Replacement cost analysis is a better method of assessing the cost as it accounts for inflation. Due to technological difference, the economic life assessment value of asset is compared with other investment options of company.

RETRENCHMENT OR TURNAROUND STRATEGIES

There could be several reasons for which performance of a company may considerably decline. There may be technological obsolescence, economic recession, worn out mechanisms, production inefficiencies, and vigrous innovations by competitors. Managers may think that their concerted efforts may save the company from this continuous sliding. Managers then may resort to retrenchment or turnaround strategy which may be the result of a lot of studies conducted to make an organisation think with required agility.

The strategy usually consists of two basic alternatives or a combination of the two is used depending on the circumstances.

Cost Reduction

It may be required to reengineer business processes thereby eliminating non-value adding activities and increasing the speed of operations, which may entail retrenchment of employees. The company may adopt drastic standardisation and may use value management techniques to take decisions on making versus buying or, leasing rather than purchasing and extending life of machines etc.

Asset Reduction

A company may decide to sell its assets viz. land, building, computers, machinery, etc. which may not be essential to the main business of company. It may also take other measures of reducing expenditures on travelling perks to its employees. When these approaches fail, the company may decide to take more drastic measures like dropping some of the production lines, not catering to needs of low margin customers etc. The strategy is called turnaround because it tends to reverse the negative trends of a company. Usually sliding down of company is due to major failures at the top management level and hence major changes usually take place at top management level and in administrative cadres. Due to lack of perspective, the situation may become worse day-by-day and bringing in new, young, and qualified managers leads to turnaround, thus raising the morale of employees.

Divestiture

When a company decides to sell either a part or whole of its business, it is called a divestiture strategy. It is not possible to find buyers for a business unless they are clear that with prevailing skills of management, financial and other resources and synergy with business in question, they will be able to generate profits which would decide the price of business. On the contrary, the seller would expect a premium on business that would fetch him more value compared to the price of fixed asset.

There are several reasons for divestiture strategy to be adopted. Many times there may be a mismatch between the main stream business of the company and the business decided for selling off. It may be difficult a integrate a business into

mainstream due to reasons of employees, cost structures, high overheads etc., hence a company may decide to sell off a part of business to a more willing aspirant. Sometimes due to an urgent need of funds one may decide to sell off a part of business to provide financial stability to the corporation. Thus, a sacrifice is to be made by selling a high market value business due to its higher attractiveness for buyers, leading to fast generation of funds. Sometimes government may put pressure on a company by way of regulation against monopolising or unfairly dominating a particular market.

Combination of retrenchment and divestiture strategies may be adopted by companies to claim tax benefits and also reduce load of long-term debt.

FITNESS OF OBJECTIVES AND STRATEGIES

The process of selection of objectives and grand strategies is usually simultaneous. The opportunities which are available, open doors for objectives for which grand strategies according to SWOT profile of a company is chosen. The process cannot be sequential due to a fast responsive system and also due to the requirement of simultaneous consideration of all the three factors viz. strategies, opportunities, and objectives. In given set of opportunities and to meet certain objectives, there may be a few strategic choices and due to interactive nature of these opportunities which can be availed by a decided set of grand strategies, success of achieving objectives by a combination of strategies may be vital for a company. In actual conditions, the spectrum of opportunities is quite varying in nature and to reap the best out of these opportunities, the evaluative criteria must be carefully examined.

The strategies and objectives are complimentary in nature. One cannot have strategies first and then decide objectives or decide on the objectives and then think of strategies. They are highly interdependent. The objectives are what a company wants, whereas strategies answer how to accomplish them. In fact, strategic decisions can be viewed as a mechanism of control to provide the minimum requirements to achieve an objective viz. men, material, money, etc. and to create most profitable synergies for maximising profits. The constraints on men, material, money, etc. for achieving a defined level of performance is itself an objective of companies and hence constraints themselves are a form of objective. We know that more men may create more confusion and chaos which would make achieving of objectives even more difficult as an organisation may tend to become sluggish in response.

QUESTIONS

1. What do you understand by long-term objectives of a company? Discuss with examples.
2. What are the various areas where a company would generally like to set its objectives?
3. What are the various criteria for judging the quality of objectives?

4. What are master or grand strategics?
5. How are strategic alternations derived for small companies?
6. How would you generate strategic alternations for large companies?
7. How are strategic alternations classified?
8. What are the key steps in selecting strategics most suitable for a company?
9. What are the various approaches adopted to select most suitable strategics for a company?
10. What do you understand by concentration strategy?
11. Discuss market and product development strategies?
12. What do you understand by innovation as a strategy?
13. What is horizontal and vertical integration? Elaborate on joint ventures.
14. What are diversifications? Discuss concentric and conglomerate diversifications?
15. Discuss diversification and synergy.
16. What do you understand by liquidation?
17. Discuss process of mergers and takeovers with some examples.
18. Discuss turnaround strategies.

CHAPTER

10

ANALYSIS OF STRATEGIES AND CHOICE

Strategies can be selected after these have been analysed and their fitness is examined in light of potential opportunities, with strengths and core competencies of a company. It is important to understand various diagnostic tools that may be used for identifying and evaluating applicable alternative strategies in a company doing multibusiness.

The process of evaluation of strategies is basically creative in nature wherein business managers consider alternatives that are available and evaluate possibilities for their practical usefulness. Creativity lies in making incremental changes in strategies through a thorough study of internal and external environment of an organisation. A lot of creativity goes into unearthing the relevant factors used for analysis that may be pertinent to a given industry situation, present, or future. There may be a case of changing strategies altogether rather than making incremental improvements through use of creativity and innovation. While making a logical choice, the future of the company is kept in focus.

On the dimension of time, various alternatives are evaluated in different phases to get a clearer picture on selection of strategies. Some of the basic questions that arise at this stage are:

i. What are the results that the present strategy has been giving?
ii. What should be the new strategy for the future?
iii. What should be the methodology for implementation?

The steps are elaborated as follows:

IDENTIFYING ALTERNATIVES

Identifying and focussing on the alternatives narrows the choice. Narrowing of choice is essential to arrive at a manageable number of strategies that could be easily analysed. Theoretically it may be possible to consider all the strategies with varying degrees of success. However, the objective of a strategist is to choose a few effective strategies to get maximum benefits. To arrive at the decision, a lot of brainstorming, creative

thinking and situational analysis is required to be done. However, it is most difficult to say whether a correct set of strategies have been chosen and whether hundred percent success would be achieved. It is the result that proves whether the selection had been correct because there may be several changes in the environment by the time a strategy is chosen and finally implemented.

Companies usually find it difficult to change their strategies. The foremost reason for this is that strategic thinking is not a core managerial competence of companies. What managers usually do is to polish their ways of doing business over and over again. Once companies find that a particular strategy has worked, they want to follow it only by making some cosmetic changes. It is extremely difficult for managers to unlearn and start afresh all over again. Organisations have biases due to past successes that do not allow managers to do break through thinking. Secondly, there is always a resource myopia. A correct definition of the problem instead of beating around the bush, is the first step towards strategising. Elegant answers to wrong questions only create graves. The root causes in the company must be carefully addressed and the driving forces outlined.

A hypothesis may be developed and it must be tested to develop a clear understanding of the forces that actually work. Brainstorming to define the forces involving all functional groups helps a lot. These driving forces must then be ranked, grouped, and mapped.

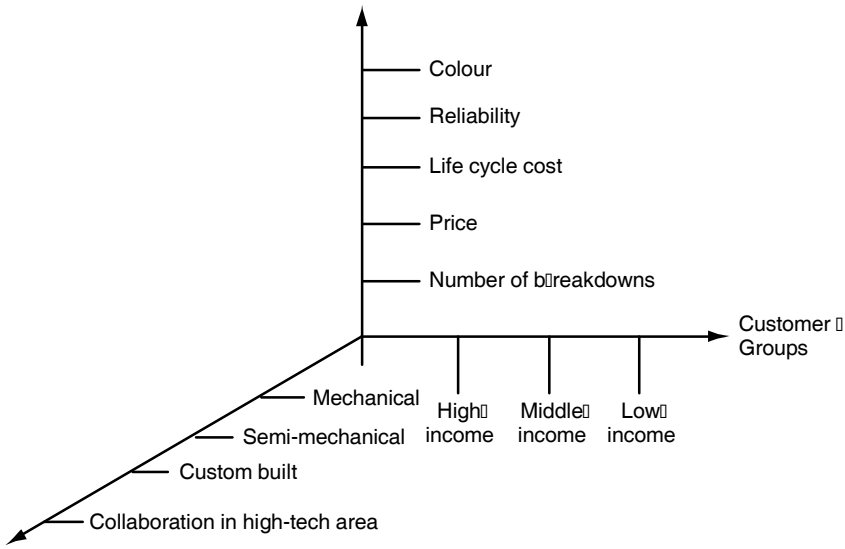
The next step is to formulate a strategy that addresses the driving forces in the form of cause and effect relationships. First, the most significant force must be considered. A strategy matrix grid showing how each force is addressed must be drawn. A plan for the projects to implement strategy is created in future details.

To define the business, mapping may be done as shown in Exhibit 10.1. There may be more than three dimensions when a matrix can also be prepared.

In the above exhibit, customer functions are those attributes that are desired by various customers. Customer groups can be by income, age, state, language, education etc., and technologies can be specific to a product or service. Other factors like quality, cost, delivery time, service, etc. may be considered, depending on the industry type.

The gap analysis is another method for analysing focus on strategic alternatives that has been discussed in Chapter 9.

Exhibit 10.1 Customer Functions



COST DYNAMICS

Cost analysis is very important in business strategy selection. The companies monitor their cost performance and control it to gain competitive advantage, sustain their position, and also attain a leadership. The two basic techniques used for strategy formulation with regard to costs are

i. Experience curve

ii. Break-even analysis

Costs play a vital role in the running of any business operation and cost structures give a lot of information regarding the health of a company. In a seller's market, price is fixed by adding profits to the cost.

Product price = Cost + Profit margin

Here cost is an independent variable and the customer has no choice but to pay the price. Cost in a buyer's market depends on the permissible price of goods in the market.

Profit margin = Permissible price – Cost

Here price of a product is decided by the buyer who is outside an organisation.

EXPERIENCE CURVE

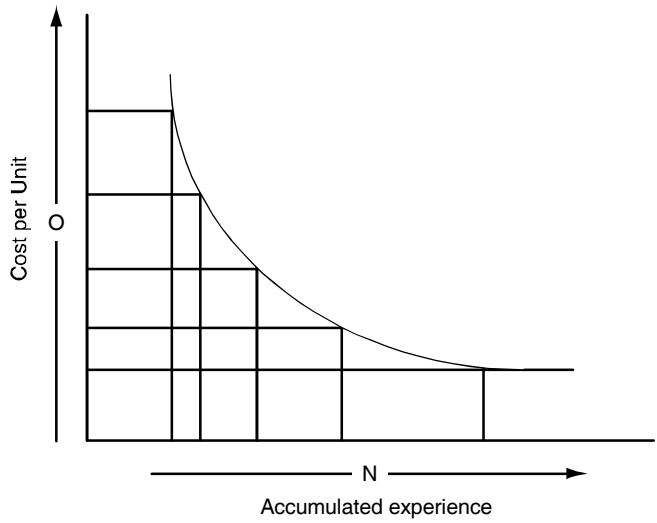
Cost is correlated with experience that is accumulated over the years by experience curve effect (Refer Exhibit 10.2). If the total quantity of production is increased for a standard item, its unit manufacturing cost tapers down. Initially the cost is more due to more time required and is reflected in terms of high labour cost but as quantity

increases, the time on each successive unit decreases. Thus with accumulated experience, the cost per unit dips.

Mathematically,

$$CN = C1/N$$
$$\text{or } \log CN = \log C1 - E \log N$$

Exhibit 10.2 Experience Curve



The experience effect is caused due to the following factors:

i. Productivity improvement of labour due to accumulated experience skills, devising of new tools and fixtures, developing reflex actions etc. This also reduces supervisory and quality control work.
ii. The increased volumes of production lead to more specialisation and thus saves time. Vendors may also be developed to deliver products at the right time, thus reducing inventory costs.
iii. Value engineering of products may further result in substitution of material, better reliability, weight, reduction, scrap reduction etc.
iv. The product line can be balanced and more units produced without extra investments.

However, certain cautions are required at this stage.

i. Passage of time is not experience, but reducing costs with deliberate efforts, with the help of gained expertise is experience.
ii. The work may be fragmented and specialisation in each fragment of total work may have a different experience.
iii. Additional considerations like business cycle fluctuation, inflation, bottle necks, industrial relation problems etc. that cannot be directly reflected on an experience curve must be carefully accounted for.

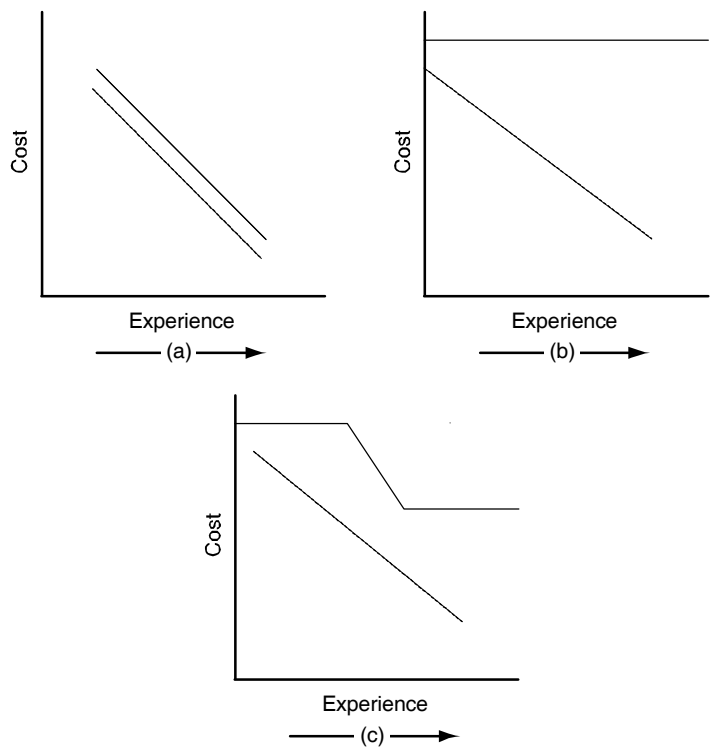
Experience Curve in Competitive Strategy

The experience curve relationship gives an insight to the strategy manager into the industrial scene with regard to future costs, profits, cash flows for a company, and that of competitors in the industry. The basic assumption is, however, that the costs and hence the prices will follow the pattern of a curve. This aspect can be verified by analysing the past trends from records and correlation drawn.

The strategies that could evolve are (Refer Exhibit 10.3).

i. Selling a product at the most competitive price for the purpose of gaining on the economy of scale, capturing market, increasing volume of sales, etc.
ii. Maximising the profits by selling at the highest possible price that buyers would pay to get the targeted market share.
iii. Making maximum profits by selling initially at a higher price and then crashing the prices to keep the competitors out of the race.

Exhibit 10.3 Strategic Options in Experience Curves



Application of the Experience Curve

We have recently witnessed the effect of the experience curve in electronics, computers, television, and other industries where, as the volumes grow, costs and hence prices decline. We have seen many companies going into oblivion due to the effect of the

experience curve. As competition grows, prices crash, supplies should therefore increase and hence the manufacturer should be able to supply to meet the hiked demands, thus requiring a close coordination and fast responsiveness within a company. Lowering of prices does not mean that the products should be substandard in quality.

The experience curve effect can be used to benefit only if the demand is elastic and those who do not rise to this occasion soon perish.

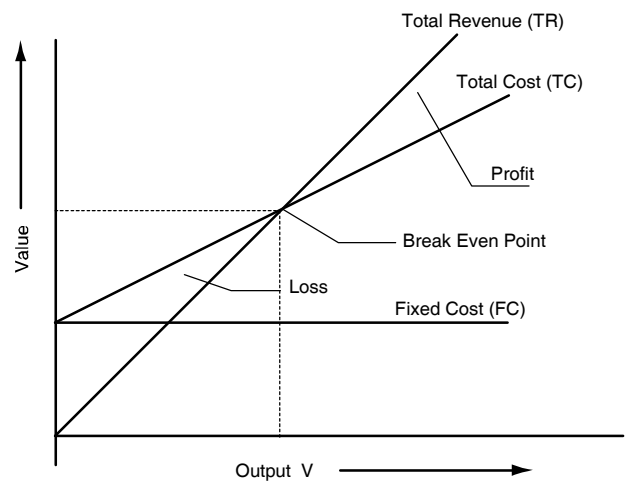
If demand is inelastic, the fall in price will not lead to proportionate rise in demand, and hence the experience curve effect cannot be used beneficially in such circumstances. When competition is very fierce, demand may not lower prices.

Experience curve may lead companies to work only efficiently and not effectively. There may be a general reluctance to go for introspection and do fundamental rethinking of technology, business process etc. and the likelihood of doing right things in different ways is considerably reduced.

BREAK-EVEN ANALYSIS

We know that costs play a very significant role in business. When a business is started, initial costs are incurred for acquiring assets like land, machinery, building, plant etc. The raw materials also cost the company. Growth and survival of a company largely depends on money that the company pays for its fixed costs and surplus it generates after meeting all expenses (Refer Exhibit 10.4).

Exhibit 10.4 Break-Even Curve



Allocation of costs to different heads depends on the volume of production. Cost per unit is high when volume of production is lower. The critical portion of strategising is decision with regard to fixed costs, variable costs, total revenues, profits, and

volume of production. We know that total cost consists of fixed costs that are constant and variable costs that are directly proportional to the volume of production.

Thus

Total Cost (TC) = Fixed costs (FC) + Variable costs (VC)

where V = Volume of production.

Total revenue (TR) = $P \times V$

where P = Price

At break-even point TR = TC

$$P \times V = FC + VC \times V$$

$$v = \frac{FC}{P - VC}$$

SENSITIVITY ANALYSIS

Sensitivity analysis is carried out to gauge the changes that take place due to price variation, fixed cost, and variable costs.

We know that increase in variable costs lowers profits and vice-versa. Similarly as the price increases, break-even point reduces and vice versa.

NON-LINEAR BREAK-EVEN ANALYSIS

A linear relationship between variable costs and volume of production rarely exists. In general, variable costs reduce as the volume of production goes up, but beyond a certain threshold value, the variable costs may again increase thus creating another break-even point. This may result in losses though greater market penetration is achieved.

In actual conditions variable costs and fixed costs both change and break-even curve may appear as shown in Exhibits 10.5 and 10.6.

Exhibit 10.5 Actual Break-Even Curve

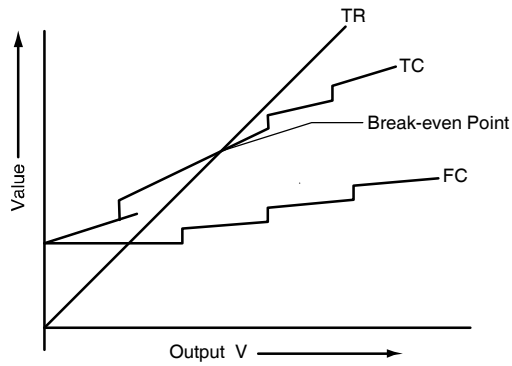
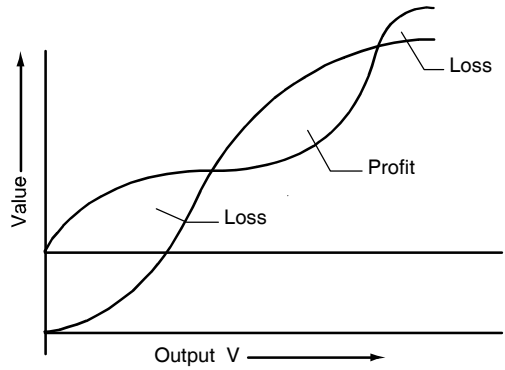


Exhibit 10.6 Non-Linear Break Even Curve



PORTFOLIO ANALYSIS

Management is all about deploying the resources in their best combination to create profits and to accomplish a set of objectives. Strategy manager is always in search of ways and means for optimising deployment of various resources. Usually a company is engaged in diverse activities and in many businesses, and operates in different markets with varying investments that bring in various returns in different degrees. The returns themselves keep on changing with different factors like competition, market scenario, customer preferences etc. in an industry. The job of the strategy manager is to draw a picture of all these happenings for better comprehension, and understanding various operational equations of cash flow, financial requirements, etc.

Depending on the results, the managers also have to learn to diversify and choose options from the available many alternatives for meeting immediate and future objectives. When a company has very complex and multitudes of operations, the problem becomes multidimensional and there are compelling needs to account for various dimensions and take decisions on resources, cash flow, financial requirements etc. The approach essentially has to be holistic rather than concentrating individually on each business. This multi-pronged approach is called portfolio analysis.

Keeping rate of return on investments are in the form of resources, the objective of a manager is to analyse the corporation as a whole, considering different businesses in which it is involved to make best use of resources to derive desired benefits. This kind of analysis is called as portfolio analysis, and is done to maximise the rate of returns by analysing the present resource allocation and continual evaluation for future implication and taking decisions on products and operations that require expansion, closure, or curtailment. A company that operates in an environment is faced by competitive strategies of other companies and hence portfolio analysis also takes into account the company's core competencies, resource allocation, and spectrum of characteristics of the industry.

Balancing of Corporation Portfolio

Portfolio analysis is done with a view to balance the investment of a corporation in different products, businesses, or industries. When there is a lot of diversification in investments in limited markets it is found to be very useful.

The balancing is to be done with regard to three basic aspects.

i. Cash flow requirements
ii. Development
iii. Risks involved

Cash Flow Requirements The cash flow patterns in various business is different in different stages and portfolio analysis attempts to balance the cash flow in each business such that they are in synchronism with the selected financial strategies of a company. Usually it is found that new businesses require additional cash flows although profits are also higher, whereas mature businesses require comparatively lower cash flows and are also relatively less profitable.

Development Innovation and product developments are a necessity for a company for its survival, growth, and profits generation. a company follow a product life cycle i.e. a product is created to satisfy a need of a customer, it matures, and finally declines. This is true for all the products and services of a company. A company cannot afford to develop a new product when some of its products are declining because it may not be in tune with the rate of changes. Hence a balance is to be struck in the development of products and services, their growth, maturing and decline, such that investments required in each category and returns are balanced. Thus the firm keeps on growing when its products are in their different stages of life cycle.

Risks One cannot operate in a totally risky environment or in a totally safe environment as both these extremes are only theoretical in nature. However, the objective of a company would be to reduce the risks if not eliminate them completely. Complete elimination of risks may be quite expensive and not desirable. Operating in a totally risk-free environment may lead to lower returns than expected. A company tries to balance investments and additional cash flows in different businesses such that risks are reduced and balanced in different products and services.

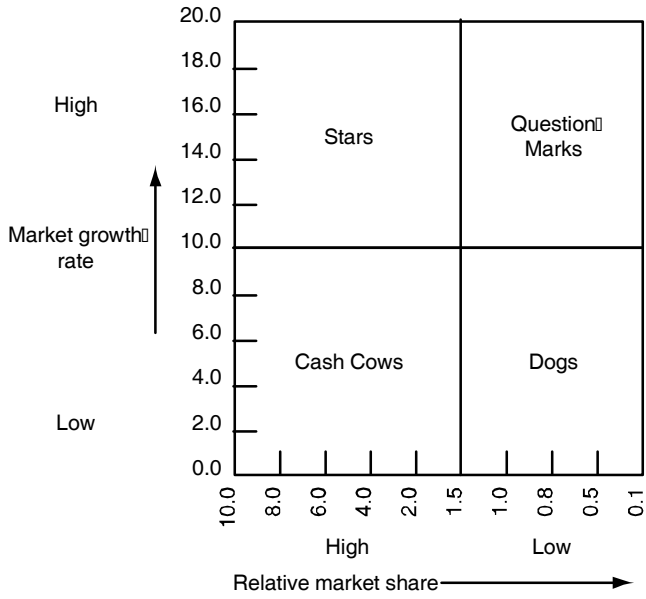
MATRIX ANALYSIS

The objective of developing matrices is to achieve successful diversifications, keeping corporate strategies in focus and optionally balance the resources for best possible returns.

Boston Consulting Group's Growth Share Matrix

This is a portfolio analysis where a two-by-two matrix is used, taking market growth rate and relative market share as axes (Refer Exhibit 10.7). It defines various segments as dogs, cows, stars, question marks in terms of cash flows. In each segment, bubbles are created having sizes proportional to the size of the business activity that may be expressed in terms of sales, assets, volumes, investments, etc.

Exhibit 10.7 BCG Growth Share Matrix



McKinsey Matrix

McKinsey Matrix is generally associated to General Electric and Shell companies and has three-by-three dimensions dividing the industry attractiveness and business strength in three categories viz. low, medium, and high. The barometers can be subjectively judged or may be calculated based on weighted average scores.

Matrix of Strategies Planning Institute

Profit impact of market strategy (PIMS) program of the strategic planning institute draws a comparison between profitability of a company with that of the average profitability of the industry to which the company belongs. The business average profitability of the industry is calculated by accounting the total relevant cross section and multidimensional regression relationships of various businesses in the industry.

Arthur D. Little Company Matrix

The life cycle stages and business strengths are used to create this matrix. The grids are classified as build, hold, harvest, and unpredictable return on investment.

BCG MATRIX

Boston Consulting Group, a management consultant company in the USA developed the growth share matrix approach.

As is evident from the exhibit 10.7, two variables are taken in this matrix as follows.

i. On the Y axis, annual market growth rate or market in which a SBU operates is taken. Strategic Business Unit (SBU) is a single business or collection of

related businesses that can be planned independent of the rest of the businesses of a company, has its own group of competitors, and is headed by a manager who is responsible for its growth and profitability.

ii. On the X-axis, the relative market share of SBU is taken. In some industries, the growth rates may be as high as 20 percent more whereas in others it may be lower. In this model, the highest growth rate of 20 percent was taken and therefore the cut-off point for deciding the high or low growth rates was taken as 10 percent.

The relative market share of a SBU that is indicated on the horizontal axis is in relation to that of the largest competitor. The relative market share is chosen with an assumption that the relative competitive position of a company would be proportional to the rate of cash generation. A firm that has a higher relative market share in comparison to a competitor signifies that it would have higher profit margins and would affect higher cash flows.

The philosophy of selection of rate of growth of industry is based on an assumption that in cases where rate of growth is higher it would lead to expansion of operation of participating companies. High growth rate opens up possibilities of reinvestment in business for further increasing rate of return on investments.

In an industry where growth rates are lower, profitable investments would be scarce and usually the increase in market share would come from the reduction in the market share of a competitor.

Developing BCG Matrix

Various steps in making a BCG matrix are as follows:

i. Fragment the total business activities of a company into SBUs.

ii For each of these SBUs, determine the growth rate of the market that is plotted on a linear scale.

iii. For each SBU, collect information on assets used and apportionate the relative size of business taking place within the company.

iv. For each SBU, the relative market shares are then determined and plotted on logarithmic scale.

v. On this matrix, the size of each business is plotted by representing it as a bubble. Radius of the bubble is given by :

$r = \sqrt{PR}$

where r = radius of the bubble

R = radius of the large circle, showing total company sales.

p = sales of product expressed in percentage of total sales.

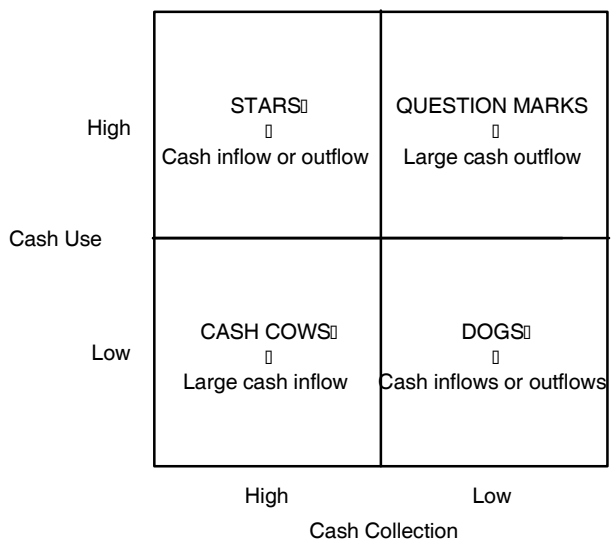
The four quadrants are divided usually based on assumption that 10 percent of volume growth is the dividing line between high and low growth, and a relative market share of 1.5 times may separate question marks from stars. It must be noted that these demarkations are only approximate.

Quadrants of BCG Matrix (Refer Exhibits 10.8 And 10.9)

Cash cows SBUs lying in this quadrant are those that generate desired cash for a firm. In these cases, market virtually stops growing and the firm in question occupies a leading position. Sales people may have very little to do for products of this SBU due to brand preference. There is a consumer pull for these products. The low rate of growth of business in this quadrant signifies that the ploughing in of cash would not be required. Cows can be milked for cash. The cash generated from these SBUs can be used for R&D, converting the question marks into a star that will be discussed in the forthcoming paragraphs. More cash cows indicate sound financial health for the company. We find Colgate toothpaste, Lux soaps, Godrej refrigerators, etc., which fit into these segments.

Many companies avoid their products becoming dogs from cash cows whether through modifications or through relaunching them. To save Milkmaid from becoming a dog the company repositioned it as an item for preparing quick desserts thus avoiding it becoming a dog.

Exhibit 10.8 Cash-Flow Characteristics in BCG Matrix



Dogs The SBUs that have lost their glamour become dogs i.e. they not only lose market leadership but also their market that does not grow at high a rate. The lower market share signifies poor profits. Since growth rates are low, it would be unwise to invest in this SBU as investments required would be more than cash generated and there would be negative cash flow. The strategy suggested is to kill the dog that implies that the product has to be dropped from complete product range. For reasons not connected to finance, many such SBUs are allowed to operate under dog condition. The strategic solutions are liquidation or harvesting or divesting.

Exhibit 10.9 Matrix Showing SBU Type and Cash Inflow and Outflow

Strategic Business Unit	Cash In Flow	Cash Outflow
Cash Cows	More	Less
Star	More	More
Dogs	Less	Less
Question Mark	Less	More

Question Marks These are SBUs that are rubbing their shoulders in a high market growth area. Whenever a SBU is launched, it is in this phase of business. A company has to take a decision whether to continue in this area or withdraw from competitive markets. The decision in this regard can be taken, keeping in view corporate objectives, prevailing competition, and financial strength of a company. Due to high growth rate, requirements of cash flow is quite high, however, due to low market share, the cash generated is low. These SBUs are called as 'question marks' because they lead to questions on further investments for raising market share and profitability. The government policy, offering 'doles' to companies affects decision of companies as they may be allowed concessions in sales tax, income tax etc. Usually high expenditures are incurred on product development, royalties, dealer margins, and making changes in products to attract customers. Sales are usually low at this stage, as the consumers are not aware of the product.

Stars These are SBUs that have gained leadership in their market. This situation is acquired when question marks get converted to stars through strategic decision and implementation of strategies. This situation, although quite good as these are the bread winners, does not mean that these SBUs will bring in a lot of cash flow. A company may have to essentially invest to maintain its leadership. This is the zone where there would be many stiff competitors trying to dislodge the SBU through aggressive marketing, sales promotion, advertising, higher dealer margins etc. The competition also offers new products, with better features and at lower price coupled with discount schemes to buy now and pay later benefits. Hence the revenue generated is spent in maintaining the SBUs. Thus stars generate high profits and also offer best investment opportunities. The best strategy under these circumstances is to make the necessary investments and consolidate the company's position amongst competitors.

A brand of soap or lipstick of a leading multinational firm may enter cash cow quadrant in cities like Delhi, Mumbai, Bangalore, whereas it may remain in star quadrant in Bhopal, Indore etc. as a new improved product has a lot of customers in bigger cities compared to smaller cities.

Strategic Effects

Various corporations and companies, having a diverse port folio will have their SBUs spread in the four quadrants corresponding to each category. One of the foremost

objective of a company would be to maintain its competitive position in the cash cows with optimum investments. The surpluses that are generated in cash cows would be required to be reinvested into stars for maintaining their competitive position in case they are not self sufficient in cash flows. If there is more cash surplus, it requires to be invested in question mark SBUs to gain market leadership. The dogs can be usually considered to be weak segments and no new investments should be made in them.

The BCG Growth share matrix depicts the interaction of the industry growth characteristics with the company's market share (Refer Exhibit 10.10) and at the same time reflects the cash deployment needs. Thus, it is a visual aid used for comprehending inflow and outflow of cash. It must also be remembered that short life-cycle SBUs like some of the electronic products and very long life-cycle SBUs like bread and pizza manufacturing, soaps, tooth paste etc. may not truly follow the trends presented by BCG growth share matrix.

Exhibit 10.10 Strategic Positioning as per BCG Growth Share Matrix

Quadrant	Market Share	Profitability	Investment	Cash Flow
Stars	Hold or Increase	High	High	Zero or Negative
Question Marks	Increase or Harvest/Divest	Zero or Negative	Very High	Large Negative
Cash Cows	Hold	High	Low	Large Positive
Dogs	Harvest or Divest	Zero or Negative	Disinvest	Small Positive

BCG Growth Share Matrix and Time Dimension

BCG Growth share matrix can be developed at different times for a corporation. Various SBUs should be plotted in the Matrix at different points of time to examine the relative changes that have taken place in the four quadrants. This can be helpful in the study of the impact of strategies chosen at different points of time and the direction in which the organisation moves.

Pitfalls of BCG Growth Share Matrix

i. The BCG analysis is made on the basic assumption that profits depend on growth rate and market share, however, the attractiveness of an industry may not be reflected in its growth rate. Research shows that dogs can turn to cash cows with better management.

ii. It is quite difficult to determine the market share as it is dependent on the definition of business and the market. In complex business situations, where market interdependence is significant, assessing correct market share may be quite difficult.

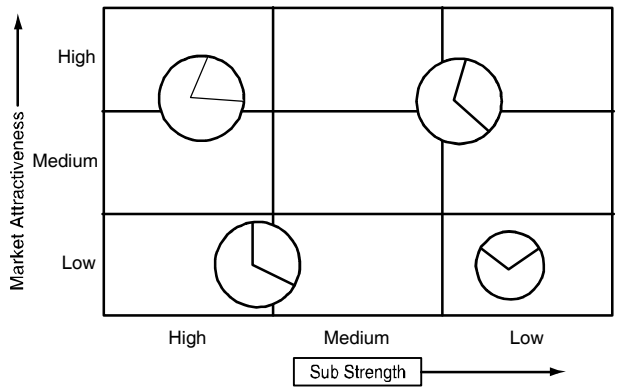
iii. The synergy created due to the experience curve is neglected. Synergies can be created between dogs and question marks and star SBUs, leading to higher corporate profits.
iv. The human factor that can effectively or ineffectively manage the cash flow has not been considered in the matrix. Thus strategic options may not be practical at all in some situations.
v. It is recommended that if products are regrouped as per the manufacturing processes to account for economies of scale, it would be a better representation.
vi. There is a wide spread resentment in the use of words like dogs, cows, etc. and terms used in GE model, like build, hold, harvest have been found to have better appeal.

GE BUSINESS PLANNING GRID APPROACH (Refer Exhibit 10.11)

The GE's approach is an improvement over the BCG Model. In GE's model, the market attractiveness is related to the strength of SBUs that make it competitive in a given market. The market attractiveness depends on various factor-like state of competition, return on investment, rate of technological growth, government policy, market size, market growth rate, entry conditions, and social factors, cyclic nature of business etc. Various factors are either subjectively judged or objectively computed, taking weightage factors and arrive at industry attractiveness index.

Strength of any SBU depends on various factors viz. market share, growth rate, location, distribution, R&D, finance, distribution, product quality, brand image, production capacity etc. The analysis is done on a five-point scale and categorisation as strong, average, and weak segments is made. The industry attractiveness is plotted on Y-axis and SBU's strengths on X-axis as shown.

Exhibit 10.11 Industry Attractiveness and SBU Strength Matrix



For each business in the total portfolio, a circle depicting the size of the industry is drawn and the circle is shaded to show the market share of the company.

This model suggests a screen of three colours and the SBUs may fall into any of these coloured screens.

i. If a SBU falls where industry attractiveness and competitive position is low, a no-growth i.e., stop strategy is adopted and it appears on the red screen. It is expected that earnings may be there but no investments are to be made.
ii. In case industry attractiveness is medium and competitive position is high, a growth strategy is evolved, requiring investments and appears on the green screen.
iii. Yellow screen points out to either growth or to no-growth strategy to choose and SBUs that have high industry attractiveness and low competitive position appear on this screen.

DIRECTIONAL POLICY MATRIX OF SHELL

Refer Exhibit 10.12 that shows Directional Policy Matrix of the Shell. The matrix is self explanatory.

OTHER MODELS AND UTILITY OF MATRICES

Almost all the matrices are based on similar principles in the sense that most of the portfolio analysis tend to correlate profitability with market share. The portfolio analysis does not have much applicability where market share is not critical, capital withdrawal is difficult, value added is low, business is cyclic etc. These models must be used along with other analysis techniques to derive meaningful strategies.

SWOT ANALYSIS

Strength and weakness are relative terms. Resources available in plenty may appear to be a strength but if not utilised may cease to be a strength. Corporate strength is a competitive advantage and through other competencies, a company may exert change mechanisms in a industry A corporate weakness refers to constraints or hindrances that tend to stop movement of a company in certain directions decided as strategic directions for the company and also inhibit a company to achieve core competencies.

Criteria

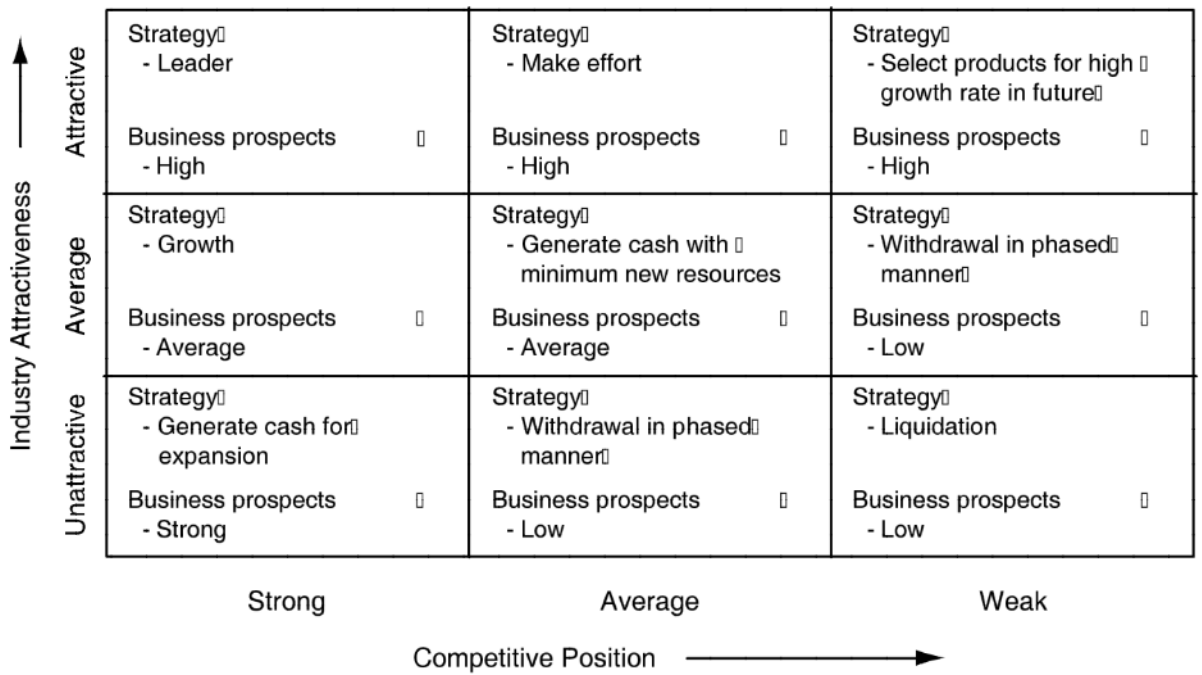
Various criteria can be used to define whether a specific corporate capability is a weakness or a strength.

In historical criteria analysis, a specific characteristic is seen in the light of the history and past performance and is evaluated based on certain indices like sales, profits, market share etc. to determine whether it had been a strength or a weakness.

In normative criteria a particular characteristic is seen in the light of what it ought to be from the point of view of experts, based on which norms can be developed to categorise it as a weakness or a strength.

In competition equality criteria, it is assumed that the characteristic selected should be at least at par with the competitors and based on a comparative yardstick it may be considered as a weakness or a strength.

Exhibit 10.12 Directional Policy Matrix of Shell



Measurement of Strengths

The strengths and weakness occur in various forms and degrees. Various methods are used to give objectivity to measurement of weaknesses and strengths that are discussed below:

i. A list of attributes of a company may be prepared. Each of these attributes or characteristics may contribute to the growth of the company through distinctive competitive advantage due to a definite degree of presence of an attribute that would indicate the extent to which a specific attribute is a strength or weakness. Usually, a unit of measurement is quite difficult. However, a scale must be chosen and classifications made.

ii. Statements on health care education, training etc. of their employers or statements reflecting leadership, innovation, R&D etc. show that a company values these attributes as their strengths.

iii. For certain statements like shared values, congenial climate and culture, managerial competence, initiative, human relationship skills etc., no specificity can be attached and it may be difficult to measure their efficiency or effectiveness and only a subjective evaluation of these factors can be made.

iv. It is easier to measure the functions at SBU level like market share, cash flow, finances, productivity of systems etc.

Format for Measurement of Strengths

Various methods and systems have been developed for measuring strengths and weaknesses. In the following paragraphs a few methods are suggested:

Attribute Checklist Exhaustive list of attributes have been prepared by different consultants. These generalised lists of attributes may not be applicable to a specific company, and individual companies should prepare their own attribute lists through brainstorming, discussion etc. in different areas like finance, marketing, personnel, production, technology, social etc. (Refer Exhibit 10.13).

Exhibit 10.13 Illustrative List of External Factors for Industry Attractiveness Analysis

Factors		Rating				
		1	2	3	4	5
Market	Market share					
	Market expansion rates					
	Sensitivity					
	Business cycle periods					
	Assumed markets					
	Profitability					
	Sensitivity to product differentiation					
	Number of market place					
	Share rate fluctuations					

Competition	Indensity
	Nature
	Rules of business
	Barriers to new entry
	Ease of exit
	Capacity utilisation
	Obsolescence rate
	Fluctuations in levels
	Growth rate
Economic	Globalisation and Liberalisation
	Inflation
	Currency Position
	Wage levels
	Raw material rates
	Human resource availability
	Regulations and laws
	Taxation
	Government policies
Technological	Patents
	R & D expenditures
	Complexity
	Rate of technology growth
Social	Ethics
	Ecological effects
	Law of consumer protection
	Education
	Demography
	Unionism
	Adaptability
	Standard of living
	Wage pattern

Conceptual approach The conceptual approach divides an organisation into major categories viz. finance, operation, management, technology etc. and suggests to list various key factors that contribute to success or failure of a company. Some authors suggest a format wherein three categories viz. management, operations, finance are suggested. The broad functions are further fragmented to include detailed issues like strategic planning process, systems, culture, capital structure, working capital, productivity, etc. The purpose is to highlight their appraisal and also redeployment. In case of finance dimension, the financial analysis may indicate only symptoms and not cause-and-effect relationship diagrams. Similarly in operations category, business processes to convert an offer into an order, to add value to materials, is done at certain costs and within agreed schedules, and computations to assess effectiveness of production systems and benchmarking them with competitors, would reveal whether in a specific area a company is weak or strong. Various audits can be planned and

organisational strengths measured and evaluated through these audits and course corrections done, if required.

Profile of strengths and weakness Based on the above analysis, strengths and weaknesses can be presented in the form of a profile. The objective of preparing a profile is to present a consolidated data to strategist, which is ranked and thus critical factors identified. Usually a code of zero, showing neutral, + (plus) showing strength and – (minus) showing weakness is followed.

Grid method In this method, a grid is created for different areas like general management, R&D, operations, marketing, finance etc. taken on Y-axis and various factors like facilities, equipment, trained manpower, infrastructure, experience on X-axis. Each attribute is attached with efficiency or effectiveness symbol as the case may be.

7 'S' framework The profile of a company can be drawn on the basis of 7 's' framework that consist of strategy, structure, systems, shared values, skills, style, staff on the Y-axis, and functions viz. marketing, finance, human resources, production etc. on the X-axis. The factors of the 7 's' framework will depend on the level at which this exercise is being done.

Process of Identification of Strengths and Weaknesses

The methodology consists of the following alternatives.

Questioning A survey may be conducted and the perception of executives of a company about strengths and weaknesses in different functional areas collected. Outside respondents, like suppliers, customers, dealers etc. may also be questioned and data collected for analysis.

Observations Observations on behaviour, attitudes, reactions of executives, suppliers, customers etc. on various functions of an organisation may be made and data collected.

Record examination The record of performance based on various factors like speed of operations, quality, skills, market behaviour etc. may be collected and analysed.

Evaluation of Threats and Opportunities

The environment of a business presents various opportunities and threats to an organisation, and being aware of them is vital for any company. A number of factors and forces combine in various ratios to form opportunities or threats.

A threat is a challenge posed by an unfavourable trend or development, emerging from environment that may lead to the down slide of a company. An opportunity, on the other hand is a development in the environment that would strengthen a company's position if properly availed by the company.

Environment can be classified as mega or micro. The mega environment is generally referred to as total national or international environment, whereas micro environment

is quite immediate and affects the competition, suppliers, customers etc. Environment can also be viewed as relevant or remote. Analysis of relevant environment leads to understanding of existence of opportunities, sources of threats, and an indication of key success factors. An environment that consists of suppliers, marketing intermediaries, customers, users etc. require detailed analysis for understanding of threats and opportunities.

Impact of Opportunities

Every company is keenly interested to know the opportunities that exist for it that can be exploited for maximum benefits. Companies can adopt various methodologies for measuring the impact of opportunities and also assess when an opportunity becomes a threat.

Developing Opportunity and Threat Matrix

The opportunities and threats can be ranked as per their impact and occurrence and can be plotted as shown in Exhibits 10.14 and 10.15. The impact or occurrence can be evaluated on a five-point scale. The probability of occurrence can be decided, based on past records, questioning, model studies, surveys, and study of forecasts etc. A continual trend analysis of various opportunities and threats can also be carried out.

Exhibit 10.14 Opportunity Matrix

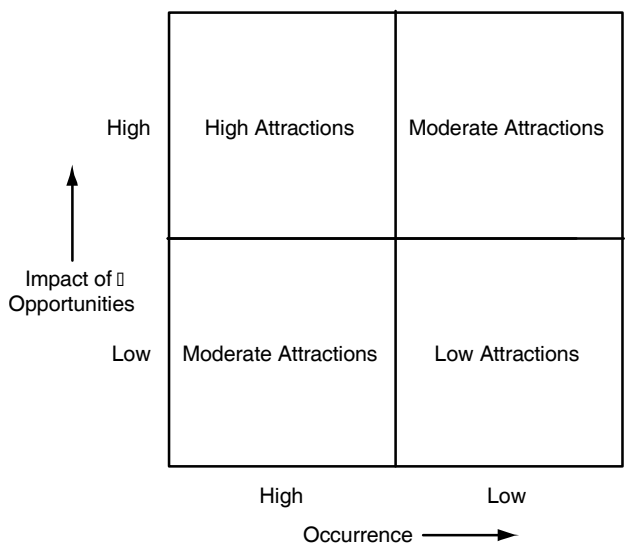
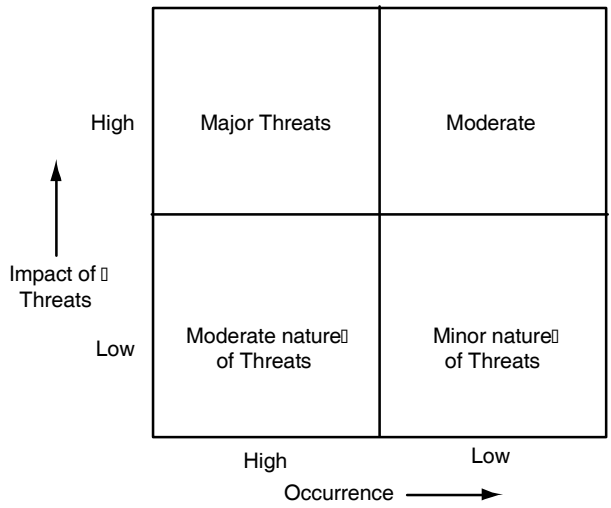


Exhibit 10.15 Threat Matrix



Matching of SWOT Analysis and Strategies

The objective of SWOT analysis is identification of SWOT profile of a company and narrowing down choice of alternatives of strategies. SWOT analysis can be used in the following ways.

i. SWOT analysis develops a framework, based on logic that helps in systematic and step-by-step discussion of a business situation, alternative strategies, and selection of a strategy. A systematic SWOT analysis, crosses all the functions of a company and thus covers all the aspects of an organisation.

ii. Based on SWOT analysis, it is possible to compare the external threats and opportunities faced by a company with internal key strengths and weaknesses in an organised way.

Quadrant 1

This is the most favourable situation for a company, where opportunities exist and also the matching strengths, hence aggressive strategy may be used to culminate in the growth of a company.

Quadrant 2

The strengths are not in tune with the opportunities in this quadrant, hence a company may decide for diversifying. A company may choose to use its current strengths to create new opportunities in a different product or market.

Quadrant 3

In this quadrant, a company has many opportunities but is handicapped with many weaknesses. The company may choose to eliminate the internal weaknesses through a turn-around strategy.

Quadrant 4

This is the least favaourable quadrant. A company in this quadrant has both internal weakness coupled with threats in those specific areas. A company may adopt strategies to redeploy resources in favourable quadrants.

The objective of the above presentation is not to enclose companies in various quadrants but it is to pictorially present overall company position. It must be appreciated that such positioning is not static and continuously changes. Usually companies face threats and also opportunities and the approach of a strategist may be to exploit opportunities with use of strength i.e., deal from a position of strength or work to overcome all the weaknesses and work to make best use of the opportunities present in the environment.

Developing Matrix for Grand Strategy

A matrix as shown in Exhibit 10.16 can be used to develop

i. the basic purpose of the grand strategy chosen,
ii. the choice between internal or external or both resources for the purpose of growth and profitability.

Thus the selection of a strategy is based on matching the internal or external growth, with the objective of overcoming weakness or maximising strengths.

Exhibit 10.16 Matrix for Grand Strategies

Overcoming Weakness	Quadrant 3 - Liquidation - Divestitute	Quadrant 1 - Integration in Vertical Direction - Diversification in Unrelated Areas
Concentrating on Strength	Quadrant 4 - Concentration Strategy - Developing Markets, Products - Innovation etc.	Quadrant 2 - Integrating Horizantally - Diversification in Related Areas
	Use of Internal Resources	Use of External Resources

Quadrant 1

The SBUs in this quadrant have very narrow choices and hence are committed to specific businesses that have hardly any growth prospects. The SBUs operate in high

risk zone. They are left with the choice of integrating vertically to reduce risks on the upstream or downstream. Diversifying into unrelated business may be another alternative, However, managers should be cautious against acquiring more weakness by spending a huge amount of money and time.

Quadrant 2

SBUs that divert their resources from one business to another fall into this category. There may be a deliberate effort to prune the current business activity or an effort to maintain basic mission but develop competitive advantage in some other area. It may adopt retrenchment to streamline its operation, eliminate inefficiencies, and non-value adding operations. If expenditures for these are high, they may also decide to liquidate.

Quadrant 3

There are SBUs that believe in strengthening themselves through expansion of market share or thrive on economics of scale or use some other means for enhancing their internal strength. They fall under this category and they usually prefer concentration approach. The investments are ploughed back to fortify strengths.

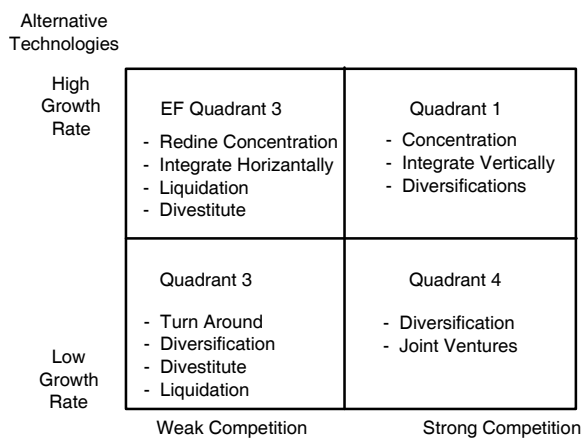
Quadrant 4

In this quadrant, companies that expand their business horizontally to gain leverage on output capability and use management capabilities in converting the acquired facilities into its competitive advantage, are graded. The competitive advantage may culminate from concentric diversification or from a joint venture.

GRAND STRATEGY CLUSTERS

Thompson and Strickland modified BCG growth share portfolio matrix and chose the following two dimensions for defining a business situation (Refer Exhibit 10.17).

Exhibit 10.17 Grand Strategy Clusters



i. Growth rate of general market
ii. Competitive position of a company in that market. Based on the above, SBUs can be classified into the following broad categories :
   - Strong position in a growing market.
   - Weak position in a growing market.
   - Strong position in a weak-growth market.
   - Weak position in a weak-growth market.

Highlights of SBUs in different quadrants are as follows :

Quadrant 1

i. SBUs can continue to concentrate and it may not be worthwhile to switch over to some other strategies.
ii. Vertical integration must be resorted to when current concentration strategy demands are not met by resources of business.
iii. SBUs may consider diversification in related areas to eliminate risks to concentration.

Quadrant 2

i. SBUs in this quadrant must reconsider their approach to market and reassess their competitive capability, which may result in revamping of their concentration strategy.
ii. In case SBUs lack core competencies or are unable to derive benefits from economics of scale, they may go for horizontal integration.
iii. In the worst case, liquidation may be resorted to.

Quadrant 3

i. The SBUs in this quadrant face slow market growth and comparatively weak competitive position and they tend to withdraw their resources.
ii. Withdrawal of resource is coupled with retrenchment to create funds that can be redeployed to enhance assets or used to motivate people to increase efficiency.
iii. The resources may be utilised in the expansion of profitable SBUs or in diversification.
iv. The final option may be liquidation.

Quadrant 4

i. SBUs in this quadrant have strength that can help them to diversify into more profitable businesses.
ii. Concentric diversifications can be better for them due to their proven ability and strength in business.
iii. They may also go for joint ventures.
iv. They have the final option in going for diversification in unrelated areas where they increase their risks.

BEHAVIOURAL DIMENSIONS IN STRATEGIC CHOICE

Making a clear strategic choice is quite difficult and it is hardly the case that clear and simple strategies will be decided. There is a lot of subjective element in taking a decision and several viable alternatives exist and choosing the best suited for a company in given circumstances is affected by several other factors that are quite pertinent. Some of these dimensions are discussed below:

Effect of Past Strategy

We are influenced by past events, trends, analysis, behaviour, strategies etc. The current or future based on the past strategies that have created the present has consumed time, money, and other resources to give a definite shape to the present. Hence, it is quite natural for strategy makers to do something that would be parallel to the past. This thinking is present in the fabric of a company and is reinforced by managers, supervisors, and workers down the line. Old habits die hard. People tend to build their security of survival around the past practices, ways of doing things, and strategies. The times change very fast and business environment undergoes changes and presents new situations, challenges, threats etc. It is often found that new situations are dealt-with in old ways and people find solid reasons to defend old strategies. However, soon such attitude starts reflecting in the company's performance and often at such junctures, the management of a company is changed to bring in fresh air of innovative thinking.

Influence of External Dependence

We have discussed in detail how the environmental factors like technology, social, political, competitive etc. affect the business of a company. The influence of environmental factors on strategic choices cannot be ignored. A strategic choice made by a company is guided by its external factors, which may arise due to customers, suppliers, regulators, business drivers, and stakeholders, etc.

The flexibility of a firm to make strategic choices reduce as its dependency on external factors increases. Sometimes the representative of external factors that are significant may also participate in selection of strategic choice. Sometimes companies take up joint projects with customers and vendors to evolve strategies that would help them to be competitive (Refer Exhibit 10.18).

Exhibit 10.18 Need for Strategic Orientation

It is a matter of joy for the garment industry because when all Indian Exports have shown a downtrend, the garment export has registered a growth of 10 percent in 1997–1998 over the immediate past year. The market for Indian companies is in over 100 countries consisting of US, Europe, Middle east etc., however, the shares is only 2 percent in the world market. New competitors like Indonesia, Thailand, Bangladesh etc. are fast emerging in addition to the present giants like China, Hong Kong, and Turkey.

Various challenges being faced by the Indian companies are the planning out of quota under multi-fiber arrangement (MFA) enjoyed by India by 2005 as per WTO agreement, nucleation of regional trading blocks viz. NAFTA, EU, SAFTA, etc., leading to discrimination of non-members, dwindling margins due to increased competition, principal markets EU, Japan, Australia etc. remaining sluggish, the loss of advantage of cheap labour due to technological development etc.

The garment industry has been facing many problems viz. inconsistent availability of good quality of fabric, non-availability of packing material, poor transport infrastructure, unstructured and unorganized small and medium scale units, relying on sub-contracting plagued by long lead-times and poor quality, disqualification of a large number of exporters by Apparel Export Promotion Council for not fulfilling the export norms, mid-term down-ward revision of drawback rates etc.

The industry must take bold steps to turn to new markets in Japan, Middle East, South Africa etc. and should shed off its excessive dependence on cotton-based garments.

Source: S.N. Panigrahi, "Grament Export: A Strategic Shift Needed," *Industry Economists,* 15–29 January 1999.

Risk Taking Capability

The anticipated perils of selecting a strategy influences choice. Companies usually want to operate in a risk-free environment. We also know, generally as the risk increases, potential rate of returns, if they occur, are also quite high that makes risk taking attractive. Nevertheless, managers try to reduce the risks to a minimum through meticulous planning. The high risks also result in expansion of a number of alternative strategic choices. Where risks are low, choices of alternatives are small and hence growth rates are also slower. Managers, who can take risks, prefer opportunistic strategies. Risk averse managers are satisfied with lower returns and want to play safe. Usually in volatile industries, one of the core competency of managers is to take risks and exploit opportunities coming their way and hence they have a wider choice of strategies. A firm that has just entered into business usually operates in higher risks compared to those firms that have been already in the field. Hence comparatively new firms have much wider choice of strategies. Managers who have an inclination towards taking risks have higher pay off due to selection of vigorously offensive strategies and they value innovation, core competencies, and competitive edge. The managers choosing safe strategies are defensive and work towards minmising weaknesses and corresponding threats and do not rely on uncertainties that crop up due to innovation (Refer Exhibit 10.19).

The above is only a comparison of risk taking and risk averse approach and to draw a conclusion about an approach being good or bad may not be correct. The purpose is to understand influence of risk taking on various strategic choices available to managers.

Exhibit 10.19 Euro Effect

Single currency should make life easier and also lead to fall in prices of companies doing business in Europe due to the birth of the Euro. The European market and its predecessor, common markets that have existed for 40 years probably never thought of it to be a single market. However, many international companies treated Europe as one big market from the beginning. In the near future, the Euro would create pressure for a global currency as the two big rival currencies viz., dollar and yen, in part, have created turmoils in foreign exchange markets. It is expected that the dollar and Euro will become more volatile, creating bad times for businesses. To limit fluctuations within the Europeans countries, they have locked the business in a single currency.

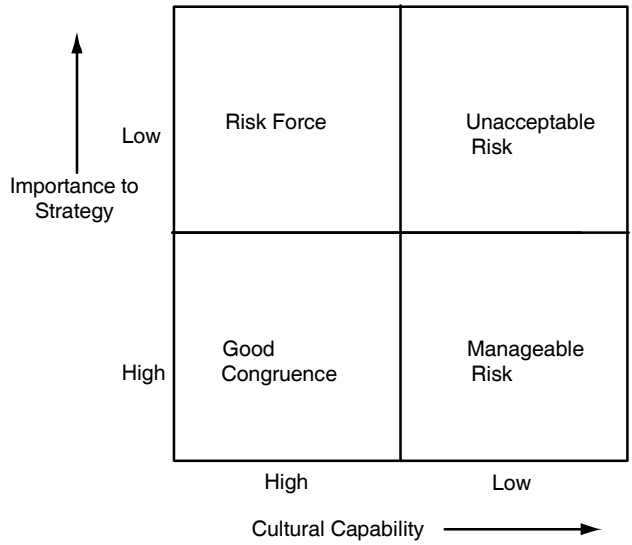
Source: V. Bala Swaminathan, "Giving Dollar A Run", *Industrial Economists* 15–29 January 1999.

Influence of Culture and Power Relationships

Every organisation has a culture that is based on values that a firm pursues. These are specific to an organisation and include factors like corporate image, quality of decision making, perception about company, and availability of opportunities to the employees to take challenges, working conditions, etc. The strategies chosen must account for these factors. The real value of organisational and employee characteristics hinge on creating of conducive environment for strategy selection and implementation (Refer Exhibit 10.20).

In most of the organisations, there exist many power relationships emerging from various influential groups present in organisations. Frequently the selection of strategies in an organisation is governed by these power equations rather than using other analytical or judgemental techniques. The CEO of a company exercises a lot of influence and plays a major role in the selection of a strategy. The group usually follows the CEO and gives a nod to whatever choices he makes. In very large firms, clusters of power are formed. Coalitions are also formed for mutual benefits of these power groups. Managers who are part of these coalitions support or oppose certain strategies. There are some coalitions that are strong and there is some bargaining that takes place amongst the weak and strong coalitions on various strategic choices.

Exhibit 10.20 Cultural Capability



The challenge that a strategic manager faces is of managing these coalitions and identifying strategic choices that would benefit a company. It is vital for a strategy manager to clearly understand these political biases and manage to avoid dysfunctional bias.

Organisational politics is a necessary part of some organisations and there is no point in calling it as good or bad. The prudence lies in accommodating them and managing them most effectively to meet organisational objectives. It is the duty of strategy managers to realistically recognise the power of coalitions and invite more commitment from them to arrive at workable solutions. This exercise may take a little more time, but it may be worth it.

Considerations of Time

An organisation faces many opportunities and also anticipates many of them in future. Integration of all the functional plans and strategies is dependent on the timing of selection and implementation of strategies with effective dove-tailing of various plans. The time element has considerable effect on choice of strategy. If strategies are not chosen in proper time perspective, they may be inopportune and may become obsolete.

A good, thought-out strategy may be disastrous if timing of decision or implementation is not correct. Every decision requires some lead time and any delays in taking timely decision on these resources may make the choice of strategies meaningless. The strategic choices are often dependent on the management's understanding of the time horizon and the lead time required for implementing the strategies. The pay offs and the breakeven points are also tied with time dimensions.

Reaction of Competitors

As soon as strategic decisions are taken in a company, the competitors start reacting to strategic choices as soon as they sense them. Hence while taking strategic decisions, the strategy manager must assess the likely reactions of the competitors. In case a company is going for joint ventures, the competitor may react through a compatible strategy to counter balance the strength gained. Similarly, if a company adopts an aggressive strategy to challenge the key competitor, it would expect a more aggressive reaction from the competitors, and the company must have enough resilience to absorb the probable impact.

Accounting for Contingencies

The future is quite uncertain. There may be a change in government, policies of government, customer preference, market conditions due to a war, financial, and economic conditions may go into an upswing or there may be a major technological breakthrough, leading to contigencies of different kinds. Companies have to essentially build margins in their strategies for unforeseen happenings in the business environment. These changes may not be usually in tune with forecasts and Assumptions, giving rise to contingencies. The contingencies may be positive or negative. To face negative contingencies, companies may adopt a contingency approach in strategic choice. The field force analysis is made and negative contingencies are defined. Managers prepare for meeting these contigencies by developing alternatives. In case of a strike, a company may decide to get the goods manufactured from an outside source as done by many companies during periods of unrest. For contingency approach to be successful in making choices for strategy, flexible organisational structures have been found to be responsive to cater to the emergencies. Development of three scenarios of business viz. pessimistic, optimum, and optimistic also prepares managers to meet contingencies. A model of contingencies, based on contingency planning process can be developed and specific steps of identifying contingent events, identifying trigger points, and developing strategies to meet contingencies can be developed by managers to aid the decision-making process.

CHAPTER

11

OPERATIONALISING AND IMPLEMENTING STRATEGIES

We have discussed the process of selection of strategies. Once a strategy or a set of strategies is finalised the next step is to implement the strategy in the previous chapter. The implementation of new strategies is obviously for growth and development of an organisation and hence the process may also be called as corporate development or reorientation. The key requirement for implementing the strategies is deployment of resources. Resources can be of any type like man-power, money, time, building, road etc. The strategies which have been chosen for implementation would need some resources for them to be successfully implemented. The resources may be altogether new or may be redeployed from the existing resources of a company. There are other aspects like search for approriate technology and the management of implementation of strategies. Success of any strategy depends, to a large extent, on its implementation. This aspect of strategic management has been experienced in several industries and has been emphasised by various management experts.

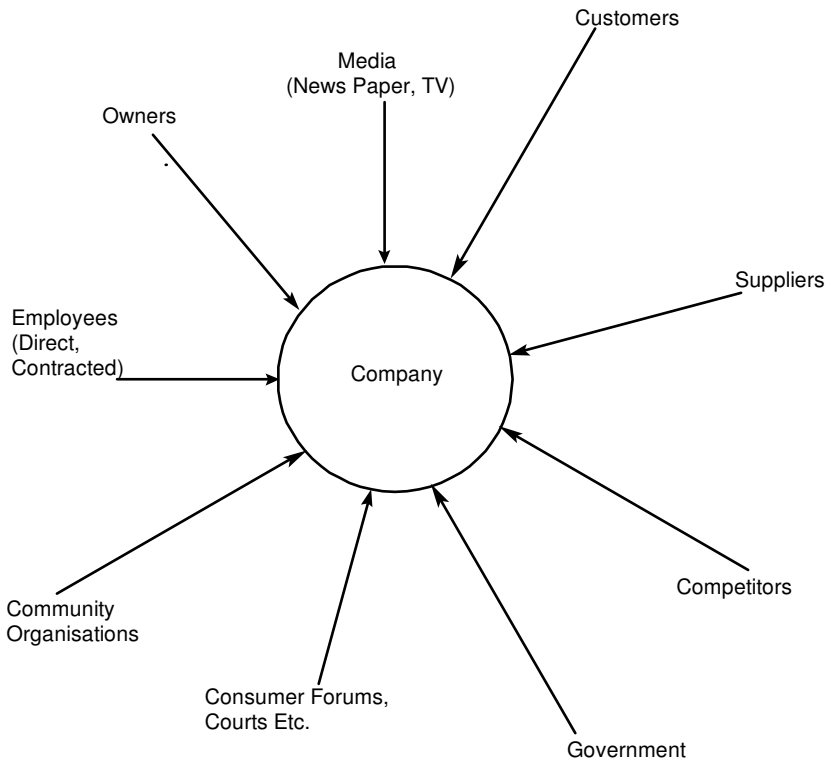
The corporate development is a very complex task because it involves various aspects like vision, mission, policy, structure, strategy, systems, markets, competition, and the total frame work of corporate development demands proper dovetailing of all these factors as all these factors are interdependent. Slackness or failure in any one of the aspects may work out to be very costly for any corporation.

The development process is basically a change process. The change is usually very painful and is resisted by all concerned. The status quo may not be safe and conducive for growth, but still people do not want change due to mental blocks which arise out of habits, culture, fears, security, etc. The change also requires people to acquire new skills, adapt to new changes in environment, systems, and may be new people.

The implementation and operationalising of strategies cannot be viewed as a discrete and separate step. The process starts rolling as soon as the strategies start

taking shape. The analysis and evaluation of strategies is also done on the premise to operationalise them. The choice of strategy is often constrained by the existing structures, systems, policies etc. and the success depends on how well a company can manage to alter them, if required. Any organisation in this era cannot afford to be only inward looking due to fast pace of changes that we are witnessing. The organisations will have to open up and see what various business drivers require from a company (Refer Exhibit 11.1) and accordingly the organisations will have be proactive or reactive or as they choose to be. Before we go into details of process of operationalising strategies, let us consider the single most important factor in a company which binds together the entire organisation and gives a purpose to it for its existence i.e. objectives.

Exhibit 11.1 Requirements from Various Business Drivers



OBJECTIVES

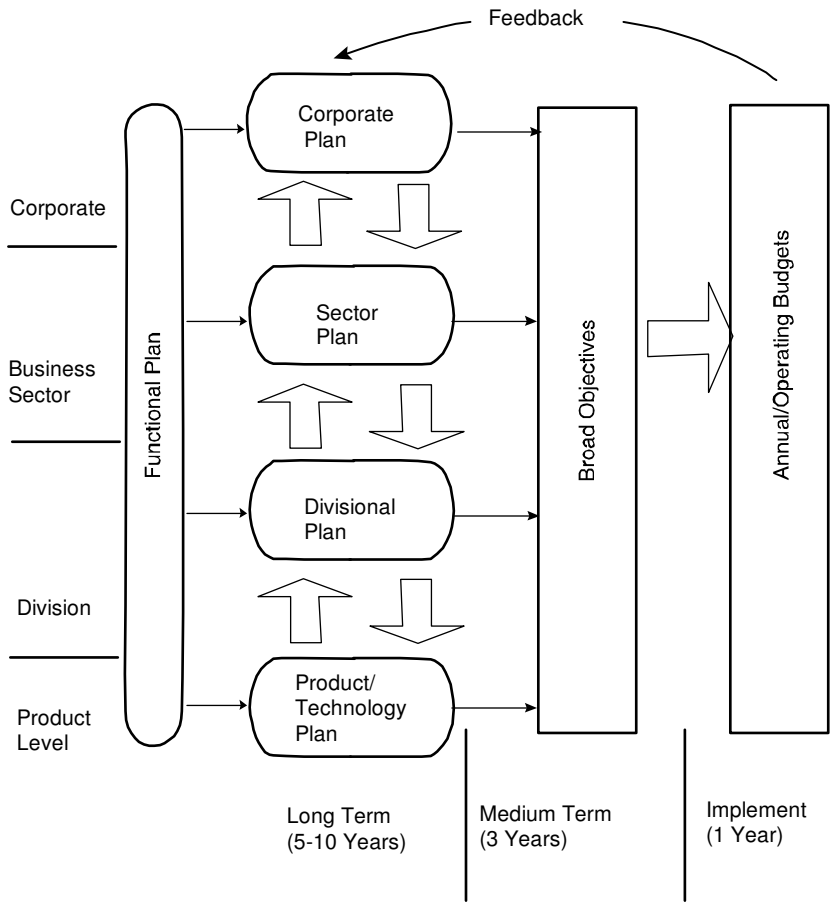
Every company has a vision of its future based on which it develops long-term objectives. The long-term objectives which a company decides for achieving are accomplished annually in a step-by-step fashion.

ANNUAL OBJECTIVES

Annual objectives are detailed objectives which emerge from long-range objectives of an organisation and are related to budgets and plans of that specific year. A clear annual objective helps in implementation of strategies more effectively.

Annual objectives must be related to the long-range objectives and also to the strategies, and all these must be in tune with each other. If annual objective are achieved then a part of long-range objectives is automatically accomplished. The non-accomplishment of annual objectives trigger off an alert to the top management with regard to chosen strategies (Refer Exhibit 11.2).

Exhibit 11.2 Result of Non-accomplishment of Annual Objectives



Characteristics of Annual Objectives

Annual objectives are specific and measurable. Some additional characteristics of annual objectives are as follows:

Long-range objectives The long-term objectives such as market share, ROI, Return on equity (ROE), entry into new markets etc. are fragmented into measurable units based on budgets of that specific year. Hence annual objective should be linked to one or more long-range objectives.

Basically, long-term objectives operate in a time frame of four to five years unlike annual objectives which are for that particular year. Hence long-term objectives focus on future and annual objectives focus on the functional achievements of the company for one year. (Refer Exhibit 11.3 for growth plans of a typical company).

Long-term objectives are not quantified and not directly linked to functional areas, hence annual objectives which are specific and quantified are easily measurable due to data generated in a company.

Integrated and coordinated objectives The objectives must be interwoven into the very fabric of organisational working systems. In several large companies it is found that the objectives of various functional groups such as manufacturing, design, marketing, quality control, and despatch etc. conflict with each other on certain dimensions, thus accelerating conflict, confusion, and chaos, leading to failures.

Implementation and operationalisation of strategies depends on coordination and integration of objectives of various functional groups such that energy from each of the functional groups is concentrated towards meeting the organisational annual objectives. In case of conflicts, these need to be sorted out through participation of all concerned to resolve the differences.

Consistent objectives Every organisation has many functional groups and each functional group has managers at various levels. The managers at each level in these functional groups may develop their own objectives which may not be consistent with the overall strategies and objectives, thus making the total effort dysfunctional. Each annual objective at each level should spell out what, when, and how dimensions, and also the method of measurement should be clearly specified and known. This would avoid misunderstanding and would introduce consistency in purpose and direction. Thus a blue print of methodology of accomplishing the laid down objectives must be made and a matching system evolved for measurement.

Measurable objectives Non-measurable annual objectives introduce ambiguity, hence an effort should be made to lay down, direct, or indirect measurability of objectives, which also helps in implementation. It is necessary that all concerned should agree for the same yard stick for measurement. The measurement criteria should be selected, based on the underlying objective to make measurements meaningful.

Exhibit 11.3 Corporate Plan: Process Comparison

1974 PLAN	1982 PLAN	1985 PLAN	1988 PLAN
(1974–80)	(1981–90)	(1985–90)	(1990–2000)
A Small group of top executives formulated the plan and it was a top down process	Top Management laid down guidelines	Updation done taking into account VII five year plan	Top down guidelines and bottom-up approach for plan preparation
Broad directions only and no figure work	Taskforces formed with a cross section of people from MFG. DIV. & CORP. Office to draw up divisional plans	Yearwise projections made upto 1989–90	Product managers the basis for product Strategies
Leadership provided by top executives at corporate office	Consolidation of these into a corporate plan at corporate level.	Attempt at defining functional plans	Leadership provided by units heads in offining the divisional plans
	Growth perspective document containing projection for 1984–85 and 1989–90.	Leadership provided by unit heads in defining unit strategies as well as corporate strategies	Detailed functional plans
	Bottom-up approach adopted for detailing		Yearwise details for 1990–95 and a one time projection for 1999–2000
	Leadership provided by unit heads in divisional plans		Participative and interactive exercise
			Number of iterations many
			Resources requirements like investment, manpower, needs etc. worked out independently

Prioritised objectives Objectives should be ranked depending on their impact on strategies. Time is a very important dimension in annual objectives and if objectives are not achieved within the specified time limit, then other activities may be thrown out of synchronism. Priorities are usually set by ranking the objectives through assigning of weightages and are classified into three basic categories signifying top, medium, and low priority.

Advantages of Setting Annual Objectives

Following are some of the advantages of setting annual objectives.

i. These provide tangible growth targets.
ii. These give focus to growth direction.
iii. These give a role clarity to managers at various levels.
iv. These help to mobilise people is direction of growth and invite their participation.
v. These give opportunity for participation at all levels thus unifying the functional groups for targets.
vi. These provide a basis for strategic control.
vii. These provide motivation for employees to contribute in organisational and their own growth.
viii. These provide challenge to functional groups.
ix. These clarify the role to be played by each employee.
x. These act as a tool to operationalise the strategies.

FUNCTIONAL STRATEGIES

A functional strategy is essentially a strategy confined to a particular functional group of company like marketing, production, sales, etc. and detail out blue print of grand strategies. These translate the grand strategies decided at corporate level into specific action plans for each function within a company. The functional strategies must be coordinated at company level and must support the grand strategies. These are specific to functions of the organisation and provide specific guidelines for each business. There are some basic differences between business and functional strategies as discussed below.

1. The functional strategies are for comparatively shorter periods whereas the business strategies are for longer periods of time. Shorter time frame for functional strategies enables managers to focus attention on immediate needs of business. Shorter time frame also enables managers to make course correction to accomplish long-term objectives through business strategies.
2. A functional strategy is comparatively more specific, clear, and objective compared to the generalised nature of business strategies. The functional strategies specifically answer the question how for a specific functional group for achieving the set targets. The specificity introduces higher success factor in operationalising for accomplishment of objectives.

3. The level of participation in functional and business strategies is quite different. Business-level strategies are chosen by top management whereas functional strategies are given shape by managers who are responsible for each function of an organisational unit. Top management establishes long-term objectives whereas functional managers establish annual objectives.

Since functional strategies are developed by the functional heads through participation of other managers, successful implementation and operationalising of strategies is simpler due to the onus of the managers involved.

FUNCTIONAL STRATEGIES IN KEY AREAS

The key decision variables in each functional area are different. Further, in each functional area, different variables assume different importance during varying business situations.

Marketing

We can fragment the total marketing function in various components like market research, price, market segments, market place, sales, etc. and a company designs strategies in each of these areas by asking specific questions and searching for their answers. Marketing function, for ease of understanding has been broadly divided into following categories (Refer Exhibit 11.4.).

Products are a bundle of functions. When a customer buys a product, he in fact buys certain functions and if a product does not perform the expected functions at the desired level and with desired reliability, it is rendered useless or it is said to have poor quality of performance. Functional manager in marketing research makes strategies to understand the apparent and intrinsic requirements of the customer and accordingly offers products and services.

The functional managers also focus on product attributes due to which it sells and try to enhance product features by either designing the product at the same cost and enhanced functions or at lower costs with same functions or with a mix of the two. From a variety of products, which forms the total range of products, there are certain products which are emphasised by the functional managers due to several factors viz, product leadership, cost, profit margin, product attractiveness, packaging, warranty, accessories etc.

Exhibit 11.4 Strategic Directions for 90's

- Enhancing competitive position in the global context to stimulate growth in both domestic and international markets.
- Apart from efforts in Existing and New Business areas, increased focus on After sales service.
- Diversity/Expand into new growth areas, where existing infrastructure/skills could be most gainfully utilised.

- Renewed thrust on exports.
- Entering into joint venture/consortium arrangement with other companies.
- Cost effective indigenisation, selective modernisation and upgradation of facilities and technologies to sharpen the competitive edge.
- Fresh approach to HRM.

Availability of products when they are required by the customer should be ensured and functional strategies should adequately cover this aspect. Hence where, when, and how the product or service is available to customers should be outlined as part of the functional strategy, which implies that distribution channels and product outlets and management of product availability should be covered by the strategies. The promotion of product or service i.e. advertising, personal selling, distribution of samples, media selection etc. are important aspects and must be addressed.

The functional strategy on pricing is one of the most important tasks of strategy managers and the pricing policy considering demand and supply, profitability, regulatory requirements etc. must be established. The pricing strategy could be market oriented, cost oriented, customers oriented, product functionality oriented, competition oriented etc.

Finance

Finance is the blood stream of any company since the ultimate objective is also to generate profits and create surplus to permit continuation of company. Financial functional strategies can be viewed in time frame reference as immediate and long term. For immediate future, the financial strategies are based on immediate financial resources. The long-term strategies account for investments for longer periods of time, debt financing, allocation of surplus and using finance as leverage for company's performance in competitive environment. Key functional strategies on capital acquisition answering questions related to cost of capital, its optimum portion for short-and long-term debt, the balance to be maintained between internal and external funding, the risks attached with capital acquision etc. should be formulated. The capital allocation is one of the crucial aspects of strategising wherein priorities for allocation, basis of selection for allocation, level of allocation and the delegation of powers for capital allocation are detailed out. Operating cash dividend and capital management are a few other aspects where financial strategies at functional level must be formulated covering various aspects like portion of earnings to be paid as dividend and its stability, form of dividends to be paid, cash flow needs and balance limits of cash and cash collection procedures and limits etc.

Research and Development

Some companies keep on doing research and developments and spend a fixed percentage of their earnings in research and development to further enhance their core

competencies. We observe that today rate of change is quite fast and R&D has assumed a role of key functional area and has also become one of the core areas of thrust, requiring strategic decisions. The strategic decisions involved in a typical company are, whether it would go into basic research or product development or it would go for collaborations. It must however be appreciated that in certain fields even collaborations may not be available and even if they are made available they would be either too expensive or would be available only for second-grade technology. A new arrangement of joint ventures is gaining popularity wherein the leader in joint venture may balance its weakness by joining hands with another company such that the group may emerge stronger. Clear strategies on basic research and commercial product development should be spelt out to enable managers to work as per the guidelines. In this context, the strategic projects which would assure immediate gains and those which would give competitive edge in the long run must be listed out. The emphasis should be clear on long-term and short-term projects with focussed strategies on market or production functions. Strategies on doing in-house R&D or buying of technology should be clearly defined. The business strategies on relationships between product managers and marketing manager, strategic posture of the firm which is to adopted and vigorous offensive or defensive strategies which a company may adopt need special mention here. A company may adopt offensive strategies wherein it would strive hard to develop new technologies and would innovate because it would be the basis for future success of the company. Companies may also choose a combination of offensive or defensive strategies.

Production

Production is the key function where value is added to the raw materials to create a product. This value addition process in any company should be cost effective, fast and without quality problems like rejections, reworks, etc. The technology followed would reflect on profits and total operations of a company. The business strategies to reduce cost and enhance quality is the prime concern of the functional head.

Off late high inventories have been a problem for bigger units. The bigger size of units leads to a certain degree of stiffness in processes of business which further results in larger lead time for procurement of materials culminating into high inventories, thus adding to costs. The higher invesments in inventory leads to blockage of cash. Companies make strategies on this aspect of investment and make systems to optimally plan receipt of materials such that money is not blocked and also the operations are not affected due to non-availability of materials. Some companies are quite fortunate to be strategically located and can get raw materials whenever these are to be consumed. This is true with M/S Toshiba of Japan, where they can get the required plates from just across the waters from M/S Nippon steels unlike many companies in India who have to order thick plates at least eight to ten months in advance.

Another aspect of strategies in production area pertains to location, facilities design, planning, budgeting etc. wherein clear strategies need to be defined by the management. Regarding facilities, various question related to utilisation, centralisation

or decentralisation, their integration with regard to business processes, their mechanisation and automation, size, capacity, maintenance, disposal etc. must be answered by the functional strategies. Regarding procurement of materials, strategies on right qualities of material, at the right time and price, the number of sources, their reliability and price patterns analysis and decision, vendor relationships, forward buying etc. must be chalked down to enable managers to work according to them.

Areas like safety, breakdown, downtime, inventory control, scheduling etc. should be adequately covered with policies and strategies at functional level. Strategy focus on selective basis on low cost, high quality, customer service, innovation to frequently introduce new products, seeking for vertical or horizontal integration, maintenance of reserves, concentrate or decentrailsed processing, and other related areas must be identified and transmitted down the line. It is necessary that production and operations strategies are well coordinated with the marketing strategies for a company to succeed. The financial strategies must similarly be integrated in all the operations of a company to give the desired focus for investments, cash flows, capital allocation etc.

Personnel

Human capital has gained considerable importance in recent years. The personnel function effectively helps in integrating the strategies in various functional areas for accomplishing the objectives. This is done through identification and development of required managerial skills and design of proper remuneration system to motivate employees and also retain them . The strategies in personnel function concentrate on effective utilisation of manpower for achieving the set targets. The personnel functions consist of recruiting, selecting, orienting, developing, counselling, evaluating, compensating and maintaining good industrial relations, discipline and control, and these should be performed keeping the organisational objectives and selected grand strategies in focus. Today, due to severe competition it has become quite difficult to retain trained employees and specific strategies may be required to be developed in this regard. The training and development needs of a company and a proper measurement system is required to be installed to measure the effectiveness of imparted training. The motivating function of personnel strategies is an important aspect for developing a challenging attitude in employees for surpassing the set standards of performance and for this purpose timing of promotions, transfers, channels of promotion, incentives, benefits, seniority policies are some of the important ingredients of personnel strategies.

RESOURCE ALLOCATION

Without allocation of resources to various SBUs, implementation of strategies becomes quite difficult. The resources may be existing with a company or may be acquired through capital allocation. The redeployment of resources is quite critical when there are major changes and shifts in strategic posture of company. Redeployment of resources may arise due to strategic decision of a company to grow in certain areas

and withdraw from the other. In fact redeployment of resources is a strong way of communicating the shift in strategies of a company.

Usually, companies have been following system of allocation of resources by percentages, which may not serve much purpose these days, although the percentages may be used for making some comparisons. The allocation of resources should not be based on their availability or scarcity as it may prove to be counter productive. The resource allocation should be made with regard to strategies of a company for its future competitive position and growth. The decisions of resource allocation is also closely connected with the objectives of a company.

METHODS OF RESOURCE DEPLOYMENT

Let us turn back to BCG growth matrix for illustration on effective deployment of resources.

The cash cows are those SBUs which have matured products and generate cash surplus. The cash surplus generated can be allocated to star and question mark SBUs. Dogs do not need any investments and these are to be drawn out.

Thus we see that the BCG matrix gives a good insight into the resource deployment needs of SBUs and into the deployment needs of SBUs in the absence of such an analysis, mistaken deployment of resources may be made which may be very costly for an organisation. The BCG matrix gives quite a generalised picture of various SBUs in a corporation and does not specifically point out the amount and nature of investments.

Companies usually make budgets. The preparation of budget can take into account the facts revealed by the BCG matrix, product life-cycle charts, balance sheets, profit and loss accounts, income statements etc. We know that financial considerations vary at different stages of product life and this fact can be used for allocating investments.

When retrenchment or turn-around strategies are being implemented, zero-base budgeting has been found to give good results. When new investments like mergers, acquisitions, and expansions are carried out, capital budgeting techniques would be of great help. Other methods like residual income, net present value, Return on investment etc. may also be used for analysing the investment patterns. The operating budgets for a SBU may be fixed or flexible, depending on the advantages to be reaped. Fixed budgets may lead to non-efficient utilisations whereas flexible budgets may lead to slackness in achieving the objective. It must be appreciated that resource allocation cannot be purely a rational exercise and a lot of behavioural process is involved in the total activity. There are some political considerations as well but one should make efforts to deploy the resource based on rationality, as far as possible.

COMMUNICATING POLICIES

Policies are decisions taken to guide thinking and behaving process and guiding the actions of employees of a company in operationalising and implementing strategies for

meeting the set objectives. Policies thus increase effectiveness of managers. The policy documents are given different names in various organisations, however, they contain the standard operating procedures for the personnel. It is a method designed to optimally use human resource. The policies also speed up the decision-making process due to laid down guideline because of which the decision-making process becomes more simplified. Policies emerge from functional strategies or from corporate strategies.

OBJECTIVES OF POLICIES

Why are policies made? Policies are guidelines for managerial action in different business situations and cover generally all the strategic aspects of a corporation or SBU. Various functions performed by policies can be summarised as follows:

Control

The polices are framed to exercise control over actions of various functional groups. The polices tend to limit the discretion. Thus the top management does not have to bother about day-to-day decision-making and relies on the policies which it has decided.

Uniformity of Procedures

Policies introduce uniformity in handling similar situations in a company. Whenever a conflicting situation arises, policy document is referred to which gives guideline for action. Thus, it tends to avoid discrimination and favouritism and eventually motivates people as they get opportunities as per policies.

Quick Decisions

Matters are decided quickly if policies exist. In case there is no policy, the matter may be required to be referred to the top management which consumes considerable time. A decision already taken in one context may again be referred to the top management in absence of proper policy and this may repeat several times, thus making the decision-making process quite cumbersome.

Organisation Behaviour

The policies help in defining the code of conduct of employees of a company. The policies on placement, salaries, promotion etc. laydown certain norms which are to be executed by the executives and hence behaviours of employees are guided. It establishes consistent patterns of behaviour in given situation.

Reduction in Uncertainty

In the absence proper polices uncertainty in taking decisions exists in a company. The polices by way of providing guideline for decision taking introduce a certainty of future to a large extent.

Guard Against Flouting of Strategies

Polices emerge from the strategies at corporate and functional level and hence they guard against flouting of strategies, if any. The declared policies on promotion, purchase,

inventories, integrity, sales promotion etc. must be in tune with the chosen strategy in each of the functional areas and therefore these policies are to be followed by employees in order to accomplish the given target.

Ready made solutions to problems

Policies lay down answers to the probable problems. There may be several situations faced in a company and usually policy decision on each of these situations is adequately addressed in the policy document.

Guide for correct decision

A policy document is created after taking into account all possible contigencies. Decisions in times of crises may be required to be taken wherein policy documents become quite handy for managers to take decisions.

Policies may be unwritten or written. Unwritten polices are in fact organisational practices and are usually for maintaining secrecy. The written policies offer several advantages viz. written policies trigger thinking of managers, misunderstandings are reduced, equitable treatment is ensured, communication is easier, reference can be made whenever required, indirect control through policies is ensured.

All policies do not have the same strategic significance, however, some policies are given top priority in the company. The policies which directly affect day-to-day working are given top priority in a company. The policies can be developed through consensus of people or can be externally imported by the top officials. Factors like government laws also contribute to formulation of policies concerning profits, leasing, depreciation etc.

It is important for managers to realise the impact policies can have on implementation of strategies.

PROJECT IMPLEMENTATION

Strategies lead to plan, programmes, projects, and policies. In addition to knowledge on policies, knowledge of project formulation and implementation is necessary for strategy manager. A project is bound by time limit, has objectives and is completed with varied skills and resources. A project essentially has different phases for taking up each phase and approaching the next through step-by-step development process.

A typical project has following phases.

Conceptual Phase

A project is conceived by the managers either as a result of strategy formulation or strategic thinking. The project may emerge during brainstorming over strategies, for mulation of objective, or it may be a necessity arising out of strategy implementation requirements. The ideas generated during meetings are to be prioritised and converted into planned projects.

Definition of Project

Defining the problem correctly is vital for arriving at a correct solution. Usually identification of a correct project in an organisation may take a good percentage of total time. After the ideas are listed and ranked, each idea is probed into details and thread bare discussion held. The preliminary definition of a project is made, keeping in mind its impact on technology, personnel, production, and marketing etc. The project definition also accounts for other outside agencies like customers, stakeholders, financial institutions, banks etc. The feasibility study is carried out in detail to examine the workability of project. The results are compiled in a form of a feasibility report.

Planning Phases

The project schedule with resource requirements is planned and authorities and responsibilities of the team members and leaders is defined. A time-bound programme is prepared and the outputs and input relationships at each phase of the project is decided. The indices for measuring the performance are also decided which could be monitored at various stages.

Launching of Pilot

Some projects are quite expensive and have very serious implications and hence usually a pilot project is prepared and launched. The success and failure of the pilot gives a lot of experience which is used in final project.

Implementation

The implementation of the final project needs meticulous planning and commitment from the team to yield results. Measurement and control mechanism for implementation is agreed upon and the project is finally implemented after modifications, if any, based on pilot project implementation.

Procedural Requirements

It is important for strategy managers to be aware of the regulatory requirements of the country, state, or country where the project and strategies are to be formulated and implemented. In the Indian context, government has published guidelines for industries, policy and procedures which gives major requirements of government regulatory framework which affects formulation and implementation of strategies in a company. There are changes from time to time in these regulatory policies and guidelines and a manager must keep himself abreast with the pertinent changes. Some of the areas of interest could be as follows:

i. Listening Procedure
ii. Foreign Collaboration Procedure
iii. Foreign Exchange Regulation Act (FERA)
iv. Monopolies and Restrictive Trade Practices (MRTP) Act

v. Capital Issue Control Act
vi. Securities Contracts Regulation Act
vii. Import and Export Control Act
viii. Import Trade Control Policy Book (Red Book)
ix. Backward Area Incentives

The above is only a small list of various acts and policies etc. The strategy managers take the help of company law practitioners, chartered accountants, and other practioners for examining the formulation and impact of strategies with regard to legal and regulatory framework. Strategy formulation and implementation is required to follow the regulatory framework and laid down ground rules.

CHAPTER

12

Integration of Structure, Leadership and Culture for Institutionalising Strategy

For effectively institutionalising strategies they should essentially permeate into the fabric of an organisation. Organisations are formed for pursuit of objectives which call for joint effort for their accomplishment. The joint effort is made through various organs of an organisation that must be known for making the effort more meaningful. Organisations must possess the basic characteristics which play a significant role in its functioning. They can be listed as follows:

- Individuals and groups of people constitute an organisation.
- Efforts are made by them to accomplish shared objectives.
- Objectives are generally achieved through division of labour.
- Organisations are integrated by information and authority and responsibility relationships.
- People of an organisation are bound by decision processes.

In organisations complex business processes and tasks are divided into simpler components. The fragmentation of work is done with basically two objectives in mind.

1. How to fragment the work
2. How to integrate the fragmented work

The notion of organisation arises from the contingency theory of organisational design. According to this theory it is not possible to decide the form of any organisation based on a single situation or a single set of principles. The organisational structures evolve through internal interactions amongst its various forces and also due to interactions with external environment. The structure which is resultant to these interactions is essentially hierarchical with allocation of authorities and responsibilities at different levels. It has all the tasks interwoven in this structure which may be called as processes of different nature and take place for realisation of objectives.

The mechanism of organisational design is still not mature to offer theoretical principles and proven practices which would encompass a variety of organisations. However, management experts have proposed various theories for organsiational designs. Here the basic principles of these theories are presented.

CLASSICAL THEORY OF ORGANISATION

According to the classical theory, there are certain basic and universal principles that should be followed in the formation of organisations for their successful performance. Significant models of this theory are:

Bureaucral Model (Weber 1947)

According to this model an ideal organsiation should have the following features.

a. clearly defined hierarchy.
b. work fragmentation along the functional specialities.
c. clearly defined procedures, codes, methods, etc. for carrying out work.
d. decision on employment and promotion based purely on competence.

This model tends to get bogged down with the rules and regulation and loses sight of the actual objectives. Fulfilling the rules becomes more important. Decision-making is routine and slow and it almost ignores environment.

Principles of Management (Fayol 1949)

In this model of organisation the basic principles followed are given below.

a. Division of labour is to gain specialisation leading to improved labour productivity.
b. The authority and responsibility should be linked and should be equal.
c. Discipline should emerge from leadership, fair contracts and punitive actions.
d. The line of control of individual is well defined.
e. The actions of managers must be aligned to objectives.
f. The compensation should be based on fairness.
g. Balanced centralisation and decentralisation of activities, decisions, etc. must be accomplished.
h. The gradation of authority and responsibility should be made in hierarchy.
i. Material, equipments, people, etc. should be at right place and time.
j. Turnover should be with joint effort.
k. Stimulated initiative should be induced.
l. Employees should develop a sense of belongingness to organisation.

The above model has made a long-lasting impact on the practising managers and many modern organisations adhere to these principles.

Principles of Scientific Management (Taylor)

a. Individuals work must be fragmented and develop a science for each element.
b. Each worker is to be trained for his or her detailed work.
c. Work should be performed using scientific methods.
d. The relationship between management and workers to be ensured.

HUMAN RELATIONS THEORY

In classical theory, an individual is not identified and effect of entire group is considered in the total process of managing. In the human relation theory, the performance of the organisation is believed to depend on human beings, their behaviour, characteristics and their mutual relationships emerging from work patterns and organisational settings. The important factors which play significant roles are needs, motivations, attitudes, values, leadership, group behaviour, perceptions, communications, responsibility and authority relationship, etc.

The four basic forms of organisations (Likert 1967) thus emerging are

1. exploitative authoritative
2. benevolent authoritative
3. consultative
4. participative

Structure and Decision-making Model

Behaviour of an individual can be analysed in an organisational framework of the decision-making process. The structure of organisation is seen as a set of decision-making units with objectives like resolution of conflict, coordination amongst various units and the information flow. Different coalitions are formed in organisations having conflicting goals and for the organisations to be operational, these need not be resolved. In order to deal with uncertainties, organsiations use uncertainty avoidance methods. Problematic search implies that organisations unite their efforts for finding solutions to specific problems. Organisation learning makes organisations have adaptive behaviour.

Contingency Theory

This theory assumes that organisational structures result from environmental conditions they face. There may be some situations where formal structured organisations may perform better while in other cases a flexible structure may be more appropriate.

The mechanistic or formal organisation is found to respond more favourably in stable environment while organic structures (informal - participative form) works better in turbulent situations (Burns & Stalker 1961). A systematic application of segmentation, differentiation and integration gives a formal mechanism to reinforce the strategy of a company with a congruent structural framework.

DESIGN OF STRUCTURES

We know that structures follow a strategy and hence organisational structure design is viewed as an integral part of the strategic position of a company. The structure chosen for a company must permit development and facilitate of implementation of long-term orientation of various SBUs of an organisation. It must be adequately possible to efficiently implement short-term programmes and objectives.

The major strategic decisions of a company are the development of long-term business objectives and parallel strategies for the same. Hence an organisational structure must permit allocation of various resources for achieving the objectives and business implementation and operationalising of strategies for each of the businesses and also permit enough flexibility for adapting to changing environment.

Steps in Design of Structure

Two clear steps are identified in organisational design process :

1. The first step constitutes defining the basic organisational structure which represents the major segment of the total businesses of a firm and is defined through hierarchical order which elaborates on priorities that managers allocate to the important activities of a firm. In this step only the primary activities and the basic framework which are linked to the strategic positioning of a company are considered.
2. The second step consists of organisational design process which carves out detailed organisational structure. The flesh is now added to the basic structure with various finer details concerning operational requirements of various activities.

Usually a number of alternatives may emerge at this stage and each of them may appear to be correct. There would be various combinations of smaller structures at a detailed level. The adoption of final structures may be through deep introspection into various aspects of the functioning of a company. The key executives of a company deeply involve themselves in defining the purpose, functions, systems, etc. and testing them to select various effective alternatives. A good fit is thus arrived at between organisational structures and various managerial processes like planning, controlling, communicating and evaluating, etc.

DESIGN OF BASIC STRUCTURE

While designing structures, it is necessary to keep the strategies of an organisation in focus. The focus on business strategies leads to imbibing of business development requirements in organisational structures. The total business of an organisation depends on the individual business of the strategic business units, which are the manageable units of a company. One of the approaches could be to identify and list the critical dimensions of business unit. The salient features of this list would be as follows:

1. Products to be made by SBU.
2. Markets: industrial, government, commercial, etc.
3. Functional spectrum: sales, marketing, commercial, design, production, packing, dispatching, inspecting, personnel, administration, finance etc.
4. Technologies: batch production, process production, tailor made, automatic etc.
5. Geographic : location, distribution, storage, customers distribution etc.

Some companies have a well defined strategic business unit catering to a specific market and can be termed as a business segment. This may be termed as its primary business segment and the organisational structure may be designed according to it. The divisions are created according to various functions like administration, finance, production, etc. and a good balance is achieved between the operational and the strategic goals and objectives.

Sometimes basic segmentation based on functions like marketing, finance, production, etc. may not be possible. This kind of organisational design may reflect in its operational efficiency since to concentrated focus is only in the direction of a primary dimension thus neglecting the other aspects.

There are a host of competing factors in a company and organisational design has to account for them to permit smooth functioning at various levels. The choices become quite complex. A careful examination of various factors, their weightage and the various competing forces, show that the emerging organisational structures may not be quite homogeneous. The lack of homogeneous criteria for segmentation and hence lack of symmetry in structures in various functional structures is not an exception but a rule due to several varieties of requirements for each of the functions.

DETAILED ORGANISATIONAL STRUCTURE DESIGN

The objectives of detailed organisational design are as follows :

1. Identify various operational tasks of organisations which would constitute various daily activities.
2. Assign tasks to organisational segments which have been already identified.

The basic structure defines the method of operationalising strategies by way of design of organisation and the detailed structural design identifies various centralised functions like marketing, to a centralised functional manager.

The responsiveness of organisational structures, to various situations that emerge due to changes, is another factor of interest which affects detailed design of organisation. Some other questions that may be vital and need specific answering can be listed as follows. By no means this is the final list and each organisation has to raise its own question and address them.

1. A system of giving required attention to product.
2. The method of division of centralised function.

3. Division of function by factors such as clients, income, religion, age, etc.
4. Division of operations by machine tools, personnel, plant stages, products etc.
5. Interaction of R&D with all functions.
6. Distribution channels, their integration, deliveries, customer needs, etc.
7. Training of managers, development skills, evaluation of performance, etc.
8. Integration and merger issues.
9. Business needs of other countries, home country, host country.
10. Integrative mechanisms, their operation at various levels.
11. Work distribution, responsibility, authority, accountability, etc.
12. Special clients, dealing with them, attention required.
13. Autonomy requirements.
14. Policies at various levels.
15. Agility requirements amongst functions.

STRIKING A BALANCE BETWEEN MANAGEMENT PROCESSES AND STRUCTURES

Systems should integrate fabric of organisational structures for smooth and trouble-free working. The management systems should be complementary to the structures.

The systems provide an integrative relationship amongst divisions, functions, work centers, departments, etc. They must support and reinforce the primary objectives for which the organisation came into existence and this is to be achieved at all levels. The relationships, authority, responsibilities, accountability, autonomy, etc. must be operational for meeting the desired objectives.

SYMPTOMS OF A MISMATCH BETWEEN SYSTEMS AND STRUCTURES

Some of the glaring symptoms that one comes across in an organisation where managerial systems do not match with the structures are enumerated below :

1. Total lack of opportunities for growth of workers, managers, etc. The functionally oriented organisation by virtue of its strong boundaries of functions does not permit cross-functional training and hence development of managers and other employees is affected.
2. Employees do not devote any time for thinking on competition, ways of improvement of systems, technology and operations due to concentration on day-to-day issues and decision-making is centred at the top. The key personnel responsible for profits and improvements are over-loaded with routine jobs and do not get enough time to look at other issues.
3. A demotivating working environment wherein, good work is neither recognised nor appreciated is considered to be highly antagonistic. The

motivational and reward system, if any, does not match with the structure and processes. The structure and process also do not have a good relationship.

4. The symptoms which indicate that the firm has organisational structures, not in congruence with the requirement of its strategic positioning are, absence of definition of portfolios and their business planning, neglect of requirements of special markets and lack of approach to growth.
5. When integrating-mechanisms of an organisation fail, it reflects on total co-ordination amongst various functions or departments.
6. Sometimes duplication of various functions, like in data processing activities may occur, which reflects inappropriate task definitions or improper integration of various functions at different levels.
7. Unnecessary synthesis of functions or units reflects a wide dispersion of functions and also differentiation of task in the function.
8. Whenever performance indicators reflecting poor profits and quality, low speed of operations, untimely delivery and poor service are noticed, it implies that the firm should reexamine its strategies, structures, policies, etc. and choose a matching structure for strategies.

ASPECTS OF ORGANISATIONAL STRUCTURE

There two key aspects of organisational structures. There is one part which is quite visible and we classify it as superstructure. The other part is comparatively less visible and is called as infrastructure which is related to authority, relationships, communication, etc.

Superstructure

This generally should be in the form a chart which is also called organisational chart. The organisational chart shows the following.

1. The hierarchy of organisation and how it is structured to meet the tasks (Refer Exhibit 12.1).
2. The level of differentiation (degree of specialisation of activities) (Refer Exhibit 12.2).
3. The principal ways in which the organisation is integrated (Refer Exhibit 12.3).
4. The levels which indicate relative importance (Refer Exhibit 12.4)

Exhibit 12.1 Organisational Hierarchy

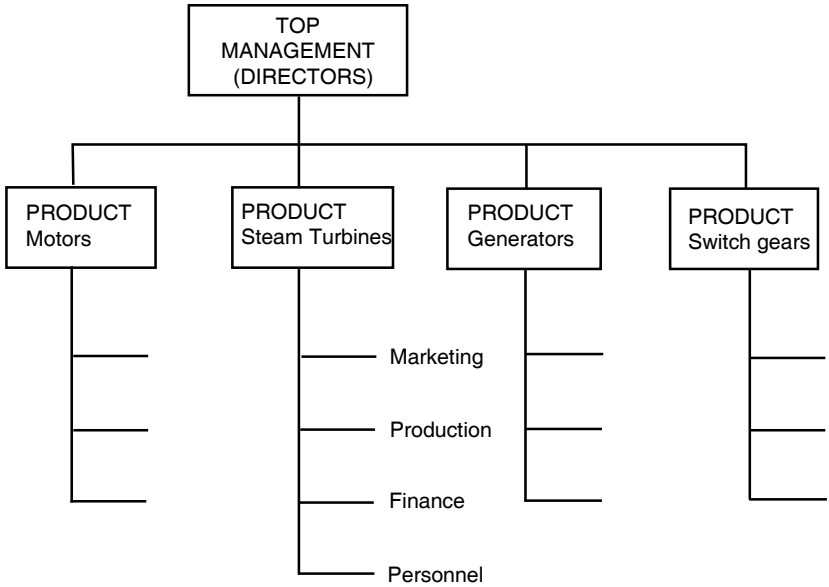


Exhibit 12.2 Level of Differentiation

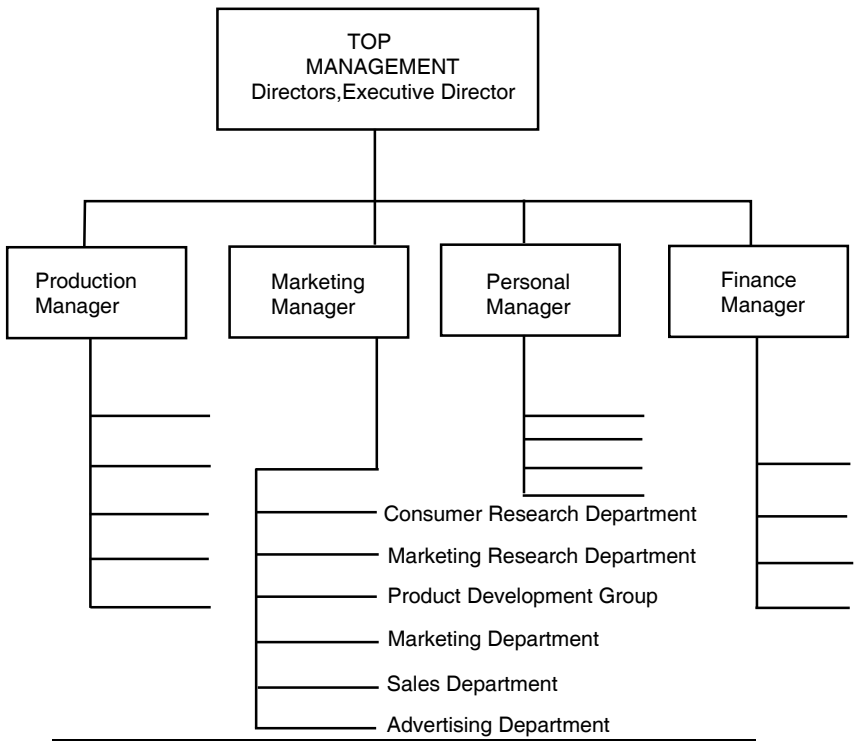


Exhibit 12.3 Zonal Organisation Structure

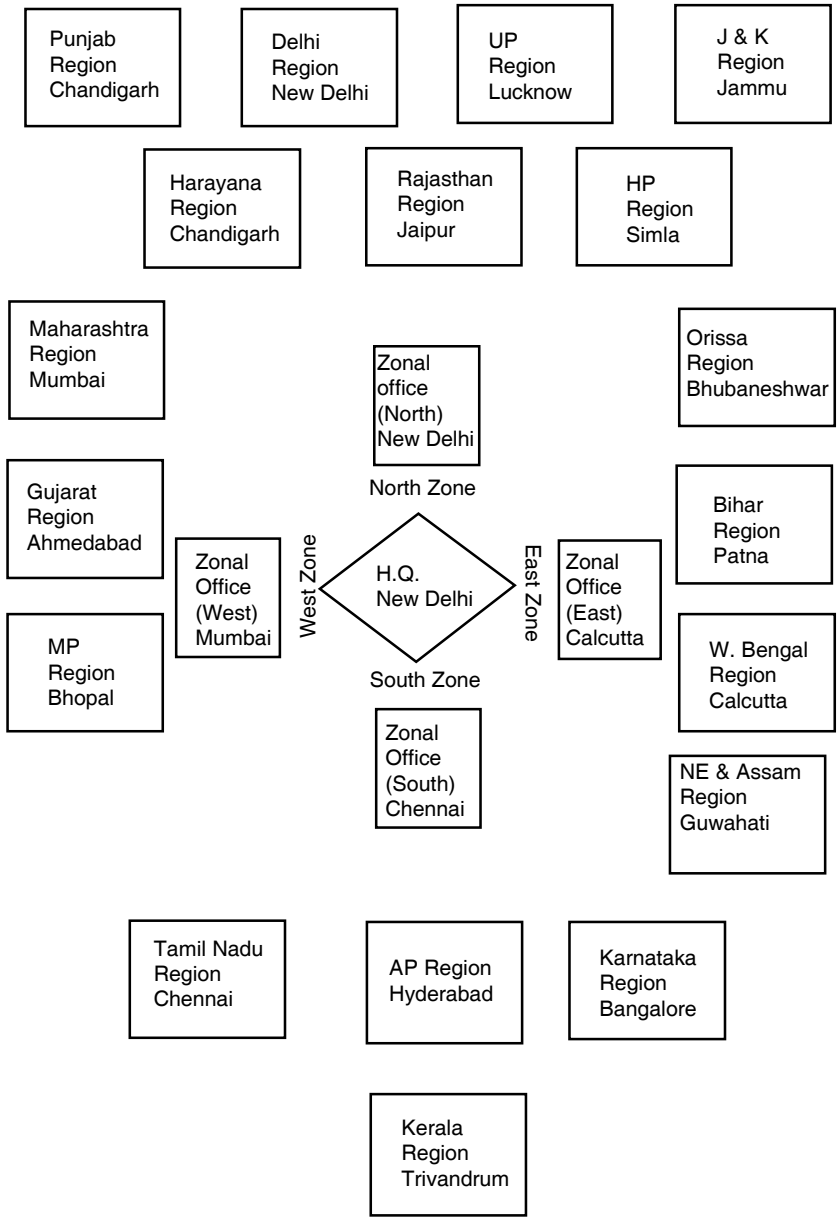
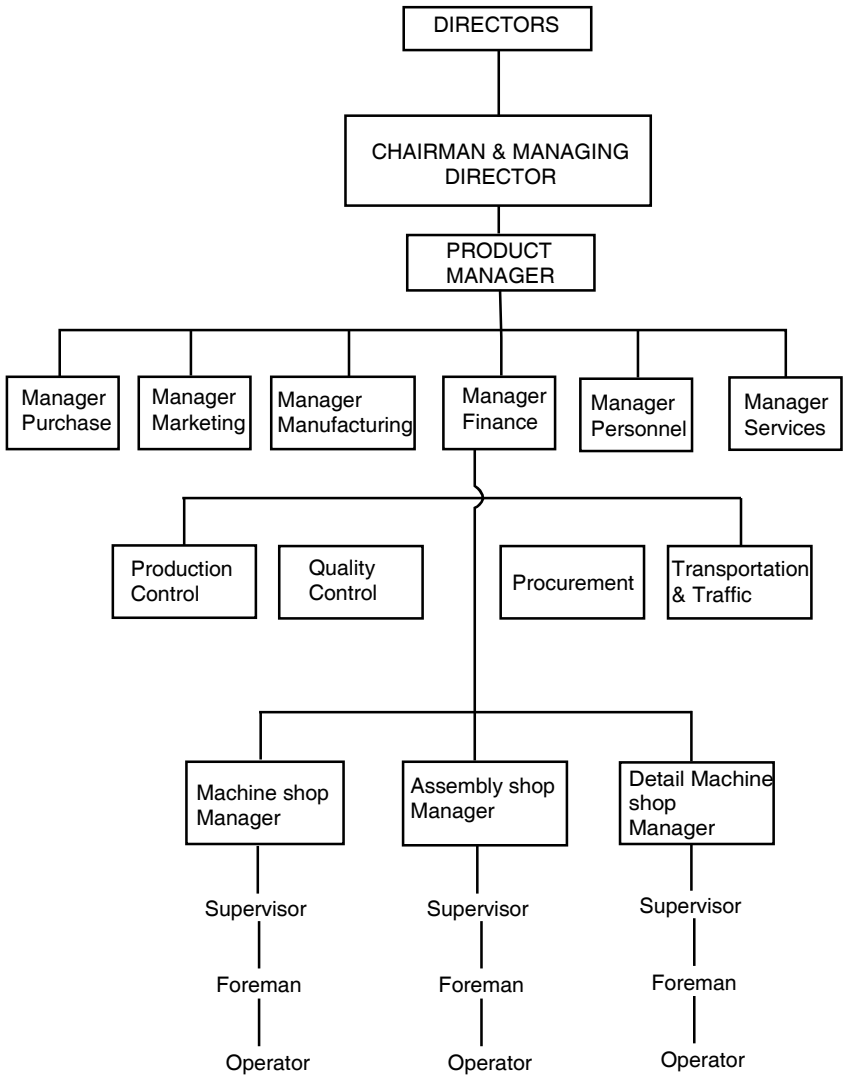


Exhibit 12.4 Levels of Relative Importance



There are several factors which are responsible for various groups created in organisational structures. Some of these factors can be summarised as follows:

1. The grouping in organisational structure is guided by the functional interdependence of groups. The interdependence is basically of three types and can be categorised as reciprocal, when inputs of one is output of another and vice versa, sequential, when output from one goes as input to other, and pooled when output of groups is interdependent on one another.
2. The span of control is another factor which decides the groupings and it depends on the nature of job and the required intensity of interactions at various levels.

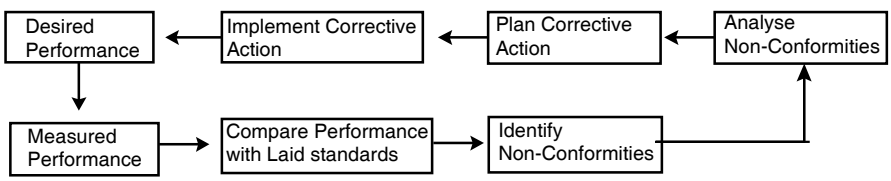
3. The nature of functions performed by people at various levels lead to grouping decisions. Grouping of technology division to accounts may not help much, but if it is grouped with manufacturing it may be of great use.

Infrastructure

Infrastructure deals with invisible relations like delegation, information system, communication channels, authority, accountability, etc. The infrastructure integrates the performance oriented behaviour of the organisation and hence the total coordination amongst various systems works effectively. The infrastructure serves the following functions.

1. It integrates the organisation for effective working.
2. It predicts the behaviour of organisation in certain situations.
3. It tends to make the organisation more effective.
4. It creates environment wherein people closest to the tasks can take decisions, and defines the needed decentralisation of power for taking decisions.
5. It helps to build the required culture of organisation to accept the responsibility and own decisions.
6. It helps to develop effective communication system which arises out of needs of delegation of power and decentralisation of power for taking decision. The effective flow of information leads to quick decision-making processes.
7. It leads to empowerment of people.
8. It lays down a system of accountability towards decisions which affect performance and profits etc. (Refer Exhibit 12.5).

Exhibit 12.5 Review of Performance



TYPES OF SUPERSTRUCTURES AND THEIR CHOICE AS PER STRATEGY

Strategies are closely linked to organisational structures. If structures are not congruent with the chosen strategies then effective functioning of organisations is difficult to be achieved.

In small companies we have an employer and an employee. As the organisation grows namely the volume of operations grow, the organisation essentially transforms into a functional structure. The function implies the type of job or work. In a design function, all the groups of people would be oriented towards doing engineering work whether it is related to product design, services to shops and other related functions

like commercial, materials management, service, product development, data collection on design features, standardisation of product features and so on. The function leads to creation of a department. In a function or a department the work is further fragmented and groups of people specialise in their own fields. This also enhances the human productivity due to specialisation i.e. benefits of economies of scale can be achieved.

As the size and number of operations in a function grow, the operations become more complex and coordination amongst various groups becomes even more complex. In this process, dominant businesses may eat away most of the time of the operating groups and the most promising question mark-areas may be left unattended.

When organisations grow by diversifying into a number of businesses related to markets, products, services, etc., it may become quite necessary to create another level above the functional level and thus a multi-divisional organisation is created.

A divisional organisation is created due to achieve effective and better coordination among various functional units of an organisation and to develop improved responsiveness to external environment. Creation of divisions could be based on any of the primary factors viz. area, product, client, geographical location, etc.

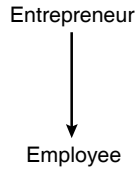
Some companies change their products, services, areas of operations, etc. quite frequently as part of their growth strategies. This may require introduction of another layer between the divisional and functional level and maybe termed as project development or project implementation or both. Usually such groups are temporary but some companies as a policy may have these groups as permanent.

In case of holding firm, company structure can be considered similar to divisional structure where each of the divisions have autonomy and operate as companies. However, in holding company structures, the key company has 50 percent or more stake. Although the subsidiaries may be independent, they may not essentially be free to take decisions pertaining to policies and strategies. This control may even be exercised if equity held by the main company is less than 50 percent. The main company along with its subsidiaries is commonly known as business house.

Simple Structure

In a simple structure there is an owner of business and there are employees (Refer Exhibit 12.6). Usually this kind of structure prevails in small businesses. The decision related to all the issues and functions are centralised. The owner is an embodiment of all power and the control is also highly centralised. It is high responsive system and can make changes quickly to suit the market needs. It facilitates meeting unique demands of a customer. The employees are expected to be multiskilled. When the volume of business increases this structure consumes almost all of the time of owner-manager and he can hardly devote any time for strategic thinking.

Exhibit 12.6 Entrepreneurship



Advantages

1. It results in good control over the entire business.
2. Decision-making is faster.
3. Rewards, recognition and motivation are simple and straight.
4. It is highly responsive.
5. It has good adaptability to customer's demands.

Disadvantages

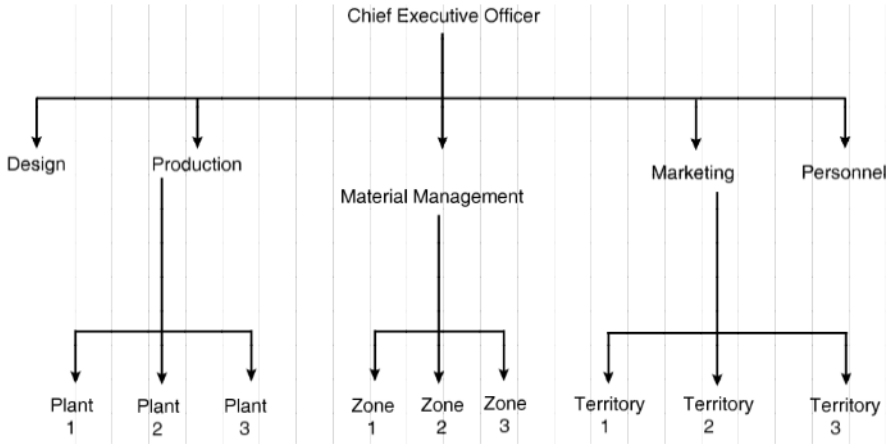
1. Due to concentration of decision-making powers, it is very taxing for the owner.
2. As volume of business increases it proves to be inadequate.
3. There is no development orientation.
4. It is based on survival for day-to-day operations and hence it is highly reactive.
5. There is no participation of employees.
6. Employees feel more insecure and may leave very fast.

Functional Structure

When a company concentrates on one or a few products it can have a functional structure (Refer Exhibit 12.7). Functional structure signifies orgnisational relationships inside the organisation based on functional requirements. In functional structures, the groups doing similar jobs are clubbed together to form separate functional units, leading to specialisation and labour productivity. Some companies develop experts in specific functions and products which encourage innovation, efficiency and further refinement of the expertise in a particular field.

Thus a firm tends to build core competency in a specific specialised area. The job of functional heads is to effectively coordinate amongst various functional units. The narrower the specialisation becomes, the more myopia it imposes on the vision of managers, and they tend to develop limited perspective. The company executives may concentrate more than required on functional specialisation and may get tied up with their specific functions.

Exhibit 12.7 Functional Structure



Advantages

1. Employers believe that excellence in specific functions can lead to success and hence they make efforts towards specialisation.
2. There is a continuous developmental effort in functional areas which is beneficial for a company.
3. Decision taking is at various levels thus involving people concerned.
4. There is centralised and effective control of strategic decisions.
5. The authority and responsibility relationships are clearly defined.
6. Productivity can be enhanced by close monitoring.

Disadvantages

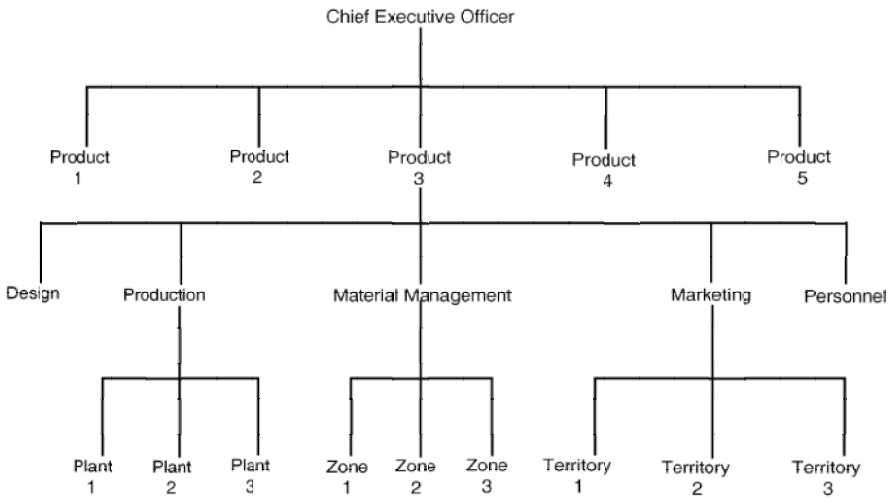
1. This form of organisation structure leads to specialisation in narrow areas.
2. The specialisation leads to ego problems and conflicts.
3. The coordination work amongst various functions becomes too large.
4. Interfunctional decision-making process becomes more complex.
5. Close boundaries of work are created by functional groups, leading to conflicts.
6. Development of individuals in general is retarded although specialisation in some areas takes place.

Divisional Structure

When a company diversifies into similar when different products or services, when it covers very broad geographic areas or when it caters to variety of industrial requirements which entail dividing the business into subunits for the purpose of effective management, divisional structures are created (Refer Exhibit 12.8). When companies enter into unrelated markets and cater to needs of entirely different categories of

customers, functional organisation becomes irrelevant. This happens due to the volume and diversity of business that it is required to handle. A much larger dimension of coordination is required, therefore functional structures cannot perform effectively under such situations.

Exhibit 12.8 Product Division Structure



A divisional structure permits functioning of each unit independently with adequate empowerment for taking decisions related to operations of division. The policy guidelines at the apex of the company gives direction for strategic management of each division. Since the company faces a variety of competitive forces in environment it has to be essentially fast responsive in taking decisions of strategic importance and this becomes comparatively simple in divisional structure. Sometimes these divisions may be declared as independent profit centres thus allowing for accurate assessment of profits and losses.

Advantages

1. The divisional structure permits empowerment of people at divisional levels.
2. Responsiveness of the structure towards outside environment is fast.
3. It caters to specific needs of growth, empowerment, policies and strategies suiting to a specific division.
4. It enables effective implementation of strategies.
5. Enables CEO to have broader perspective and take major strategic decision.
6. This organisational structure permits focus on performance, and accountability is more transparent.

7. It permits specialisation within the functional groups.
8. It provides opportunities to managers for training.

Disadvantages

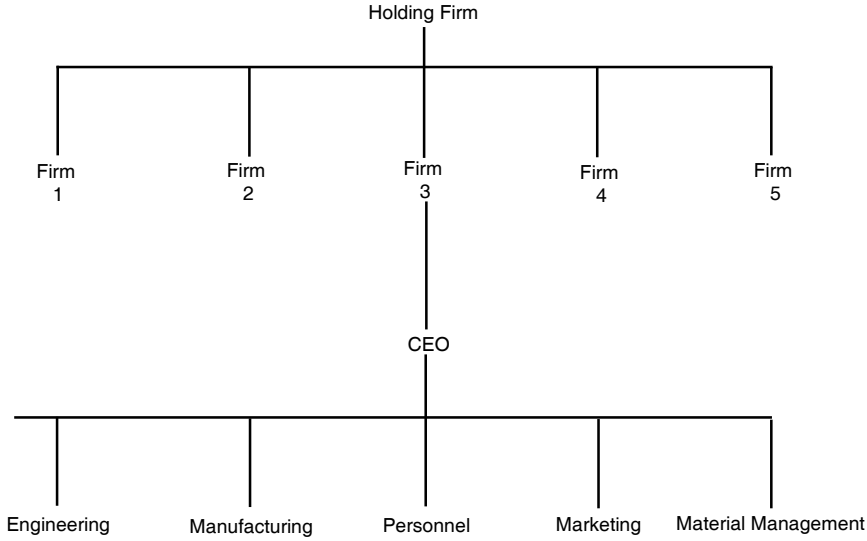
1. The effect of competitive environment is not felt directly at corporate level. It is transmitted from the divisional head level.
2. The empowerment at divisional level sometimes becomes a problem and source a of conflict.
3. Since there may be many divisions, it may not be easy to achieve uniformity in policy implementation in all divisions.
4. Sharing of failure, costs, and success is often a matter of dispute.
5. Apportioning of overhead costs of corporate poses a problem.
6. There is tendency in divisions to become autonomous.

Emergence of SBUs

The divisional operations may become quite complex if diversity in products, customers, markets, etc. increases and the corporate management may find it nearly impossible to concentrate on each of these units. In such cases where controlling the numerous multi-industry divisions becomes more complex, it may become necessary for companies to introduce divisions and departments in structure (Refer Exhibit 12.9). This may be done for better strategic control, for strategy implementation, to reap benefits of synergy, etc.

This extra layer is termed as strategic business unit (SBU) and is created or structured based on the available market or product segments to a company for doing business.

Exhibit 12.9 Holding Firm—Subsidiary Structure



Advantages

1. This structure is conducive for coordination amongst divisions having similar strategies.
2. It also serves as a good model for integrating divisions with similar products and markets.
3. It helps in exercising strategic control over the entire spectrum of business operations.
4. It works better when businesses are large and have diversity.
5. It facilitates coordinated planning for growth of business at corporate level.
6. It provides a system for accountability of business operations.

Disadvantages

1. It results in one more layer in business thereby creating a greater gap amongst divisions and corporate management group.
2. It may create competition amongst SBUs for more share of corporate resources.
3. The tasks at SBU level may overlap.
4. Degree of autonomy of SBUs may vary creating dissatisfaction.
5. It may be difficult to set common performance norms for SBUs thus creating conflicts.

Matrix Organisation Structure

When companies become quite large with several products and projects with most of them possessing great strategic importance, an organisational structure which gives resources as desired and exercises a definite control as per the needs would prove to be useful. The organisational structure that prevails in companies is called as matrix organisation (Refer Exhibit 12.10a and b.). The matrix form of organisation creates two channels of authority, responsibility and control. The subordinates in organisational structure have not only to report to functional groups heads but also to the project management. This organisational form has two simultaneous benefits viz. functional specialisation and project or product specialisation.

In matrix form of organisational structure the middle managers broaden their understanding of strategic issues faced by the company and thus conflicts between strategic and operating systems are resolved. They share power and decide amongst themselves the sharing of resources for overall benefits of the company. It provides a mechanism for accommodating a varied and changing market and product, project, or technology.

Exhibit 12.10 (a) Matrix Organisation

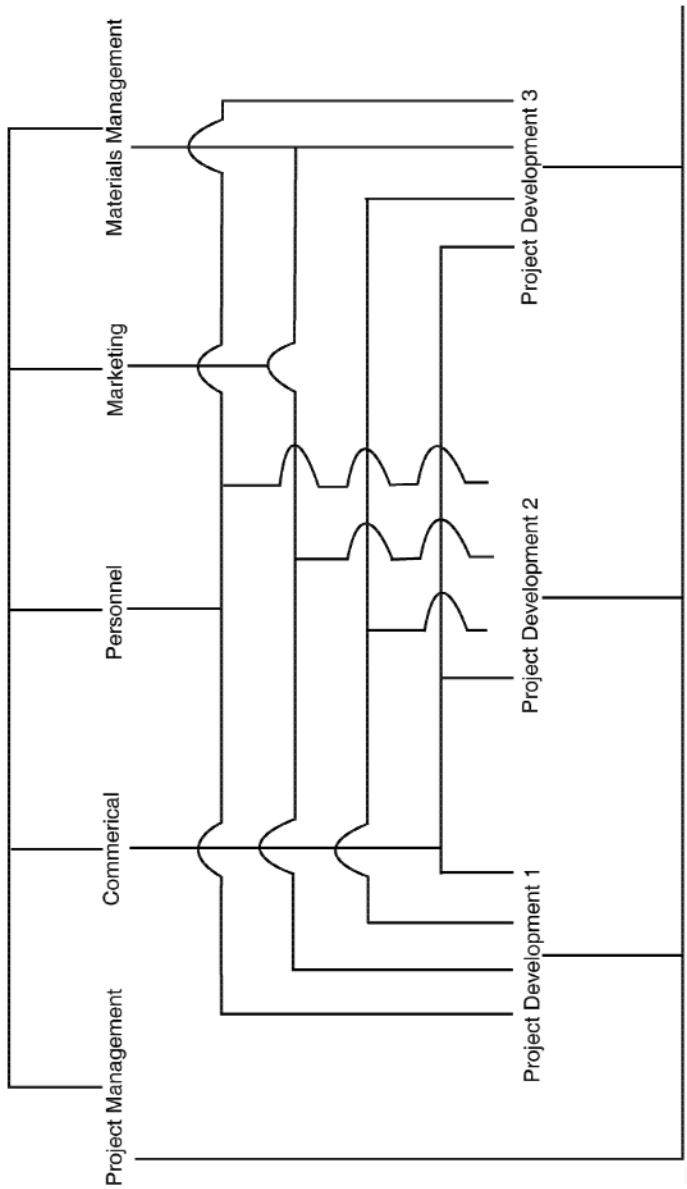
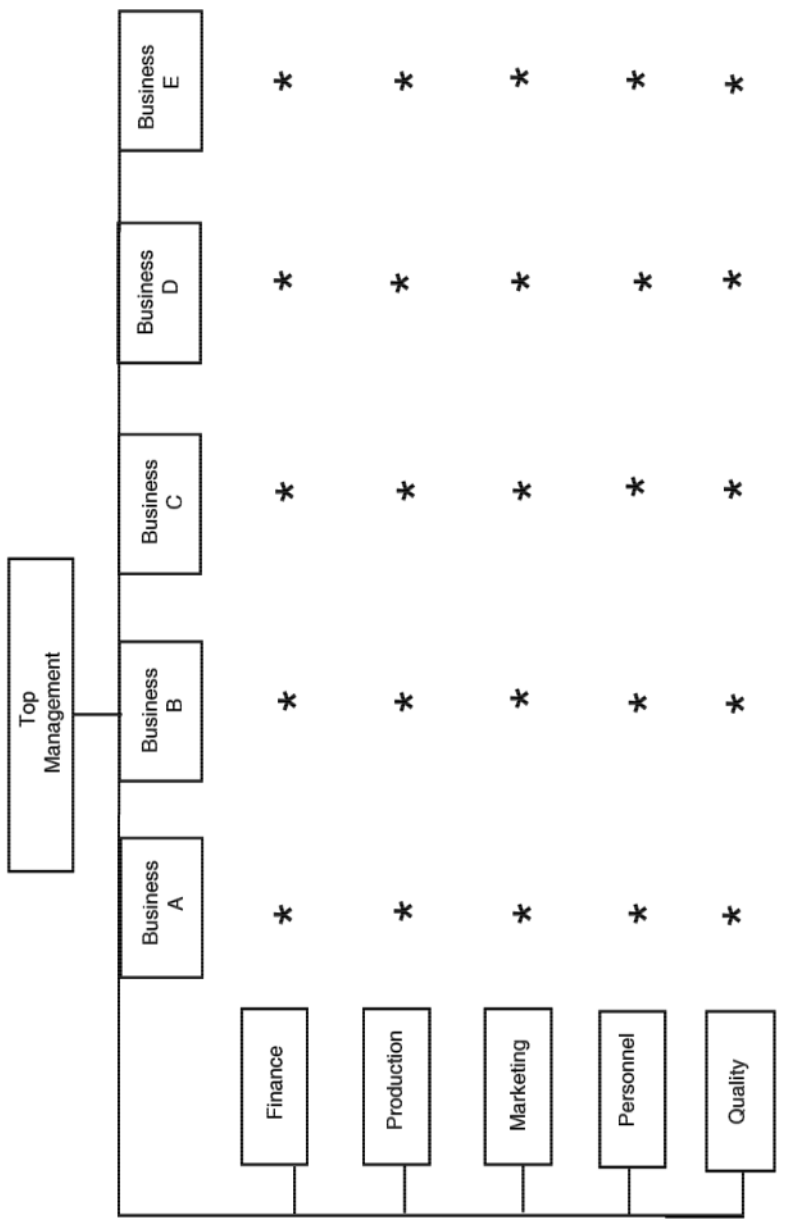


Exhibit 12.10 (b) Matrix Organisation



It is found that implementation of matrix structure is quite difficult because the two way controls create some conflicts in organisational orientations. The managers in the next line of command may develop misunderstanding and confusion with regard to responsibilities which are shared and deployment of resources.

In order to overcome these problems, structures which provide some flexibility viz. temporary or flexible overlay structures are designed which come into being for a specific strategic task.

Advantages

1. Caters to requirements of a large variation in business orientations.
2. Accommodates a variety of project oritented business strategies and related activities.
3. Provides the line managers with many opportunities to gain hands-on experience.
4. Permits functional managers to perform effectively.
5. Permits use of creativity with regard to handling of diverse businesses.
6. Permits effective use of multiple resources.
7. Gives exposure to managers even at lower levels on strategically important issues faced by a company.
8. Flexibility as desired may be introduced by way of task force.

Disadvantages

1. The accountability and responsibility is dual thus loading the managers excessively.
2. The duality of responsibilities can cause some confusions at middle-level management.
3. The policies at some point of operations may be conflicting.
4 This kind of structure increases the coordination work multifold.

SYNTHESISING STRUCTURES WITH STRATEGIES

There is no single organisation structure which can be called as the best because structures are evolved based on strategic needs of a company. To suit a particular set of strategies, a specific organisational structure may be chosen to meet the requirement of effective implementation of strategies. This in turn may create different situations wherein several administrative problems may also crop-up. Hence structures are also chosen keeping in view the problems related to strategy execution. The important factors which decide selection of a structure are discussed as follows.

Whenever a company goes in for a different orientation towards strategies it requires changes in organisational structures. An entrepreneur model may change to functional structure depending on change of business strategy of expansion and

concentration. We must appreciate that all forms of structures are not suited equally for implementation of strategy.

It is usually found that organisational structures which come into being due to prevailing strategic orientations continue to operate in a company. When there is a change in strategies, the old form of structure continues until companies start slipping in their performance and urgency of shifting to new and more effective structures is felt. The changes in strategies do not immediately uncover the serious repercussions of continuing with old structures unless the results show otherwise.

As companies grow in size there may be a need to change structures as valuation of business may become difficult to be handled by the prevailing structures. When a firm goes for diversification into larger products, services and markets, restructuring the company for more effective business may become inevitable

The changes in market conditions of competition in terms of volume and quality may require companies to be fast responsive thus necessitating changes in organisational structures.

In fact companies move through several stages of restructuring as per their strategic needs to arrive at their final structure forms. The strategic changes occur due to changes in size, competition, diversity, etc. The chosen structure must be able to segment the key activities and the strategic business unit to improve efficiency as required by the competition prevailing in market through specialisation and fast response to environment. It should also provide the requisite flexibility of operation to managers responsible and accountable for the company's performance. Simultaneously the chosen structure should also integrate these strategic business units or key activities of a company such that interdependence is more effective for performing and overall control is established to account for strategic growth.

Organisations have their own inertia and hence fast adaptability to fast changes is found to be quite difficult. Companies go on making incremental changes as diversity, competition, product range, etc. change. However, when a predatory competitor steps in or company performance dwindles, the changes in structure become imminent.

To conclude we may say that choice of structure depends on:

1. size of company
2. range of products and services and their diversity
3. nature of competition, core competencies required, environmental factors, volatility in business situations, etc.
4. internal environment of a company which in turn depends in its internal political forces, culture, values etc.
5. the quantum of integration, information flow, coordination etc. required in a company

LEADERSHIP AND ORGANISATIONAL STRUCTURES

For implementing strategies, leadership is one of the primary requirements. Appropriate leadership is also necessary to enable the organisation the cope up with the changes that may occur due to adoption of new or changed strategies. Leadership does the job of mobilising people and developing structures and systems for effectively implementing the strategies. Successful execution of strategies requires effective leadership.

Within the framework of organsiational structures are individuals, groups and various sections which acts as mechanisms for implementation of strategies. Effectiveness of actions of these units are pertinent determinants for successful implementation. Failure of leadership would lead to problems with regard to goals and actions, conflicts at various stages and absence of coordinated efforts. An ineffective leadership may lead to absence of strategic thinking and action. Leadership is a significant factor in developing the right culture and climate for strategic implementation.

While effective leadership is necessary for organisational success, with regard to strategies leadership can be viewed from five basic dimensions as follows (Khandwala)

1. Risk-taking which involves making high risk decisions for high rate of returns.
2. Optimisation which involves a committed planning and scientific methods to take decisions based on technical needs.
3. Flexibility which involves adaptability to changing requirements in structures and agility in operations.
4. Participation which involves participation at all levels in the decision- making process and strategy implementation.
5. Coercion which involves domination, authoritarianism, value orientation, and compliance with wishes.

Various forms of structures have been linked to different strategies in the context of performance (Kandwalla P.N. Some top management styles : Their context and performance, organisation and administrative sciences,vol 7, no.4 winter, 1976) and their relative effectiveness is evaluated.

Leadership should be viewed in the context of environment which can be regraded as turbulent, volatile, hostile, heterogeneous, restrictive and on the amount of sophistication.

Let us examine the specific roles played by the management at different levels with regard to environment and styles.

CEO in a company has a key role in strategic management. He has to play the responsible role of identifying a strategy and is also ultimately accountable for its success. The triggers that take place in the environment are quite feeble and the CEO must be able to sense them. CEO must have a vision for future which when shared with his people motivates them to look forward for growth. He must also possess interpersonal skills and creativity to mobilise people to accept the ensuing changes.

The nature of the role of CEO is symbolic for new strategy. The seriousness and the commitment that the CEO exercises in the formulation and implementation of strategies affects the behaviour of managers. The commitment and seriousness of the CEO arise from his or her personal goals, aspirations and values which provide the basis for clarification, guidance and making adaptations during the implementation process. This why a new CEO is appointed when there is a major change perceived in the strategic growth needs of a company.

MANAGERS

Right managers in correct places in the organisational structure make a lot of difference in strategic implementation. Hence whenever a new CEO steps in with new strategies, he or she makes major changes in key positions. Managers who occupy key positions enjoy the confidence of CEO and this is closely linked to the expectations of CEO with regard to implementation of strategies. The CEO takes interest in knowing each managers closely and would like to know their characteristics that would be helpful in successful implementation of strategies. Some of the distinct characteristics that a CEO would like to ensure are :

- proven experience
- required education
- required personality
- acceptance
- temperament

It is found in practice that managerial characteristics are difficult to match with strategy requirements, however, intuition and informal matching of characteristics is prevalent. Some companies prefer to bring in new managers, whereas others reorient and train the existing key personnel to enable them to switch over to new strategies. The effects of retaining existing managers can be summarised as follows:

1. An existing manager is aware of existing systems and technology and knows the people around.
2. He is more acceptable compared to an outsider due to his previous association.
3. He has formal and informal relationships with equals, subordinates and superiors.
4. Selection of an insider reinforces a company's commitment to career growth of employees.
5. He is not very costly compared to an outsider.
6. He has experience of dealing with different situations faced by a company and is aware of various policy issues.
7. There is a large amount of certainty of knowing the person.
8. The change-over due to an insider may be smooth.
9. The existing manager due to his experience develops a mind set. He also has many commitments due to which he gets biased and is unable to adapt himself to the changes.

Managerial Assignment in Turnover Situation

Let us consider a case where an organisational performance has not been quite good over a year and strategies have been chosen which would bring in major changes. In such a situation, usually managers from within the organisations would not be very suitable due to their defensive attitude towards what they were doing earlier and also due to widespread changes involved which may not be appreciated by them. The internal manager may have some partial internal commitments that may force him to take mild actions. An outsider may more effectively pursue new and changed strategies.

Managerial Assignment in Selective Blend Situation

In cases where a company has been performing well, but strategic changes are required to be introduced due to new dimensions in competition, product profile, changes in market, technology or new external factors, managerial assignment may be given to the existing managers as a reward for good performance shown in the past. They would be in an advantageous position to implement strategic changes due to their knowledge of people, practices, systems, etc. and would be in a better position to integrate the resources. On the contrary, an outsider would bring with him new skills and experiences and adds to the existing talent and skills. In such situation the approach of management is to arrive at the most appropriate blend of existing and new managers who supplement each other with their knowledge and experience.

Managerial Assignment in Stability Situation

Stability situation is one where performance of the existing managers in an organisation has been good and there are only minor changes necessary to implement new strategies. This situation limits the chances of growth for existing managers since only small changes are implemented in strategies, yet it gives them ample opportunity to work more effectively. They would be aware of people, practices, suppliers, products, markets, behaviour, etc. and can effectively handle the situation.

REFOCUSSING

Sometimes companies are faced by situations wherein minor basic changes are required to be made. The requirement of a new strategy may be to refocus on business issues, markets, technology, etc., to increase responsiveness, to improve quality of products and services and for other issues which may be significant to the business growth and competitive position. The company may have had a not-so-bright past record of performance due to two basic factors.

1. Inadequately skilled managers
2. Inadequate capabilities of managers

The inadequacies can be overcome by training, motivating and inviting recommitment to business objectives. Alternatively an outsider may be invited to play a significant role in reorienting managers to objectives, policies and strategies.

CULTURE OF ORGANISATION

Every organisation has its own culture. Organisational culture is the sum total culture of individuals which gets reinforced over a period of time and people develop specific values which guide their behaviour. Culture is usually unstated and in the form of significant assumptions. There is a factor of having a common culture amongst organisational members. Culture constitutes honest beliefs and values which guide a set of activities, opinions, actions and behaviours (Refer Exhibit 12.11).

Assumptions of Culture

The common assumptions prevailing in an organisation are the values and beliefs. Beliefs and values develop over a period of time and get set into the culture of an organisation. There is a fine difference between values and beliefs which is discussed below :

Values Values are the assumption for which people have ideals. People in an organisation strive to achieve these values. The values get inculcated in an individual from childhood due to personal experiences and from the process of identification of an individual who influences the personal growth and development of an individual.

Beliefs These are assumptions on the behaviour of world and its working. These beliefs also get built up over the years based on the experience of an individual and to some degree get influenced by the judgement and expertise of others whom they consider at a comparatively higher pedestal. We often have honest wrong beliefs.

Usually it is quite difficult to speak of what values or beliefs one has because, one may not even be aware of them or may consciously believe in just the contrary of what he or she might say.

One becomes aware of values and beliefs only when he/she is challenged.

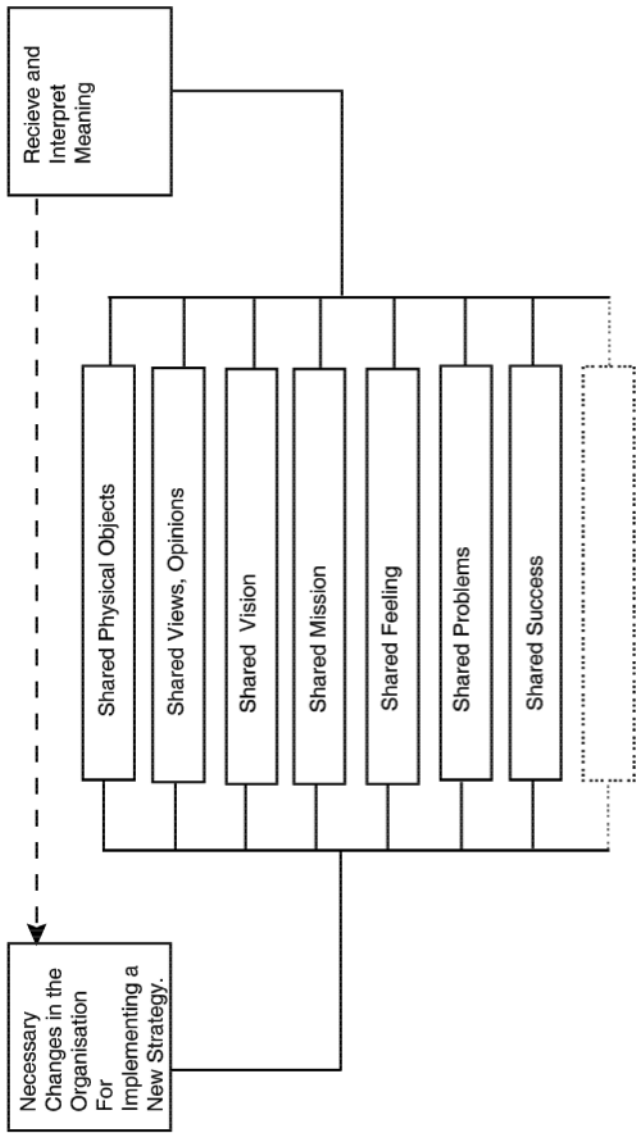
Shared Assumptions

A person working in an organisation may be fully aware of values and beliefs of the organisation but may not internalise them. The internalisation of values would occur when an individual would find some congruence in his own values and the values of organisation. A person may thus derive satisfaction from what he or she does in an organisation. The person becomes committed to an organisation and adheres to the values and beliefs of the organisation. Thus sharing of beliefs and values takes place and gives shape to the organisational shared values.

CONTENT OF CORPORATE VALUES

Corporate values are values of managers at the top level. The esteem of an organisation will depend on the values that the top management of an organisation cherishes. Some organisations emphasise on integrity, independence, etc. while others value hard work, interdependence and cooperation. Consistent values lead to organisational norms.

Exhibit 12.11 Understanding Culture



When actions of managers are congruent with norms, they get reinforced. Some values like tolerance, empathy, risk-taking, etc. get embedded in the fabric of an organisation.

Cultural Content

The cultural content comes basically from the influence which a company has on the business environment. Industry environment also affects culture of a company. Some companies which are in high technology business, value innovation. This is true for electronics industry as well. When people join a company they bring with them their personal beliefs, values and assumptions which depend on their growth, exposure, experience, religion, community, heritage, etc.

After joining a company these people face various situations and cope up with a variety of problems to varying degrees in different situations. These conditions mould their values and beliefs.

Thus culture emerges from the interaction of all the above forces. It is thus prone to change with the learning process and hence the change is slow, evolutionary and incremental. Sometimes, situations like threat for closure or war make the changes rapid and radical.

Positive Effect of Culture

Culture integrates various organs of a company and affects its day to day working (Refer Exhibit 12.12). The three basic ingredients of culture are as follows:

(a) Density The density of culture may be thin or thick. Culture can be in layers of important beliefs and values and as the number of layers increase, the culture becomes more thick. Thin culture has comparatively lesser number of shared assumptions and has only feeble influence on organisational processes.

(b) Sharing Some beliefs and values are common and shared more, as compared to others. Cultures which have more shared assumptions, beliefs and values have long lasting effects on the people. Widely shared cultures take deep roots in organisations.

(c) Priority Every value or belief can be ranked based on its importance and thus a relationship amongst them can be established. In prioritised or ordered cultures, assumptions, values and beliefs which have predominantly significant impact are more important to people and should prevail in times of crisis.

Exhibit 12.12 Analysing Culture

Shared things	-	Uniform
	-	Tea, breakfast food
	-	Clocks, watches
	-	Tumblers
	-	Offices

	-	Computers
	-	Parking
Shared sayings	-	People at top do not understand
	-	General managers busy in counting bolts and nuts.
	-	There is stagnation at top.
	-	Whether you work or don't, you will get salary
	-	You can't remove me from job.
	-	Systems don't work. Getting work done at personal level
	-	Turnover is important
	-	General Managers will decide
Shared doings	-	Large number of meetings
	-	Absenteeism without information
	-	Coming late to work
	-	Not sticking to deadlines
	-	Relying on crisis. Belief that top meet targets
	-	Close monitoring and policing
Shared feeling	-	Company has built many families
	-	Company is in wrong hands
	-	Age and not competence is given preference
	-	Old people are too many
	-	Needs total shake up

Understanding Culture

Understanding of culture requires indepth observation and empathy since its study is inference-based, subjective and approximate. One cannot take for granted what people say about culture. Sharing is the key to understanding culture. What people share gives clue to cultural understanding. A lot of inference can be drawn from what people say, do, share in feelings, etc. Culture has to be deciphered in its true sense by filtering out most manifestations.

Let us now examine how culture affects organisational life in terms of various processes.

Teamwork Teamwork and mutual cooperation can hardly be legalised in companies. Some methods like incentives, commissions, etc. can be paid for extracting good

performance and behaviour, however, during times of crisis, people of a company willingly act with team spirit of and mutual trust which emerge from shared assumptions to meet challenges posed to an organisation.

Decisions The process of decision-making, although dependent to a large extent on analysis and interpretation of data, is subject to factors arising from culture. A thick culture promotes understanding and agreement even upto grass root levels and hence decision-making process and implementation of decisions becomes simpler.

Control The controls exercised by disciplinary procedures, authority, and accountability do facilitate the carrying out of tasks, nevertheless, cultural factors also dominantly affect the working of a company. Companies having rich and thick culture essentially exercise self-control which originates from clan control. Clan control emerges from shared beliefs and values.

Communication The formal channels of communication in an organisation play their role, however, the culture of an organisation may lead to understanding of the communications in the right perspective. Rich cultural climate of a company reduces chances of miscommunication since a lot of information, concerns and growth needs are already shared. Communication which is the life blood of any company is good when more shared assumptions exist.

Commitment Commitment comes from the emotional linkup that a person has with an organisation. He or she wishes to prove the worth of the salt and bread that is earned from company to make a living. A number of benefits that a person gets from a company like salary, housing facility, prestige, sense of worth, etc. make him committed to a company. Rich and strong cultures tend to develop good emotional ties and hence commitment from employees. Committed people in an organisation evaluate all decisions which would add to company's growth and well-being.

Linking Strategies to Culture

It is in possible to define all the codes of behaviour for a company in a formal way. Culture tones the behaviour and what is expected from employees. The culture of a company affects implementation of strategies. Strategies can succeed if they are in congruence to the culture. The cultural impact can be so dominant in some situations that it may even prevent a company in meeting the challenges of competitive forces. Hence for strategies to succeed, cultures are required to be reoriented. In cases where strategies defy the basic beliefs about roles of individuals in a company, implementation of strategies may be quite difficult. It is simple to state this fact about culture affecting the strategy, however, it is the most difficult part of the entire process of strategy implementation. Refer Exhibit 12.13 for various aspects of culture audit in a company.

Exhibit 12.13 Industries Attractiveness Assessment Matrix

Organisational Factor	Approach			
	Exploitive	Benevolent	Cumulative	Participative
Leadership				
Motivation				
Communication				
Information sharing				
Interpersonal relations				
Decision-making				
Objective setting				
Performance				
Training				
Control				
Leadership				

Management of Strategies and Cultures

If change come as a bolt from the blue, people oppose them since they are not mentally prepared to accept the changes. In large organisations, techniques like scenario analysis, sharing of concerns, grass-root level communication and transparency which allows people to participate in a company's reorientation process, helps to overcome the resistance and invites willing participation from employees. A compatibility fit between the strategies and the changes required in structures, policies, authorities, responsibilities for implementing new strategies and various cultural factors must be objectively examined.

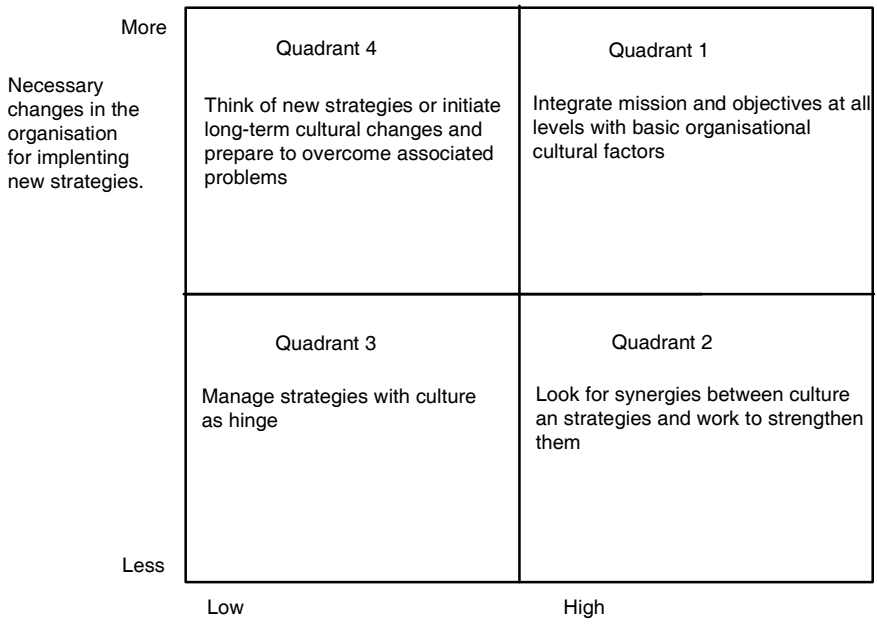
A simple analysis as shown in exhibit 12.14, would help in understanding culture and strategy relationship. It can be studied with regard to goodness of fit between the two.

Case 1

When a large number of changes are to be done, and when compatibility of change with existing cultural factors is high, certain strategy and culture relationships are to be carefully examined. Mission statement of a company and its action plan at various levels must be linked with basic cultural factors and top executives of company must emphasise this fact in their communications to imprint the message in the minds of the people, because mission serves to be the basic fabric of organisational culture. The stress on deploying existing personnel of the company who have large shared values should be greater. The compensation system should be developed with its compatibility with existing rewarded behaviour. Managers must pay careful attention to those on cultural factors which are not compatible with new strategic actions and choose to decide some alternative course for these strategic actions. Thus wherever possible

cultural factors must be integrated with the change at all levels and alternative courses of actions must be developed for those strategies which are not compatible with cultural spectrum.

Exhibit 12.14 Congruency of Changes and Existing Cultural Factors



Case 2

When number of changes required to be done are less and these changes are in congruence with a company culture, things are quite simple. Company must emphasise re-informing the company's culture and use this opportunity to bring people closer and rededicate themselves to company culture.

Case 3

When changes are a few in strategy and also the changes required have lower congruency with company's culture then the probability of success of a company with the new strategy is to be critically evaluated. The necessary changes to be made can be planned around each of the major cultural factors and a meticulous planning and coordination effort made to introduce the change such that it does not antagonise people, but they develop an understanding of change. This understanding can be helpful in overcoming objections.

Case 4

When necessary changes involved to implement a strategy are many and these changes are not congruent with prevailing culture of an organisation, it may face a real dilemma. In such situations company must examine once again the chosen strategies. An analysis must be carried out, seriously to gauge the benefits of new strategies and probability of success and the advantages and disadvantages should be carefully compared. Impletable strategy would be the one that would be consistent with the cultural pattern of a company.

Sometimes external environment may be predatory and it may become essential for a company to adopt new strategies with tooth and nail opposition from employees, in such cases long-term cultural changes may become necessary and it may call for some major basic changes in the fundamental cultural fabric of a company.

In situations discussed above, CEO has a major role to play and he or she should demonstrate by setting examples and determination with which new strategy is to be adopted. The process may begin by bringing in new people who share desired values and removing those who vehemently oppose changes. The process of changing values can be set into the blood stream of organisation by changing the reward system in line with new values. Clarifications on new behavioural patterns should be made and new rules made known to people. There should be strict conformance between the expected behaviour, changes and the rewards.

Changing of cultures takes time. It is a gradual process and consistent efforts in the direction of change should be made through participation at all levels.

QUESTIONS

1. What are the basic characteristics of an organisation which play significant role in its functioning?
2. Discuss classical theory of organisation.
3. Discuss various aspect of human relation theory of organisation and evaluate its applicability in your company.
4. How can structure of an organisation be related to the decision-making model? Discuss contingency model of organisation in the light of decision-making process?
5. What are the various steps in design of structures of organisations? Discuss design of basic and detailed organisational structures.
6. What are the various symptoms of mismatch between systems and structures?
7. What are the various aspects of organisation structures? Discuss various types of superstructures of organisations.
8. How would you choose a specific structure to match strategies? Discuss simple and functional structures.
9. Discuss divisional structure of organisation. What are its advantages and disadvantages compared to functional structures of an organisation?

10. Discuss emergence of SBUs and matrix organisational structures. How would structures and strategies be synthesised?
11. What role does leadership play in organisational structures?
12. Discuss a manager's role in various business situations in organisational structures.
13. What do you understand by culture of an organisation? Discuss various aspects of organisational culture.
14. How are strategies of an organisation linked to its culture? Discuss with examples different cases related to changes in business environment.

CHAPTER

13

Guiding, Evaluating and Controlling Strategies

A strategy or a set of strategies are decided and implemented within a timeframe with an objective of guiding a firm to achieve a definite and desired position in a changing environment. The changes in environment are never static and so also is the position of a company and hence this process is dynamic in nature. Strategies, apart from being based on certain facts, are also based on several assumptions for future which may not occur in the same fashion as has been assumed by the strategy makers. Due to these reasons it becomes inevitable to guide, evaluate and control chosen strategies. Evaluation of strategies uncovers the deviations from the selected path which a company decides for itself depending on its SWOT profile, business environment that surrounds it and objectives that it decides for itself. The evaluation is done for the necessary course correction for meeting laid down objectives. The evaluation is used as a means of controlling or directing the future efforts which may either entail change in strategies or totally abandon the same.

A strategy takes about three to four year to mature and give the desired fruits. During this time period the company is prone to changes. The managers, workers, and other people in and outside the organisation may change. There may be changes in the various laws related to company or there may be a change in technology. The major changes come from the environment of an organisation. Hence there is a need for controlling the strategies such that the organisation moves towards growth in the desired direction.

As a strategy is implemented at various levels and in various systems of an organisation, its process is tracked all along and problems faced are uncovered and any change in the underlying assumptions which may no longer be valid is also uncovered and necessary corrective action taken through a control mechanism. Thus strategic control is essentially not a post-action control. It takes place while the strategy is being implemented.

The following are questions that come to the mind of strategy managers and which must be addressed in any control process.

- What is the direction in which the company is moving with regard to various objectives?
- Are the key factors and indicators as desired or are there any changes in them?
- Are the underlying premises for major factors, trends and changes, etc. correct or do they need any correction?
- Are the critical and key activities being performed as desired or is there any other course correction required?
- Do the strategies chosen need to be abandoned or do they need some correction?
- Is the performance being correctly measured?
- Is the performance as desired?
- Are objectives being met?
- Are schedules of implementation, evaluation and accomplishment of objectives being followed?
- Are the costs involved and the operating cash, in line with actual projections?
- Are changes in operations, implementation, structures, policies etc. required to speed up the process?
- Is feedback at all levels available and are people aware of the progress or do they have some more information to be shared?

DESIGNING STRATEGIC CONTROL SYSTEM

Strategic control system can be termed as a 'steering through' mechanism. Strategy is a path for reaching from one point in the organisation to the other and steering through this path amidst hindrances, speed breakers, etc. by exercising correct control which is crucial for companies. A lot of things happen within and outside a company during strategic implementation. Structures are changed, investments made, action plans undertaken, task forces created, and projects undertaken within a company, while there are several changes in competition levels, nature of competition, number of competitors, market segments, price, etc. which are attributed to external environment. The system thus has a highly dynamic nature.

In order to account for total strategic control, the following strategic controls are necessary.

Control on Underlying Assumptions

The hypothesis of development and growth is based on certain underlying assumptions about an industry, company, people, incidents, laws, etc. As it is never possible

to collect all significant data accurately and identify their interrelationships, assumptions are to be made. These assumptions may undergo changes and the changes must be recognised and incorporated.

The major assumptions include various environmental factors viz. customer preferences, market behaviour, inflationary trends, technology, regulation, politics, social patterns, etc. There are pertinent industry factors like competitors, suppliers, substitutes, barriers to entry, etc. which also undergo changes. A ranking method must be used to identify the most significant assumptions that would cause change and have major impact on strategies of a company. The key assumptions should be identified during the planning process and these should be carefully recorded. Persons, departments, sections, groups, etc. should be given the responsibility of recording the variations. Various functions of an organisation which come in contact with the environment and can bring in some useful information must be deployed for this purpose.

Control During Implementation

Implementation of strategies is done in several steps. The process of implementation has essentially to be in steps and the second step should be avoided unless the first step is completed. Otherwise it will lead to chaos without any fruitful results. This is due the fact that various programs, investments and actions taken are interdependent. The process has been discussed in great detail in various preceding chapters. The control during implementation implies measurement of effects of the new strategy, comparison of results with the expectations identifying the causes for deficiencies and taking actions to make changes in the light of the changes taking place in external and internal environment of a company. It may be required to take incremental steps and actions for success.

CHALLENGE OF CHANGE

In order to implement strategies, major or minor, changes may be required to be made. Major changes penetrate deep into the values, beliefs and culture of an organisation. The challenge of managing a change is planned out by strategic managers who agree on various levels of implementation. This facilitates working out detailed plans. The changes are to be strategically managed with involvement of all concerned in order to invite cooperation and participation from all quarters. All these necessitate focus on vital issues discussed below.

Strategic Thrusts

Changes make certain strategic thrusts which were thought to be pertinent in past situations to become outdated since such strategies that were selected in the past based on the then prevailing business situations. But the latter are dynamic in nature and therefore undergo changes. In order to meet challenges it is simpler to work from whole to parts. The overall strategy of the company is required to be fragmented at various levels and the components are to be examined with regard to strategic thrusts

required in each area. It is noteworthy that the same amount of effort may not be required in all divisions or departments of a company. Different departments, units or subdivisions may already excel on certain strategic aspects and may not require special attention from the management, whereas there may be areas needing special attention and thrust. Identifying these strategic thrust areas is necessary for any company to make effective deployment of resources to meet the challenges. Specific narrow undertakings in each function or department is required to be done and clearly monitored, for the success of the overall strategy.

The strategic thrust areas not only spearhead the program but also contribute to creating an effective feedback system for course correction. The process of identification of strategic thrust areas begins at the planning stage and arises due to the critical need of accomplishing the strategic results with best use of available resources. A system of measurement of these thrust actions and various phases of growth which would be evaluated to measure the success of chosen strategies is required to be established and continuously modified, if required due to reasons of adaptability.

We know that organisations have certain inertia by way of which they continue to move in a predetermined direction. A certain amount of effort is required for bringing a change in the direction. This effort should create an environment which would aid the company in developing adaptability to new ways of doing new things. These are to be frequently analysed to draw inferences. The system may also envisage the setting of some threshold values for cost, time frame, required R&D expenditure, operating cash needs, etc. and their frequent measurement to assess the successful implementation of strategies. It may require installation of altogether new business processes for better value-addition through faster business operations.

Review of Milestones

Milestones can be decided based on the major resource allocations, critical events or periodicity. Decision on which kind of milestones would be chosen would depend on several factors like ease of measurement, accuracy of measurement, need for monitoring a specific resource, critical nature of a particular factor, etc. The total programme for implementation of strategies may be divided into several milestones. The milestones may be reviewed as and when these are reached. The review would consist of making an assessment of strategy and deducing whether course correction is needed. The milestone review can also be conducted when a major uncertainty is resolved or a major change has occurred in the environment. The objective of milestone review is to critically examine each aspect of strategy implementation and review the progress and also plan for future contingencies and course corrections required, such that the future of the company takes shape as conceptualised and planned.

Strategic Surveillance

The purpose of strategic surveillance is to broadly monitor the activities inside and outside a company that may affect results of selected strategies. These events may

either threaten strategies or may be conducive to them. Nonacceptance of strategies by a group of workers or competitors' new strategies may threaten the existing course of strategies whereas favourable changes in regulations or policies of the government may be helpful to a company. We know that implementation of strategies is not confined only to a few functions and is spread to several areas, activities, departments and functions. The purpose of strategic surveillance is to uncover the hidden information that may be vital for strategy implementation. It is a sort of internal and external environmental scanning and should not be focussed only on some specifically defined areas. In fact it should be grossly unfocused to derive maximum benefits from it. The outside environment is quite dynamic and a constant vigil is required for developing the ability to face the challenge of changes.

Alert Control

Sudden changes and events are not uncommon in the business environment. Suddenly there may be a change of government, there may be a war or there may be a change in regulation and law. In addition to these, there may be technological innovations and entry of a predatory competitor who may change the total business equations and philosophy. The strategic control methods discussed above may not be sufficient to cater to such drastic changes taking place in an environment. An organisation must conduct alert control to both above these situations to combat these emergencies. Companies today are developing contingency plans along with crisis teams to meet the eventualities.

CONTROL SYSTEMS AT OPERATIONAL LEVELS

The basic strategic direction for growth through use of strategic control methods is done at top management level, however, at the operational level also certain types of controls are necessary depending on the level of strategy implementation.

The objective of controls at the operational level is to devise systems that would guide, check, monitor and evaluate the progress of various objectives based on post-action analysis and over short durations.

In general the following steps are followed.

- setting standards of performance
- defining attributes of measurements
- defining methods of measurements
- identifying deviations from the standards
- checking the effect of corrective action and making further corrections

Operational control systems which are in use are as follows:

Budgeting Systems

Preparation of budgets and their monitoring is a very old and time-proven technique used for controlling a business process. The strategic planning has been evolved from

capital budgeting technique. Today capital budget is used for allocation of resources in strategically managed functions and the basis of allocations is strategic assessments. The focus has shifted from pure capital budgeting to strategic budgeting. Similarly rules of budgeting, cash budgeting, expenditure budgeting, etc. are terminologies used for strategically managed functions. These systems are used as important controls for strategic implementation.

The resources are closely linked to performance which is interdependent on other functions, hence strategically managed budgeting, calls for close coordination amongst various functions. Budgets thus create standards of performance and provide a basis for deciding on redeployment of budgets. The budgeting systems for each company is different and specifically designed to suit its requirement, however, budgets signifying three basic functions are invariably prepared by each company.

Revenue budgets Revenue budgets are sales expectations put in the form of likely revenues that would be generated. The marketing strategies and revenue budgets are closely linked and performance of the former is measured by accomplishment of the later. The revenue budgets provide periodic feedback on the effectiveness of marketing strategies. The revenue budgets are divided based on market projections at the planning stage and may be linked to past revenue generation patterns and strategies. Performance of revenue budgets give warning signals for performance of sales, marketing, production and other functional level strategies and managers accordingly modify, adjust, change, adapt or create new strategies.

Capital budgets Capital budgets make provision for capital investments as per strategic decisions. The capital expenditures are usually for machinery, plant, land, inventories, etc. Many companies diversifying or integrating vertically or horizontally may need capital to be deployed for specific purposes and capital budgeting provides an effective control mechanism for the same. Firms use various other types of budgets like cash budgets and balance sheet budgets to go into details of assets, liabilities, operating cash flows, net worth, etc. for exercising control.

Expenditure budgets While the money is being spent as per resource deployment and needs of capital budgets, the situation may change due to several changes in environment and some of the resource allocations may be rendered useless with regard to strategic implementations, or the budget allocated may cross the limits set due to changes taking place in the environment and expenditures may be more than the budget. In such situations expenditure budgets give an insight into the pattern of expenditures and help to evolve a method of controlling the expenditure for accomplishing strategic objectives. The expenditure budget not only helps to control the implementation of strategies at functional or SBUs level but may also help the management in taking decisions on the resource allocations in capital budgets which may be required to be pruned.

When money is spent it must produce results. The standards for spending the money and quality and quantity of results need to be standardised. Thus evidences of strategic implementation should be clearly spelt out and a plan for achieving them

should be pinned down. These standards are to be linked to strategic objectives and then closely monitored to uncover areas which require control. Various decisions for cutting down travel expenses, inventory, rectifications, change in sales organisation, expenses of sales, etc. can be traced back to expenditure budgets.

Scheduling PERT and CPM

Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are two very widely used techniques to link strategic actions at various levels to time. CPM is basically concerned with tradeoff between cost and time and is used where there is comparatively stable technology and where risk is lower. Both techniques use networks where activities and events are shown with logical relationships. Time frame is a key factor that must be considered for strategic management success. The methods consist in defining the interdependent strategic activities and allocating required time for each activity. The critical path method may also be used to identify the shortest time and additional resources that may be required. The methods have been successfully used by companies integrating vertically or horizontally and mapping out interdependent activities with schedules. The significant changes in various functions like marketing, punching, production, machinery reallocation systems, etc. which can be scheduled and effectively controlled for meeting strategic objectives. It must be appreciated that creating PERT and CPM networks for real problems is quite complex. In some cases, linear programming techniques may be required to be used, however when the number of activities are more, say above 100 or so, the technique of linear programming also becomes unwieldy and in such cases heuristic programming technique is used which consists of scheduling the most critical activities first and then considering activities having larger independent float.

KEY SUCCESS FACTORS

For a strategy to succeed, there are some key success areas which must be continuously monitored by the top management. These factors are significant to strategy implementation, and monitoring of these factors leads to a control over the strategy implementation process. Every company has a different set of key success factors, however, a general list could be as follows.

i. value addition
ii. productivity
iii. employee morale
iv. product features
v. service
vi. earnings per share
vii. market share
viii. new facility additions
ix. level of education
x. awareness

Each of the factors can be further subdivided into tangibly measurable units which can be monitored for their pattern of change. Each firm will have to work out its own list of these critical or key success factors and create its own measurable sub-units, however, a general list could be as follows :

Product Quality

a. performance data
b. customer's acceptability
c. customer complaints
d. customer's satisfaction level
e. conformance to requirements of specification
f. cost rejection and rework

Customer Service

a. number of calls from customers for completeness
b. delivery time
c. sequential delivery
d. delays in reinstallation
e. customer's rating

Employee Motivation and Morale

a. attitudes of employees towards company
b. unplanned absenteeism
c. irritative to accept challenges
d. integrity

Competition

a. number of companies competing
b. number of new product features introduced
c. number of incentives introduced for sales
d. marketing plan
e. market place survey
f. market share

The key success factors help managers in focussing their efforts for implementing the strategies with required controls for making strategies successful. The key factors also help in building a team spirit amongst managers. This is due to interdependence of functions and objective which are to be accomplished.

MONITORING SUCCESS AND EVALUATING DEVIATIONS

It is almost impossible to achieve one hundred per cent performance. Both possibilities exist—the managers may either surpass the targets or may be short of them. This difference between the accomplishments and the standards set is called as deviation. It is necessary to monitor these deviations to exercise proper controls at various

cybernetic points. Thus timely information needs to be generated such that there is time for making the corrections. The identification of the existing deviations with planned mile stones is usually the concern of the management. The management is specifically interested in the causes of deviations so that it can identify probable actions that may result in course corrections, if required.

Some companies focus on timeliness—completion of projects in time may result in a bonus while a contrary situation may leads to heavy penalties. Others may concentrate on reducing overheads. Some companies may choose to reduce cycle time and others may focus on scrap reduction. While their focus may be on one aspect they may also keep track of other factors as well. Once the deviations and the underlying causes are identified, the impact of the deviations on the total success of strategy is also evaluated.

The deviations may be measured in terms of money, business opportunities lost, affected business relations, etc. and weighed with regard to competitor's position. The objective is to develop a rationale behind the deviations and the cause-and-effect relationship established. The deviations may also occur due to internal factors and various shortcomings. The evaluation method thus depends on the focus of the management, and a decision regarding the control mechanism is taken. The strategic plans, schedules, budgets and other parameters are integrated to arrive at conclusions based on which decisions on adjustments in expenditure, strategic growth directions, budgets, control systems, structures, etc. may be taken.

It is pertinent to note here that an acceptable level of deviation should also be decided otherwise the control process itself may become quite costly for a company. It is unwise to have absolute standards of performance due to the basic nature of any business which is usually affected by several internal and external factors.

The standards are therefore derived from averages. The averages set ignition points where management becomes concerned and decides to exercise and take corrective measures. There is a certain amount of deviation which may be safely permitted as it may arise due to measurement inaccuracies whereas there may be a threshold below which the performance of an attribute may be unacceptable. It must be noted that measurement method has to be time-proven to arrive at conclusions, otherwise the results based on which action is to be initiated itself may be wrong and this is required to be doubly ensured.

For meeting eventualities caused due to ignition points, contingency plans are sometimes predrawn which also need to be reviewed. The contingency plans take into account various possibilities for reprioritising, redeploying and restructuring if required.

Thus operational control systems are designed to give a continuous feedback to management through authentic and proven methods of measurements and feedbacks on performance for enabling the management to take required corrective actions.

OPERATIONAL CONTROL OF SYSTEMS

None would like to be controlled. Similarly none would like to report his or her own failures. Hence people are most likely to resist installing a control system which would uncover failures while uncovering the inadequacies or they would land up providing incorrect or incomplete reports. In order to overcome this problem the management will have to build up a climate of mutual trust and belief and will have to identify the real causes for installing a control system. The purpose of control system should never be to find fault with managers but to make course corrections. This is quite a sensitive issue and should be carefully handled through good human relation techniques by the management of a company. Motivating and rewarding the key personnel may help in installing a control system and making it work more efficiently. The reward system may be used as a positive reinforcement and should be the primary emphasis. The negative reinforcements sometimes may be required for controlling and adjusting poor performance. Various reward systems like hike in salary and perquisites, bonuses, stock options, incentives, benefits, promotions, recognition, etc. can be used by a company.

The purpose of a control mechanism is to develop a goodness of fit between the personal and organisational objectives. Financial incentives have been found to work effectively if they are particularly linked to vital activities. Non-financial awards like giving autonomy in job and removal of visible control over day-to-day activities also motivates people to contribute to successful implementation of strategies. The rewards and sanctions must be linked to the time period of strategy implementation. There has been an apprehension on short-term incentives as it is felt that these jeopardize the long-term position of a company. This is true in some circumstances, however, decisions on this aspect should be prudently taken. The reward system should be critically examined and should be installed only after it has been tested in some quarters.

A reward system for motivating people for maximising the annual profits may not be really effective in the long run as the current investments that may be made for improving long-term profitability of a company and its future growth prospects may be eventually lost and may not bear fruits due to fast changes. It must be examined that the reward system should not motivate the manager in a way that long-term benefits which are planned to accrue due to strategies are eventually lost. The short-term incentive and award schedules have basic drawbacks which must be clearly understood. Some of these effects can be summarized as follows:

1. The short-term incentives and rewards are typically based on immediate past performance which may be dependent on the past strategy. There might have been drastic changes in strategic posture of a firm and giving rewards on immediate past performance which may be dependent on the past strategy may not be correct and it may eventually demotivate other managers.

2. The focus is primarily on short-term and hence managers may overdo certain transactions to maximise gains thus affecting long-term investments.
3. It must be understood that short-term gains are primarily due to effective handling of activities of sales, marketing, accounting, purchasing, etc. in short-term and may not be essentially the effect of strategies.
4. Short-term gains can be reflected by some manipulations also. The accounting and managing of events is sometimes so complex that it may be difficult to separate changes which might have lead to benefits.
5. Strategies are basically for long-term gains, however, sometimes the ignition points may result in sporadic gains also. Efforts should be made by the concerned managers to understand the actual mechanism of benefits.

Short-term gains cannot be outright ruled out and in the disguise of strategies some motivated manager should not be condemned. The short term gains may not always be counter-productive to the strategic directions of growth and hence quick conclusions on the issues may be disastrous. This situation of confusion for rewards of short-term and long-term gains arises due to absence of adequate integration between the long-term and short-term objectives, which must exist for avoiding the confusion. It is necessary to develop a clear understanding of objectives right from their inception to avoid impediments in the progress.

Hence a typical reward system should be based on accomplishment of long-term and short-term objectives which must be controlled and assessed at various levels. In fact the process of integration of short-term objectives to accomplish the long-term objectives should be carried out throughout the company at various levels and incremental adjustments carried out to achieve total strategic implemention benefits. The short-term objectives reinforce in incremental manner the long term objectives of a company in a cascading process.

Incentive systems can also be based on strategic budgets which have been already discussed. The incentive systems should be based on some of the following attributes ;

1. Strategic targets achieved in short-term and long-term from results of established processes.
2. Rewards for work-in-progress and completed tasks should be separated out for purposes of clarity.
3. Stock options should be encouraged for people to develop a sense of belonging.

QUESTIONS

1. What are the various issues which need to be addressed during implementation of strategies?
2. Why is there a need to install a strategic control system and what are the various factors taken into account while designing a strategic control system?

3. What are various challenges of changes which must be addressed while implementing the strategies?
4. What is understood by strategic control systems at operating levels? How are budgets used as a control mechanism?
5. What is the relevance of PERT and CPM while implementing strategies?
6. What are key success factors? How is success mentioned and deviation evaluated?

CHAPTER

14

GUIDE TO CASE ANALYSIS

The case approach is an effective method of learning by doing. Cases provide the students and practitioners detailed information about the condition and problems of various companies and industries. The task of the student is to analyse a number of companies which face different situations and develop skills of analysing these companies using analytical techniques, thereby learning to use the same. Simultaneously, they become aware of the ways by which existing companies solve their strategic problems. Cases provide students with following:

1. Give exposure to a variety of strategic problems faced by different industries and companies.
2. Enables students to do role playing as a manager.
3. Use the analytical skills to evaluate situations and problems and become conversant with strategic management techniques.
4. Develop creative abilities to find new solutions to strategic issues.

OBJECTIVES OF CASE ANALYSIS

The method of case study fulfils the following objectives:

1. To enable managers to understand do's and don'ts of business strategies.
2. To build skills in carrying out strategic analysis in a variety of competitive situations, SBUs, business situations, etc. faced by companies.
3. To gather experience in diagnosing various strategic issues and evaluating different strategic alternatives. Experience is also gathered on formulation of workable action plans.
4. To build-up business judgement experience in contrast to accepting arguments on their face value.
5. To get exposure to various industries and firms.
6. To gain experience.

APPROACH TO CASE ANALYSIS

Basically, the following two approaches have been used for case analysis.

- Individual Presentations
- Group Discussions

The individual presentations can be written or oral.

The Various steps in case analysis are as follows :

1. The first step is to read the case quickly so that a familiarity is developed. Initial reading should give a comprehensive understanding of the basic strategic issues involved.
2. The next step is to read the question to be solved for case. The questions are to be carefully read and understood in the context of the case.
3. The case should now be read again with a purpose of gaining full insight into the facts. Try to develop answers to questions in a wider framework of strategies and analysis.

   In case questions have not been provided, an attempt should be made to categorise some basic questions and answers.
4. The data provided along with the case study speaks volumes of information which is to be properly derived and arranged to convey some basic facts. Try to correlate the information contained in data with facts identified earlier.
5. Formulate strategic issues which need to be analysed. Sometimes strategic issues are quite clear and must be jotted down. In some cases they are not quite clear and an argument base must be built-up to identify them. These are required to be dug out.
6. The starting point for analysis is to calculate various financial ratios and estimate the financial condition of a company both and in the past and present. The growth ratios, growth rates of sales, profits, etc. are calculated. The cost structure is built and a total understating of company's financial position is developed.
7. The strategic analysis is based on tools and techniques. These techniques are helpful in uncovering the hidden strategic issues and also help in understanding various strategic issues.

   The strategic analysis tools must be appropriately used to gain insight into various strategic issues. A proper understanding as to which tools should be used for which cases should be developed by students.
8. Sometimes conflicting judgements, opinions and views are developed regarding the data and outcome of analysis. It is a healthy practice to have different points of view and interpretations and this generates more analysis and discussions which further helps in clarifying doubts, opinions and judgements.

9. A good foundation for reasons and evidences must be built. Whenever some conflicting views are developed, a search for correct answers must be made. The questions must uncover reasons and logic behind each statement with number crunching evidences.
10. The critical analysis must culminate into sound actions. The actions must be oriented towards achieving the targeted results. The recommendations should emerge in the form of action plans which should be realistic and workable. The recommendations must be logically proved and one should be able to defend them with substantiated arguments as to why the suggested actions would bring in expected results.

GUIDE TO PREPARING A CASE

1. Adequate time must be allowed for preparing a case. Cases which are prepared in a hurry do not stand the arguments and often the person or a group of persons will find it extremely difficult to defined the case. The information gathered must be classified, recorded and interpreted to draw meaningful conclusions.
2. Notes should be made on key points and key issues. These notes may contain a lot of trivial information which may be irrelevant. Usually, in the introduction the key issues are identified, however, these must be carefully highlighted.
3. Search of relationships in information must be made. Exhibits which contain a lot of numerical information may not communicate much. The relationships in term of trends, variations, correlations etc. is important and conveys a lot about the case.
4. Work should be carried out within a time frame. If data of 1997 is used for a case in presented in 1998 it may be alright, but if the data becomes quite old, it may lose its real impact.
5. A combined use of knowledge and experience should be made, the facts from different points of view. Consider all possible aspects of business and industry. Do not confine the analysis should not be confined to strategic management concepts and knowledge of value analysis, general management, PERT, MBO, etc. should also be used.

GUIDE TO PARTICIPATING IN CLASSROOM DISCUSSIONS

1. The student must actively participate in classroom discussions. The professor must only facilitate the discussion. Mere presence of the students and participants is not sufficient.
2. Questions related to assumptions, data, analysis, methodology, conclusions drawn, and recommendations, etc. must be asked to help and build logic of case analysis. The questions should be pertinent and should significantly bring out the facts to light.

3. The supporting analysis and logic should be kept ready in slides to be presented whenever required. It must be substantiated with data.
4. The presentor must expect challenges to his presentation and must be able to tolerate an honest difference of opinion. There must be no hesitation to ask questions or challenge the data presented or the logic through which certain conclusions are drawn.

   The views and opinions of the other listeners must be respected and honoured. One must appreciate that and unorthodox approaches are always welcome.
5. One should be prepared to change the mindset as the discussion unfolds and new knowledge or a different point of view emerges. One should be able to correlate as to how the new point of view will change or alter the total analysis.
6. Discussing the case even after the presentation must be welcomed as many new thoughts may come only after coming out of the class room. This discussion would help to further refine the thinking process.
7. Often people are found just talking and repeating the same arguments by using different words. It would be better appreciated if contributions are new and original.
8. Avoid using phrases like 'I think', 'I feel', 'in my opinion' etc. instead, 'the analysis reveals' the company should take actions etc. should be used. This gives more weightage and authenticity to the presentations.
9. It is quite boring if the information given in the case is often repeated. Everyone who comes to attend the presentation is expected to have read the case carefully and hence repetitions are only a waste of time.
10. Always rely on your notes, keep them with you while presenting. Though it is true that most of the data argument is in the head of the presentor, however, in order to ensure that nothing has ban missed one should keep the step-by-step analysis written down in key points.

The total steps can be listed as follows.

1. Identification of key issues faced by management and which management needs to address.
2. Perform appropriate evaluation and analysis.
3. Summarise results in light of step1.
4. Propose an action plan and recommendations.

In step 1 consider sizing up the company's situations, strategies, pertinent problems etc. Consider issues faced by management and state the problems clearly and precisely. Often the problems are not correctly stated. People keep on repeating symptoms.

The analysis must be clear and to the point. Avoid opinions, generalisations and platitudes. Rely on tight logic-based arguments backed by facts and data. Carry out qualitative analysis if required to arrive at logical relationships. Use strategic concepts, charts, methods and techniques to help arrive at conclusions. Avoid dramatisation and prepare for a balanced presentation.

The recommendations should address all the issues and problems faced by management and consistent action plans. In case the suggestions from the findings are not based on the logical conclusions there is every likelyhood that these will not be accepted. The high-risk recommendations should be based on high degree of analysis and should be made with a lot of caution. The workability of recommendations is to be critically examined. Competence of a company to implement the recommendations depending on market conditions etc. must be thoroughly examined. Generalised statements like more efforts, more planning, aggressive marketing etc. should be avoided. Instead more specific recommendations should be made. It should be borne in mind that making suggestions is one aspect and seriously implementing them is the other more crucial aspect. Hence it is better to empathise first before recommending and avoid suggestions which one would himself not prefer to follow.

The report should be well written and well organised. It should be convincing with tight logic and must be persuasively written.

Some of the additional guidelines are as follows.

1. Keep the written matter simple.
2. Include major issues.
3. Use a nice style with clear headings and highlighting.
4. Integrate the total perspective of analysis.
5. Use various analysis techniques.
6. State assumptions, if any.
7. Summarise findings.
8. Prepare sufficient number of copies.

QUESTIONS WHICH MUST GENERALLY BE RAISED DURING STRATEGIC ANALYSIS

1. What are the current strategies?
2. Are the actions taken in line with the current strategies?
3. Are current strategies meeting expectations of business drivers i.e. customers, stakeholders, etc.?
4. Are strategies capable of achieving objectives and future strategic position?
5. What are drivers of objectives?
6. What are drivers of strategies? Are there personal goals or objectives?

7. Are the goals too ambitious?
8. Are the goals too low?
9. Are the goals and strategies in line with opportunities?
10. Are the strategies geared-up to meet the threats?
11. What are competitive strategies?
12. Are the competitive strategies based on correct understanding of industry behaviour and structure?
13. Have the key strategic factors been accounted?
14. Are the chosen strategies based on strength and weakness analysis?
15. Are the strategies based on core competencies?
16. Are strategies for all business functions defined?
17. What are the business process inputs and outputs?
18. Is the organisation fit to implement chosen strategies?
19. Can some of the businesses be left out or sold?
20. What other kind of pruning is required?
21. What is the organisational culture? Will it help new strategies?
22. Can it take advantage of liberalisation?
23. What changes are required in structures, culture, systems, processes, etc.
24. Do systems work?
25. What systems it has?
26. What is sensitivity of organisation to changes?
27. How well is the feedback used?
28. What is the responsiveness of organisation to changes?

(The above list is not a complete list and is meant only for guidance. Each case will have its own set of questions.)

CASE

I

CROMPTION GREAVES LIMITED

M.Pradhan

History of Crompton Greaves is a stuff of biographical record. The seed material is Two enterpreneuarial ventures back in the 19th century, the English firm REB Crompton & Company, founded in 1878 by the renowned electrical engineer Col. Rookes Evelyn Bell Crompton and the Indian firm James Greaves & Company, set up in 1858 by James Greaves.

James Greaves and Company grew into a partnership venture, Greaves Cotton & Company (GCC) with George Cotton, an agent of the East India Company.

In 1927, Crompton and Company merged with F&A Parkinson and a new enterprise, Crompton Parkinson and Company Ltd. (CPC) came into being. Crompton Parkinson and Company Ltd., appointed GCC as it's concessionaire in India.

In 1937, CPC Established its wholly owned Indian subsidiary Crompton Parkinson Works Ltd. in Bombay, along with a sales organisation : Greaves Cotton & Crompton Parkinson Ltd. in collaboration with GCC.

Coinciding with India's independence, GCC passed into the hands of the eminent Indian industrialist, Lala Karamchand Thapar.

The business association between CPW and G.C.C.P. came to the logical conclusion in 1966 with a merger to form Crompton Greaves Ltd. Overseas rearrangement of interests aligned CPC with Hawker Siddley which in turn has become a part of the BTR group. Thus, CG has the advantage of being associated with two leading corporate organisations, the Thapar Group and BTR Industries, which is the international business conglomerate.

COMPANY PROFILE

CG has been a pioneer in the field of electric energy for more than 50 years. It is India's largest private sector enterprise in the business of electrical engineering.

Today, CG operates a vast federation of 28 manufactories based in 11 locations and 19 undertakings of 17 associate companies.

During 1995-96, operations of the company were divided into 4 strategic business units.

Power system Transformers, switchgear, control and engineering products

Consumer products Lighting, fans and appliances and international division

Industrial systems Motors, alternator, railway transportation including signalling, power generation equpiment and industrial system.

Digital Industrial electronics, telecommunication informatics.

ACHIEVEMENTS DURING LAST 5 YEARS

- Successful development of 400 kv and foil wound transformer (Technology for Westinghouse Electric Corporation., USA)
- Development of axial, Francis and pelton type hydroturbines capable of generating power as a single unit of 200 MW, through an associate company, punjab Power Generation Machines Ltd.
- Development of wide range of compact, single pressure, puffer type SF6 circuit breakers based on technology from Mitsubishi, Japan.
- Development of zinc oxide Lightning arresters using technology from Hitachi, Japan.
- Development of Stanford series of AC generators through a joint venture with New Age, UK.
- Development of complete Electrics for Diesel Electric Multiple Units of Indian Railways (in-house development)
- Development of high speed light weight Traction motor for diesel loco application.
- CG was the first in country to indigenously develop 3-phase ABB Traction Motor for Indian Railways.
- CG'S associate company Sky Cell has procured the rights for providing cellular telephone services in Chennai.

VISION AND MISSION

Vision statement of an organisation is based on the philosophy on which the organisation works. It is a statement which defines the purpose for which organisation lives and survives. Vision is a long-term business philosophy and serves as a framework of evaluation. With changing business scenario, vision statements have attained special emphasis. With increasing competiton, depleting resouces and fast changing market demands, organisations need to synchronise their efforts and align their resources towards attainment of one common goal. This is what vision statements help

to achieve. They act as a signpost for organisational direction, to ensure unanimity of purpose and to facilitate translation of objectives into workable elements.

Vision statement of CGL encompasses the needs of a modern enterprise with customer as a focal point. It gives direction and a framework to help organisation in the new millennium with shareholder's joy, employee satisfaction and continuous technology innovations.

Vision Statement

To Achieve for Crompton Greaves, The Status of a World Class Company by March, 2001 so as to Ensure

- Customer satisfaction and preference.
- Profitable growth
- Perpetuity
- Stakeholder satisfaction and pride
- Fulfilment of social obligations
- Profitable growing expert

To achieve, through the implementation of PDCA, best practices and continuous improvement of processes focussed on :

- Technology upgradation
- Total quality
- Resource productivity
- Cost effectiveness
- Speed

To create an environment which encourages organisational learning and team effort where:

- Each individual understands his or her responsibility, makes contribution and is recognised for the same.
- Each individual gives his or her best to achieve the shared vision.

White vision statement defines a company's long-term objective, mission statement paves a path to attain that vision. CG's corporate leadership allows its divisions to formulate their own mission statements. This is in line with the corporate policy to give more independence and flexibility to its divisions so that they can design their own mission statement according to the needs of their market segment and business demands.

An example of a divisional mission statement is given below.

Divisional mission statement

Our Values	Our Shared Mission 2001
Parivar	• Team based working system with openness of relationship and sharing true feelings. • Encouragement of individual growth to fullest potential with urge to excel.
Integrity	• Transparency in operations, action and thoughts; no bias against any stakeholder. • Creating commitment culture.
The Pursuit Of Excellence	• Implementation of EQS, QAS and encourage people to take risk, endure mistake and learning. • Thrust on continuous inprovements, innovation and nurture as learning organisation.
Customer Intimacy	• Consciousness that every transaction has a customer - internal or external, empathize with his need and delight him. • EMS for environment friendly and natural resource conserving safe products and processes.
Social Accountability	• Donation of 500 saplings p.o. for healthy environment. • Social fund creation by employees for education of poor students and contribution towards any eventual calamity.

GROWTH OF COMPANY

Crompton Greaves has been one of the major players in the field of electrical Engineering for test over 50 years. Growth of CGL has been slow but steady. It never had a reputation of a fast track, fast growing but unreliable operations. Instead, it has matured itself into an organisation which has a strong technology base, a solid Brand equity and a loyal backing of its shareholders. Company shared a phenomenal growth pattern during period 1993-96. This was primarily due to fast growing Indian economy and company's thrust on technology upgradation. Company's expenditure on R&D was almost doubled during the period 1993-95.

Expenditure on R & D

	Expenditure	31.3.94	31.3.94	31.3.95
i)	Capital	244 lacs	452 lacs	1246 lacs
ii)	Recurring	294 lacs	290 lacs	748 lacs
iii)	Contribution to Scientific Research Institutes	63 lacs	63 lacs	72 lacs
iv)	Total	601 lacs	805 lacs	2066 lacs
	Total R & D Expenditure as % of Total Turnover	0.77%	0.91%	1.92%

Company signed a number of TOT agreements during this period alongwith a number of JVs during the FY 1993-94:

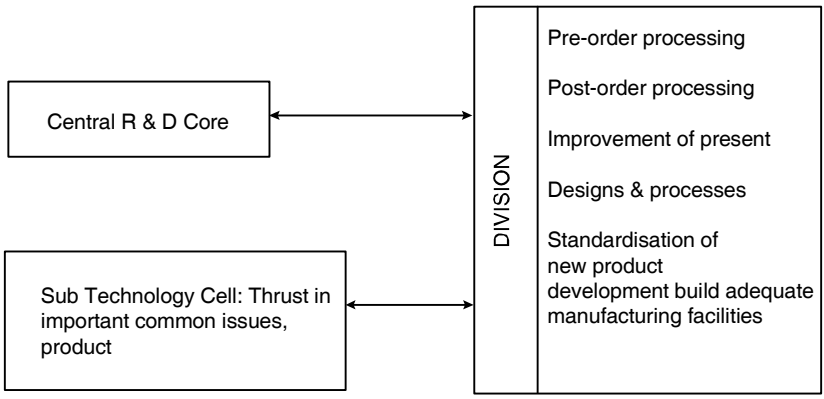
- Sales rose to Rs. 885.58 croses, an increase of 13% over the previous year.
- Pre-tax profit stood at Rs. 37.99 croses again Rs. 16.24 crores of previous year an improvement of 134%
- Export also showed an increase of 17% over previous year at Rs. 92.16 crores.
- Total foreign exchange earned during the financial year was Rs. 9230 lacs.

Opening of Indian economy gave a boost to company's endeavour to become self-reliant and competitive. To achieve competitive edge by better management of resources and to

IMAGE AND COMPETENCE BUILDING

make every area of business more accountable, company was divided in to four strategic business units in 1995-96 with every division of SBU working as a separate profit centre. Each division, headed by a General Manager/Plant Manager has total independence and liberty of managing its resources. This de-centralisation has not only resulted in fast and efficient decision-making process, it has also helped the division to measure their actual performace against the targetted performance apart from making them more accountable.

During the FY 1995-96, business strategy of CGL was reformulated keeping in view the increasing competition and entry of MNCs who were equipped with better technology and resources. Company changed its orientation from a business organisation to a technology organisation and a new corporate policy came into being with a thrust on "Technology organisation"



As a result of this orientation towards technology organisation, three new facilities were established at Mandideep near Bhopal. Most important aspect of these new facilities is that, they belong to that business area of CGL, which company thinks is its core competence area and wants dedicated centres to nurture and develop a technology area on which management has long-term planning.

These three facilities are:

i) Transformer manufacturing plant : Present installed capacity of 500 mva p.a. and capable of manufacturing 800 kv or HVDC transformers.

ii) Traction motor manufacturing plant : Capability of manufacturing 500 motors p.a. alongwith complete Electrics for Indian Railways.

iii) Hydro and turbo generator manufacturing plant : It is a joint venture between CGL and ELIN, Austria, capable of manufacturing generator up to 500 MW.

Other key features of corporate policy includes the following.

INFORMATION TECHNOLOGY IMPLEMENTATION

- Connectivity through E-mail
- Computerisation of all activities
- Integration with globally available knowledge and information through access to nations and international database

TECHNOLOGY - INNOVATION AND PERPETUITY

- Identification of gaps and benchmarking
- Finalisation of vital new projects
- Finalisation of schedule of all chosen projects.
- Finalisation of projects for expansion of market base.
- Review and monitoring all projects.

SBU TECHNOLOGY CELL

- Specific help to divisions to provide additional inputs to accelerate priority assignment
- Support in systems development
- Long term horizon scan and planning
- Review of participation and effectiveness by divisions.

- Audit of new products before launching
- Cross-fertilization of good practices.

CUSTOMER SATISFACTION

- Achieve service factor of 90% plus
- Achieve zero overdue status
- Resolve recurring quality problems
- User-friendly formats
- Enhance direct interaction with customer
- Internal customer satisfaction
- Competitor's best practices

OPERATION EFFICIENCY

- Implementation of waste elimination line
- Backward planning of production based on customer delivery requirements
- Vendor upgradation
- Continuous corrective action
- Stores to be treated as a cash box

GROWTH PATTERN OF COMPANY (PERFORMANCE INDICATOR)

Table C1.1 performance indicator of the company

	89/90	90/91	91/92	92/93	93/94	94/95
Gross Sales	51037	61658	72091	78044	88558	107823
Net Sales	45748	55106	63794	69973	82843	99890
PBT	2008	2172	1784	1624	3799	5908
PAT	1308	2122	1084	1149	2999	4258
Material Cost to Sales (%)	65.94	64.12	63.63	64.13	64.13	03.56
Interest to Sales (%)	4.93	5.93	7.07	4.95	4.95	3.69
Working Capital	10749	12708	18034	25490	25490	28727
Capital employed	19932	25038	30967	446911	46911	58997
ROI (%)	19.04	20.33	20.05	18.29	18.29	18.57
PAT to Net Worth	15.39	25.84	12.39	12.17	12.17	11.10

7. FINANCIAL RESULTS

Within last decade, gross income of crompton Greaves has tripled from Rs. 517.32 crores in 1990 to Rs.1693.91 crores in 1999. Reserves in surplus have increased from Rs. 66.65 crores in 1990 to Rs.522.01 crores in 1999. This is in spite of the fact that in last 5 years, company has installed 5 new manufacturing facilities. Fixed Assets of the company increased from Rs. 87.65 crores in 1990 to Rs. 475.01 crores in 1999.

APPLICATION OF FUNDS

Working Capital : 53.66% in FY 98-99 against 51.8% in FY 95-96

Fixed Assets : 37.5% in FY 98-99 against 39.3% in FY 95-96

Investments : 8.8% in FY 98-99 against 8.9% in FY 95-96

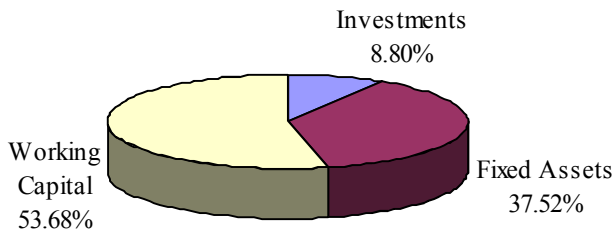


Fig. C1.1*Application of Funds as on 31.03.99*

Net worth per equity share (of Rs.10 each) increased from Rs. 44.71 in 1990 to Rs. 110.10 in 1999. Earning per Equity share took a downslide from Rs. 6.81 in 1990 to Rs. 4.43 in 1999. Confidence shown by shareholders is evident from the shareholders funds account which has swelled from Rs. 85.85 crores in 1990 to Rs. 574.16 cr. in 1999.

Table C.1.2 Crompton Greaves Limited Annual Report 1998-99

Ten Years' Financial Highlights

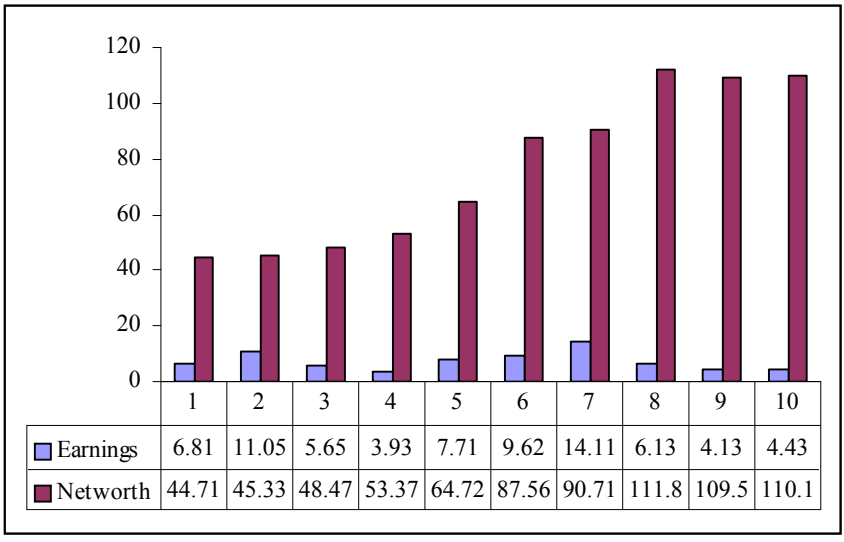
PARTICULARS	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
OPERATING RESULTS										
Gross Income	1693.91	1594.55	1517.69	1496.21	1080.81	889.58	793.47	729.07	624.38	527.32
Profit before Interest & Tax	103.19	86.80	108.40	137.61	95.95	78.96	67.17	62.92	54.41	42.65
Profit before Tax	24.12	20.62	30.76	80.04	59.08	37.99	16.24	17.84	21.72	20.08
Profit after Tax	23.12	20.62	30.76	64.04	42.58	29.99	11.49	10.84	21.22	13.08
Dividend (Dividend Tax)	14.49	14.36	12.55	22.16	14.51	10.40	4.76	3.84	3.84	3.46
Profit after Tax & Dividend	8.63	6.26	18.21	41.88	28.07	19.59	6.73	7.00	17.38	9.62
SOURCES OF FUNDS										
Share Capital	52.15	52.15	52.03	45.39	44.26	38.90	29.20	19.20	19.20	19.20
Reserves and Surplus	522.01	518.69	529.81	366.34	343.29	212.87	126.64	73.86	67.83	66.65
Shareholder's Funds	574.16	570.84	581.84	411.73	387.55	251.77	155.84	93.06	87.03	85.85
Borrowings	691.19	614.73	384.87	407.87	206.32	222.68	246.55	222.17	168.22	114.33
Funds Employed	1265.35	1185.57	966.71	819.60	593.87	474.45	402.39	315.23	255.25	200.18

APPLICATION OF FUNDS										
Fixed Assets	475.01	455.02	388.05	321.45	234.16	176.06	137.27	122.02	116.94	87.65
Investments	111.26	100.07	79.36	73.19	68.15	38.15	18.64	7.31	6.30	4.18
Working Capital (including Miscellaneous Expenditure)	679.08	630.48	554.72	424.96	291.56	260.24	246.48	185.90	132.01	108.35
Net Assets Employed	1265.35	1185.87	1022.13	819.60	593.87	474.45	402.39	315.23	255.25	200.18
RATIOS										
Earnings per Equity Share of Rs. 10 each (Rs.)	4.43	4.13	6.13	14.11	9.62	7.71	3.93	5.65	11.05	6.81
Dividend %	25	25	25	50	35	30	20	20	20	18
Net worth per Equity Share of Rs. 10 each (Rs.)	110.10	109.45	111.81	90.71	87.56	64.72	53.37	48.47	45.33	44,71

Note: 1. Equity Shares of Rs. 100 each sub-divided into Rs. 10 with effect from 1.4.1993.

2. Bonus shares issued during 1989-90 in ratio of 1:1.

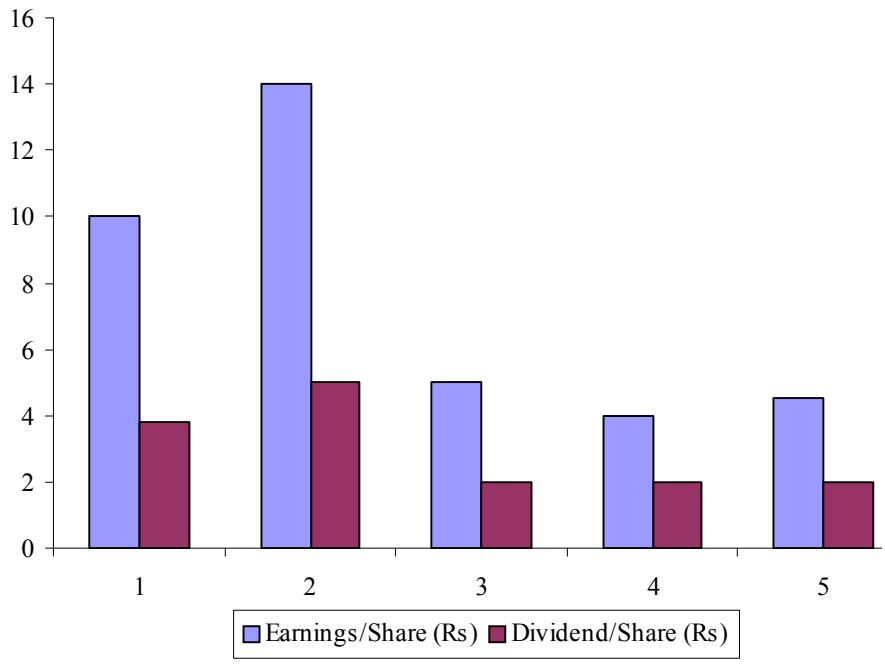
EARNINGS PER EQUITY SHARE AND NET WORTH PER EQUITY SHARE



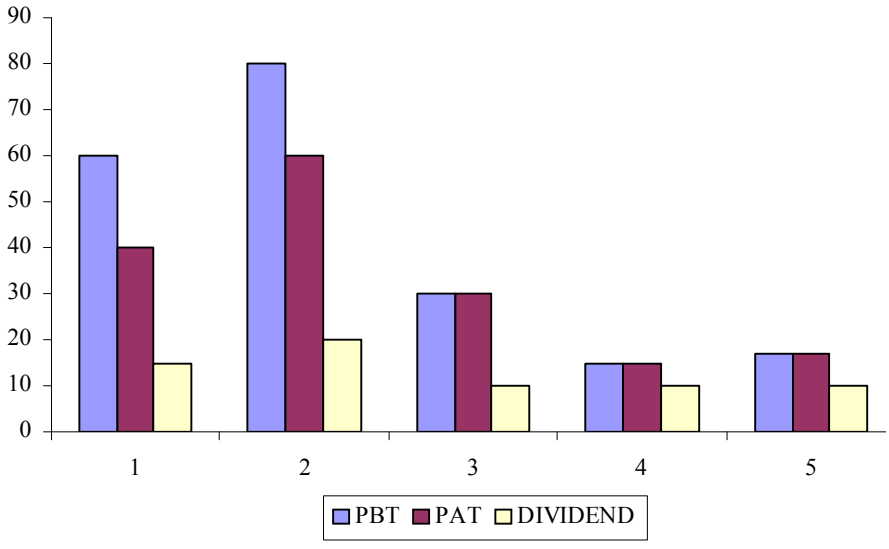
	1	2	3	4	5	6	7	8	9	10
Earnings	6.81	11.05	5.65	3.93	7.71	9.62	14.11	6.13	4.13	4.43
Networth	44.71	45.33	48.47	53.37	64.72	87.56	90.71	111.8	109.5	110.1

APPLICATION OF FUNDS AS ON 31.03.9

APPLICATION OF FUNDS AS ON 31.03.9



PROFITABILITY & DIVIDEND



CASE

II

MODI XEROX

Amit Govil

Modi Xerox is one of India's largest and leading companies, which has designed machines to help customers enhance their business productivity. Modi Xerox is an integral part of the document company Xerox incorporated in 1983 in technical and financial collaboration with Rank Xerox, UK Equipped with state- of-the-art manufacturing facility at Rampur, based in Uttar Pradesh, approximately 200 km from Delhi, with an initial investment of Rs. 37.5 crores. Since 1983 it has come a long way. Modi Xerox is having a market share of 58% with a turnover of Rs. 568 crores. It is the biggest player.

The activity is the upshot of two triggers.

a. Xerox is the international leader in copiers, and has been going through a shift in strategy, worldwide.

b. In Indian documentation market, MX's research shows that of the 200 billion pages used for documenting, 88% is processed through offset, carbon and stencil. That leaves just 12% of the processing through copiers, printers and fax, which is not a big share. One per cent can affect 30 million jump from offset/carbon/stencils. This means that there is a enormous potential for expanding the market.

ACHIEVEMENTS

- No. 1 customer satisfaction wherein 90% of customers are satisfied.
- More than 58% market share in photo copiers and more than 50% in printing systems.
- ISO 14001 certification for a complete environment management system.

- Modi Xerox is the first company in India to receive ISO 9002 certification in office automation and IT industry.

The international and local strategies are inextricably linked, drawing focus from what is happening with office documentation worldwide bound to percolate to India as well. For MX, the immediate concern is how to capture the incremental document volumes and 'into the future' how to ride the shift in documentation modes. This is where the strategy comes in. Recognising the shift in documentation mix, Xerox has developed an intelligent digital platform. It is emerging as a document company, covering document in any form i.e. digital, CD-ROM, multimedia and paper.

To be recognised document company, and advertising had begun 6 years ago. Around 3 years ago, an advertising campaign, worldwide announced Xerox's alignment with digital technology through the 'X' carrying a pixel-lased through arm. Subsequently new digital models have been launched in India.

Company's vision 2000 is to develop, manufacture, market and finance a range of document products and solutions to enhance customer productivity, make the document persuasive and efficient through making them automated.

Following vision 2000 is vision 2002, which targets a sales turnover of $ 1 billion in India. The company had planned to achieve revenues worth Rs. 750 crores in 1998. But to move from there to Rs. 4000 crore by 2002, it has to think out side the box.

The outside box thinking has given birth to MX's new micro marketing plan. This involves segmenting the user market vertically on standard industrial classification, and horizontally by splitting the market into private organisations, public companies and jobbers. The company has collected the census from 48 cities to draw up a micro marketing plan. The marketing plan is based on the four corporate philosophies

- Customer satisfaction
- Market share
- Employees motivation and satisfaction
- Return on assets

Customer Satisfaction

MX has appointed an independent agency to measure customer satisfaction annually. This has been done by the company for the last 8 years. ORG MARG is the current agency. This research tells dissatisfied customers and points out the parameters to solve this problem. Besides this, the company also conducts 90 days survey for post-installed feedback.

Employees Motivation and Satisfaction

Surveys are conducted annually, the findings of which are compared with other xerox companies. This may not be an ideal method due to working conditions being different in different markets, still the company has managed to register an improving trend over the past 6 years.

Market Share

Market share measurement comes through market dynamics measurment. Here the company looks at factors that have brought its market share where it is now—where the company stands in the market place, awareness, coverage, consideration and hit rate.

Return on Assets

Return on assets means hard financial figures since 1983 as a means of improving operating income margins and asset utilisation, thus achieving a premium return on assets.

All these activities provide the necessary backdrop for marketing efforts that includes customer engagement and coverage plan.

GROWTH OF COMPANY

The document company, Modi Xerox has enormously grown over the last decade. In 1992, the company's copier sales was Rs. 158.2 crores which has risen up to Rs. 37.2 crores and in 1998, Rs. 580 crores and the company has a vision to reach Rs. 4000 crores by the end of 2002. The company has achieved this, due to their product innovation, and the four key marketing plans which have provided a platform to achieve the company's objective.

One of the main strategies is "Leadership through quality". The company grows with time and hence now they are going towards digitisation. The company has kept the pace with the changing technology. The company believes that digital market is likely to grow here though demand for the non digital range that will continue to be high during the early years of the 21st century.

HUMAN RESOURCES

Customers are being divided into segmentes and imperative account are handled by specialised account managers, global accountant, local accountant, named account and general and mass market managers. The rest of the customers are handled by sales promotion agents (dealers, partners). Through this method there is a fleet of 1000 feet of street people for the products.

The company also has telemarketing and telesales programmes. Tele marketing plays a support role, marketing mostly to small organisations with around 20 employees. The telesales team is able to access relevant geographical customers spread on computers each district is split up into defined areas that each person must top.

Apart from this the company has made available various facilities like housing buses, canteen, club, fair price shop, school, bank, and hospitals for the employees. The company also provides training for its employees at regular intervals.

(MXTC) Modi Xerox Training Centre is fully equipped to carry out training programs for all Modi Xerox employees. The company also has a Research and Development Centre. Every employee goes through a training programme on quality within 90 days of his/her joining.

STRATEGY AND OPERATION

The four key strategies (Marketing plan)

- Customer satisfaction
- Employees motivation and satisfaction.
- Market share
- Return on assets.

The company has a very effective advertising policy with specific advertising on newly launched products when required. MX advertises only in the print media on which it spent Rs. 4.5 crore in 1997, but the total promotional money spent last year was Rs. 8.5 crores which also included spending on more than 100 exclusive road shows across the country. The company increases the advertising budget every year depending on market dynamics.

There are various long-term policies which are set by the company.

- To increase the market share.
- To become the 1 billion company by 2002.

MODI XEROX QUALITY POLICY

Modi Xerox is a quality company, and quality is its basic business principle. Quality means providing our external and internal customers with innovative products and services that fully satisfy their requirements. Quality improvement is the job of every MX employee.

LEADERSHIP THROUGH QUALITY

Leadership through quality is both a strategy (continuous pursuit) of quality improvement and a process (a fundamental business principle on which all work processes are based). Leadership through quality is fostered by the management at all levels and is seen as a proactive approach rather than a reactive approach.

CASE

III

KINETIC ELEVATORS LTD., AHMEDABAD

Deepak Deshpande

Kinetic Elevators Ltd. was established by Mr S.G. Gupta a few decades ago at Ahmedabad. Kinetic Elevator has completed numerous lifts installations of Automatic/Manual Passenger Lifts, Goods Lifts, Service Lifts, Hospital Lifts all over India and became a leading lift maker, employing about 200 people with wide inetwork. Kinetic Elevator offers installation maintenance, overhauling, modernisation, engineering, production and consultation of Elevators Escalators, Parking Systems, Moving walks. Kinetic has developed KRS–Kinetic Rescue System, EMS—Elevator Management System, BMS - Building Management System for advance safety and security in elevators and building. Kinetic staffs of highly qualified professionals give best returns of the customer's budget and time. Kinetic always takes pride of its people for their expertise, innovation, skill, serviceability and excellence in performance of Vertical Transportation Systems.

Elevators

Kinetic Elevators is specialised in Hydraulic Elevators and Traction Elevators with a speed upto 5.00 m/s and capacity ranges upto 10,000 kg. Kinetic is successful in satisfying client's requested special lifts. Consultants, architects and Developers are welcome for planning, consulting and drawing for their projects. Kinetic's wide elevators range includes

- High-Speed Passenger Elevators
- Glass-Vision (Scenic) Elevators
- Hospital Elevators
- Capsule Elevators
- Stair-Way Elevators
- Goods Elevators
- Dumb-Walters

- Industrial Elevators

All these elevators are available with gear and gearless drive. Choice is also available in types of doors.

1. Manual Doors

- Collapsible Doors
- Impeforated Doors
- Swing Doors

2. Automatic Doors

- Center-Opening Doors
- Telescopic Doors
- Vertical Biparting Doors

VISION AND MISSION

Kinetic Elevators has a very clear vision to continue serving to the customers through its technological expertise and adherence to total quality. Kinetic Elevators desires to achieve the same through its dedicated team members who are always for innovations.

The mission statement of Kinetic Elevators is "We Care for Your Safety". The mission statement very well indicates the importance given to the public safety because Kinetic has learned a lot through its past experience in this area. Kinetic is highly successful in its mission with 0% accidents taking place thanks to the high quality standards it follows and technological benefits it avails.

GROWTH OF THE COMPANY

In a short span of time the company has grown to an extent to compete all the major players in the market. Kinetic Elevators is all set to have the largest share of the vertical transportation market in India, which itself is growing at a very good rate of 30% per annum. Kinetic Elevators witnessed this growth by adapting market leader policies as far as product innovations are concerned. Kinetic was among the first few companies to introduce systems like Kinetic Rescue Guard, VWF Control, etc. Kinetic is continuing the trend by introducing EMS (Elevator Management System) and BMS (Building Management System). One more reason for the growth Kinetic experieried is its emphasis on service part of it. With a team of highly skilled technicians & engineers and training facilities, Kinetic is the best as far as service is concerned.

CULTURE OF THE ORGANISATION

a) Organisational chart

b) Kinetic Elevators believes in total quality management. Every person in Kinetic Elevators is bound to quality and custormer satisfaction. Kinetic has a

team of highly motivated employees who always put their maximum towards the common goal. All the departments work together to get the synergy effect.

KEY STRATEGIES OF THE COMPANY

1. Kinetic has a strategy to make available quality product at moderate cost the main aim of which is to gain more and more market share.
2. Kinetic gives special attention to service to get repeat sales.

Work Flow Diagram or Operational Chart

1. Order received by marketing department.
2. Drawing. & plan of the building received.
3. Plan studied by the design departmemt Revised plan suggested if needed.
4. Revised plan received and approved.
5. Revised plan given to the customer
6. Project planning by operation Department.
7. Material specifications and requirement given to the production Department.
8. Production planning.
9. Schedule and project plan given to the customer.
10. Site preparation details given to the customer
11. Project execution
12. Inspection
13. Review and corrective measures
14. Project hand over
15. Monthly servicing schedule given to the customer
16. Closing the deal by marketing Department.

SYNOPSES

Kinetic through its strategies has completed over thousand erections in the country and has a turn-over around Rs.12 Crs. It intends to serve the domestic as well as the foreign market in future with the same ideology and become largest supplier of vertical transportation systems.

CASE

IV

FRICTION BANDS PRIVIATE LIMITED COEFF. PUNE

Ashish Kulkarni.

"Corporate excellence is not a divine gift. It is an achievement of the people inan organisation. We too shall achieve it."

Co- Eff Friction Bands Private Limited is engaged in manufacturing, exporting and marketing of quality industrial friction products of various high performance industrial machines for torque, acceleration and retardation. " The most of these products are made on IS and BS quality standards. The range of products includes Non-Asbestos Brake and Clutch Lining Friction material and Bonded Asbestos Brake Liner (in roll form) and friction articles thereof (sheets, rolls, strips, cones, cups, segments, disc, pad and blocks) for industrial, marine and automotive earth mover applications.

Co-Eff Friction Bands Private Limited, an Industrial and earth movers equipment supplier since 1992, industrial applications light, medium, heavy machinery and presses and imports for the OE after market and performance market. Co-Eff make products, the tough once both on and off the racetrack of worldwide supplier of advanced interior products and system for industries, marine, defence and other selected markets for the OE manufactures and aftermarket, traditionally limited to formed headliners, break bands, conical clutches and components. Our standard products for marine, textile, sugar, pulp and paper, mechanical, forging, domestic and industrial washing machine industries.

Co-Eff and its another division Quality Friction Company is leading world wide supplier of UEM and aftermarket components, system and technology as well as products innovations to the automotive earthmovers, marine, defence and heavy duty high performance machinery for industries.

Since 1992 till date Co-Eff Friction Bands Pvt. Ltd. has come a long way resserting its commitment to quality and customer satisfaction At every step heir motto has been service that brings smile through we make products for the various industrial

applications. Besides these manufacturing the products, Co-Eff friction Banks Pvt. Ltd.we also manufactures the custom made friction product as per customer specification, design and drawings. It takes orders of brake cups and rings to be made as per samples. It also undertakes the orders of industrial brake and clutch services, relining of bands and clutches (emergency service available) as mentioned in the Brochure. This addition is synergic to the existing product range. The reason for constant development of CO-EFF is its quality.

As they strive for continuous improvement in quality their primary emphasis is in satisfying customer expectations through world class quality, advanced product engineering CAD/CAM design, material technology, outstanding customer service and cost competitiveness. However dedication to quality is total. Each and every product is checked 100% and therefore customer satisfaction is guaranteed. All products confirm to HS code where standard is available. Most of these products are available off the shelf through some high value products are manufacture on the receipt of order.

QUALITY POLICY

Co-Eff would continuously strive to improve its work culture by training its manpower, being system oriented and fair to all, thereby leading to employee satisfaction.

As a manufacturing and marketing organisation, Co-Eff manufacture and market only top quality products and supply the right material at the right time and at the right place.

The ultimate objective would be to delight the customer and establish themselves as the best manufacturing and marketing organisation.

PHILOSOPHY

Corporate

To ensure a perfect match between the requirements of corporate growth and socio-economic well being of the members of the team. Excellence in performance is the only viable tool to forge such a match.

HRD

Co-Eff team members are it's greatest asset. Co-EFF shall provide encouragement for innovation and entrepreneurship and full opportunities for it's employees to grow to the limit of their desire and ability.

Co-Eff believes in career development of its employees through need based training and development, object oriented appraisal system, atmosphere of open, honest communication and trust.

Co-Eff endeavor is to create a culture of motivation for excellence and sense of pride, belongingness, pleasure and social fulfillment in being a member of Co-Eff.

It calls upon every employee to instill a collective commitment to a common mission and goals to foster distinctive competence for achieving superior performance and above all to treat customer delight as the core mega value of Co-Eff family.

POLICIES

Higher formal education may be necessary but not enough basis for employment in light. Co-Eff values proven track record, commitment to and involvement with the entrusted responsibilities, personal integrity and loyalty to the organisation.

HRD

"Tomorrow Needs Tomorrow's Skills", recognising this great fact Co-Eff will put the required efforts today in educating its employees through training and development. An employee will be exposed to need based training and development programs, at all levels to improve their vocational, professional and behavioral skills. Of course the urge to learn and develop comes from within person. Outside agencies can only spur that urge to learn, develop and grow.

Appraisal

The company will encourage and develop its employees to grow within the organisation by appreciating their strong points and identifying corrective action of the shortcoming of the individuals through perfomance appraisal system.

Remuneration

People in Co-Eff shall grow with Co-Eff and at any time one's remuneration and package shall be favorably compared with organisations of its size and age but they are rationally convinced that employees of any organisation cannot have a larger share without enlarging the size of corporate cake.

GROWTH AND PROMOTION

Mere number of years of service or age is not a criteria but consistence in achieving set targets and display of potential for growth by way of sharing larger and greater responsibilities and acquiring higher skills are the sole basis for promotion and growth of an employee.

SYSTEM APPROACH

Co-Eff is operating on systems rather than on individual approach. Detailed procedure have been laid down for performing various activities. The company's success lies in following proper procedures consistantly, until and unless the procedure itself is changed for improvements and are institutionalised.

DISCIPLINE

Co-Eff believes that its employees should be disciplined themselves as it is the only way to create the orderliness and harmony. Threat, punishment cannot create lasting discipline.

Co-Eff approach to discipline is—Fair and Firm.

INDUCTION

New employee shall undergo an induction training programme which will be carried out as per the schedule of induction training module. The employee shall be provided with a copy of Induction Manual at the time of joining.

Induction training will provide him with the insight of systems being followed in Co-Eff operations.

PROCEDURES

Grades

Employees will be designated as under in different grades.

DESIGNATION	GRADE
Managing Director (M.D.)	—
Executive Director	M6
General Manager (G.M.)	M5
Manager (M)	M4
Assistant Manager (A.M.)	M3
Senior Executive (S.E.)	M2
Executive (E)	M1
Senior Officer (S.O.)	O3
Officer (O)	O3
Assistant Officer (A.O.)	O1
Staff (ST)	ST
Supervisor (SP)	S3
Workers (SW)	S1

TOWARDS CORPORATE SELFHOOD

Mission Statement

CO-EFF will strive to become the best manufacturing and exporting organisation in the country dealing in industrial friction material.

Goals of the Company

CO-EFF four basic goals to be achieved by the year 2002.

i. To become the quality leader in the manufacturing industrial friction material.
ii. To acquire capability to service customer's requirements with in an hour.
iii. To achieve a sales turnover of Rs.10 crores.
iv. To capture a market share of 20% for the products Co-Eff deals with.

Strategies of the Company to Achieve the Target

For achieving the above stated goals, CO-EFF has envisioned a six pronged strategy consisting of:

i. A national network of branches and dealers.
ii. Constant addition of quality friction components to the existing range of products.
iii. Adoption and effective use of the available communication technology.
iv. Building a committed and disciplined task force. Launching a massive publicity campaign highlighting the quality of our products.
v. Implementing quality system confirming to international standard series.
vi. Being fair to employees, customer and society.

CASE

V

SURUCHI DAIRY INDUSTRIES PVT. LTD, PUNE.

Prakash Kaswad

Suruchi Dairy Industries Pvt. Ltd. was promoted by five enterprising farmers in Shirur Taluka of Pune District. viz. Mr. Prataprao Gawade who is also an MLA, Mr.B.R.Kale, Mr. B. B. Kawad, Mr. Prakash Pawar and Mr. Dandawate and it started its operations on 1st July 1998. The formation of the company was solely aimed at making available, the milk producers of the region, a regular market for their milk and that too at fair prices. But in these three years of operation the company has learned and achieved a lot in satisfying the market demands. The company has changed its marketing strategies and product mix from time to time to achieve the overall organisational goal.

The present business the company is doing

Collection of 40,000 lts/day

Sales of 40,000 lts/day (Mumbai and new Bombayz—25,000 lt
Pimpri Chinchwad and Pune—15,000 lt)

Product Categories

1) Cow milk

2) Double tonned milk

Brands

1) Suruchi - fat level above 3.7 per ltr. - Best Quality milk

2) Kaweri - fat level @ 3.5 per ltr - Quality at reasonable price

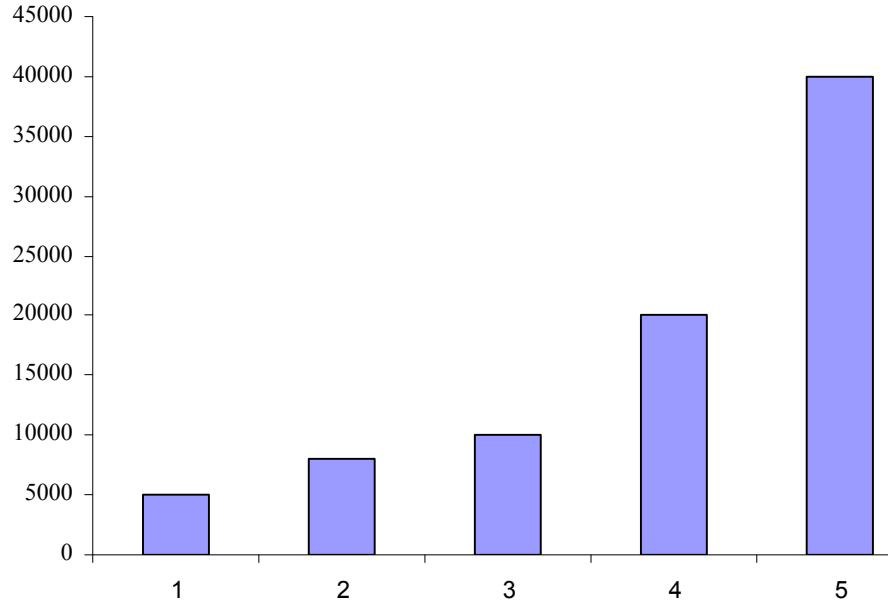
3) Morning - fat level below 1.5 - Less fast high proteins

VISION AND MISSION

The reason of existence of Suruchi Dairy Industries (P) Ltd. Is "To make available, for the milk producers of the area, a permanent market and fair prices for their milk."

In an effort to achieve the above said objective the company has witnessed continuous changes in its strategies and policy lines. It is this customised approach that has helped the company to achieve its main objective as well as to satisfy market demands.

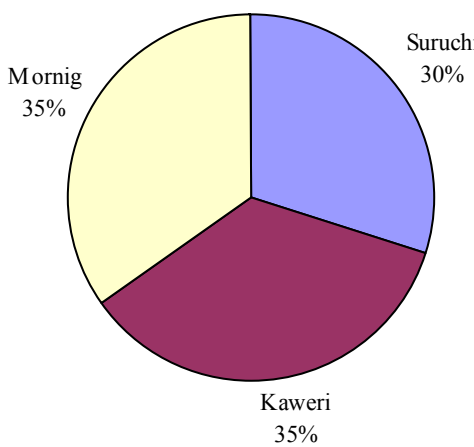
GROWTH OF THE COMPANY



The company has grown considerably over a period of three years, from a 5,000 itrs/day to a whooping 40,000 itr/day i.e. a growth of 700% in three years. In the beginning, the company was not growing to the expectations of its promoters. After a market survey, it was found that the reasons for this stagnation are

1) Heavy price competition from other milk producers.
2) Selection of dealers not proper.
3) Due attention not given to the service aspect.

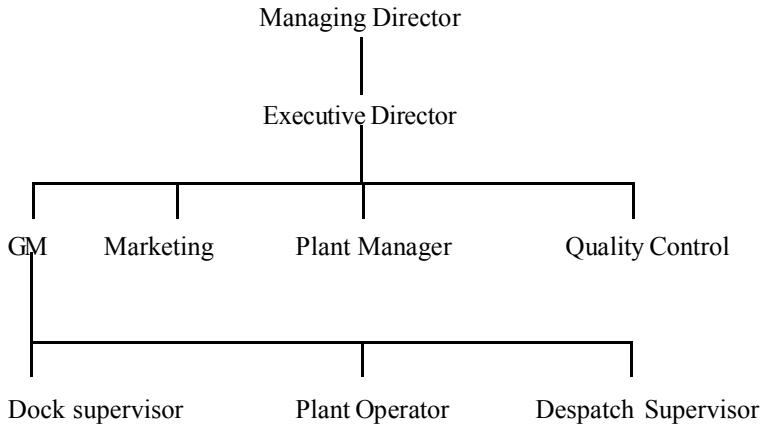
The management decided following remedies to overcome the obstacles listed above



1) It introduced two more brands viz. Kaweri and Morning with less fats and offcourse less prices to cope up with the price competition. Thus the product mix was changed to suit market requirements.
2) Even the price mix was changed a bit to attract established dealers to keep our products. Discounts about 5% were offered for the main channel partners on heavy trades thus enabling effective restructuring of the distribution network.
3) The low fat products were positioned in such a way so as to carve their own nishe'. E. g. The punch line on Morning Doodh says it is having low fats and more proteins catering to the health conscious people.
4) The company bought few more vehicles to improve its service. (total no. of vehicles 11)

CULTURE OF THE ORGANIZATION

a) Organizational chart: No of employees 70



The company has a very healthy atmosphere and a very strong work ethics. Any employee of the company can have a communication with the executive director by-passing the channel in between.

The company believes that these is always a better way of doing anything and scope for improvement.

GOAL OF THE COMPANY

By year 2002 the company has a target of 60,000 Itr/Day

KEY STRATEGIES OF THE COMPANY TO ACHIEVE THE TARGET

1. Suruchi Diary has a strategy to act quickly to the market demands to maintain its growth rate.
2. At present the company is more concerned about the brand equity of its Suruchi brand and increase its market share by concentrating on service and effective dealer management.

Plant and machineries

1)	Chiller	Alfa laval	10000 Itr/Hr
2)	Pasteuriser	Alfa laval	5000 Itr/Hr
3)	Homogeniser	APV Gauline-Germany	5000Itr/Hr
4)	Packaging Machine	Nichrome 2 no.	2500 Itr/Hr

Conclusion : Thus with its proper marketing mix the company is all set to be one of the market leaders in near future and sure to meet its orgnisational objective.

CASE

VI

Sudeer Darckar

It all started in 1989 when 5 young, dynamic, enthusiastic, highly confident individuals from different disciplines, but masters in their respective areas joined hands and established a small manufacturing unit in the field of hydraulics and fluid power system. It was a regular, formal small-scale industry known as Hydropack India.

As time went by the unit started growing in prominence and gradually attained an expertise in the field and is today known as Hydropack India Pvt. Ltd.

The company has made tremendous impact at the national level for its quality products, fair approach to business and business ethics. The company has manufactured and supplied special types of equipments which are export oriented and treated as "import substitutes" for which the company has been honoured by the Ministers of State and Government organisations.

It has taken lots of years, tremendous amount of hard work, utter dedication, unshakable confidence and sweat and blood. The company's employees are taught, looked after, cared and carefully nurtured so that their ideas and spirit flow freely unhindered by red tape, bureaucracy and supervision.

The men credited for the success of Hydropack India Pvt Ltd.'s Management system are

- Mr. Sudhir Darekar (Managing Director)
- Mr. Srinivas Huddar (Technical Director)
- Mr. Raghuraj Jakati (Director Finance)
- Mr. Maruthi Patil (Director)
- Mr. Ramakrishnan (Director)

VISION AND MISSION

Among the principles that the company espouses have to do with trust, transparency, freedom of expression and an opportunity to learn.

The company strives to improve quality consistently. This would be at par with customer expectations.

Vision Statement

The company will strive to manufacture best hydraulic equipments to national and international standards and be the market leader.

Mission Statement

To strive for excellence and cost effectiveness by doing right work at first time.

GROWTH OF COMPANY

The company specialises in the manufacture of

- Hydraulic jacks
- Hydraulic cylinders
- Hydraulic presses
- Hand-pumps and
- Power packs

Besides it also manufactures special equipment for

- Valve testing
- Plywood/Rubber moulding
- Load testing - spun pipe, concrete sleepers, compression testing
- Pressure testing
- Gang operated jacking system for load movements.

In 1993, the company was awarded a contract from SHAR Center, Shriharikota to design, manufacture, erect and commission a Hydraulic System for Satellite / PSLV launching pad which was successfully executed. This was an additional feather in the cap for the company, as earlier the Indian Government had to depend for the system on foreign suppliers such as NASA etc.

Among the successfully developed custom built products are

- Bowl Hub Removal Fixture : 600 / 800 T for Thermal Power
- Hydraulic Brake Assemblies : Single/Double Acting for Hydro Generators
- Hydraulic Bolt Tensioners : for Heavy Electrical and Thermal Power/ Engg. Industries
- Lifting Tables & Platforms : for Heavy Engineering Industries/ Railways
- Hydraulic Torque Wrenches : Import substitute for Thermal Power/ Earth Moving/Engg. Industries
- Hydraulic Torque Masters : Import substitute for Tyre Industries
- Telescopic Gang Operated Jacks : for Bridge Construction and Railways
- Strand Systems : for Bridge Constructions

- Hydraulic Power Packs : for Marine Engineering and Machine Tools

The products are developed indigenously and are well accepted in the national market.

CULTURE OF ORGANIZATION

The heart of the company is its people. The culture contains simple but effective ways of living and behaving. Some tips to good living are

- Do not lie
- Do not waste
- Be clean & keep your surroundings clean
- Improve
- Satisfy your customer

The fame of the Company rests on its four pillars. They are

- R & D engineering
- Quality control
- Marketing network
- Prompt after sales services

The R & D center is equipped with CAD facility for improved and faster product development. All the activities are interlinked through simple principle of immediate customer. The philosophy is to satisfy the immediate customer thereby satisfying the ultimate customer.

STRATEGIES AND OPERATIONS

The items/components needed for the manufacturing process are procured from a dedicated chain of suppliers. Most of the suppliers are located in and around Belgaum. Remaining are distributed all over India.

Manufacturing process

The company has a Quality Control Department through which quality assurance methods are adopted, such as

- Chips are drawn from the raw material which is to be used for manufacturing and sent for chemical analysis.
- On receipt of the chemical reports and conformation of its suitability, it is sent for rough machining.
- During rough machining periodical checks for the dimension are carried out.
- Necessary welding of parts such as handles, delivery ports, delivery boss, etc. are done and checked for any leakage/cracks and then sent for heat

treatment if required.

- Once the required R.C is obtained finish machining is done and the cylinder /jack barrel is honed to the required size.
- The cylinder/jack ram is ground finished, hard chrome plated and finish grinding is done.
- After assembly the rated product is primer coated and kept for testing. Inspection for dimensional, functional, performance, load and overload are carried out and the reports maintained by the company

QC which may be again inspected by third party inspecting agencies such as CQS, BHEL, RITES, IRS, BVQL, etc.

Testing Facility Available

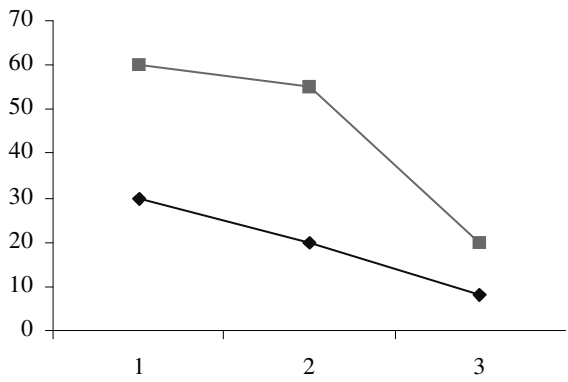
- 200 T Capacity Closed Frame Hydraulic Test Rig.
- 50 T Capacity H frame Hydraulic Test Rig.
- Hydraulic Power pack push button operated having cycle counter.
- Company is equipped with the required measuring instruments for line inspection.
- Sources are available in and around location of the factory to carry our the chemical, ultrasonic tests.

Application of Company products

The company is well known for its System Engineering and Quality products in the following areas

Ship Construction	Railways	Thermal Powers
Constructions/Civil Engg.	Civil Engg.	Machine Tools
Rubber Industries	Research/Educational Institute	Power Generation
Air craft	Chemical	Wood Industries
Tyre Industries	Automibles	Material Handling
Steel Plants	Road Building	Foundry
Process Industry	Space/Atomic Energy	Laboratories
Refineries		

FINANCIAL RESULTS



CASE

VII

ADVERTISING AGENCIES—STRATEGIES FOR MARKETING OF PROFESSIONAL SUPPORT SERVICES CASE OF ADVERTISING AGENCIES

S. Lomash

We find today a boom in service sector, the growth rates have been phenomenal. In developed countries the share of service sector is more than 50% and in India also it is rapidly rising. It has already crossed a Rs. 1000 crore mark and is expected to further rise due to new business environment created due to liberisation and consumerism which is tapping at the doors of different sectors.

UNDERSTANDING MARKETING CONCEPTS RELATED TO AGENCY

The generic marketers create value through configurations, valuations, symbolisations and facilitations. In advertising world, the configuration includes total range of services offered, valuation is through media commission earnings, symbolisation in perception of audience and viewers through positioning by size, creative and innovative talent services, markets and its segments etc. and facilitation is by way of ease with which a client can use the services offered. In addition to these the personnel, physical facilities and process management are also crucial. This is due to the fact that production and consumption interactions are important ingredients of service sector. Service is also a non-standard product and many a times during deliberations it may be revealed that promotion through market research may be more needed than through advertising.

Services are also intangible. There is no physical product which can be offered. An agency may be selling time and space on air and press and evaluation is based on feed backs. In service the quality keeps on changing with each contract due to change in contract specifications itself and hence consistency in quality is quite difficult.

GROWTH AND PERSPECTIVE

Agency is said to grow if client grow. Hence the growth of agency is essentially dependent variable. The agency outwardly may be involved in executing films, scrips and media buying, art work etc. but their objective may be to build brands, increase market share, explore and penetrate new markets, add to product development etc. for their client. It has to work for a client organization and grow with it and yet it is different from it.

The rate of growth is dependent on style of marketing which may be minimal wherein they aspire to get work based on their good work, hard selling wherein objective is to grab a substantial market share through price discounts, referral commissions etc. The professional approach consists of planning for long range objectives and define strategies accordingly, imparting training inputs to staff for their growth, allocating resources and ensuring the desired quality of service to clients.

POSITIONING OF AGENCIES and CORRESPONDING STRATEGIES

Client look at agencies in different ways. Some look for big agencies and the others at small agencies. The word big here has many connotations like large intrastructural backed network of branches spread out in different areas of interests, etc. The word small reflects agility, personalised service adaptability, innovation, effort in real value direction etc.

The positioning of agencies may be done due to the level of creative value addition. Some agencies are strikingly different in their approach and believe in creativity whereas others don't. The creativity may be used for communication difference also. Certain agencies are good thinkers and may discuss marketing with clients for their strategies. The positioning may done based on special skills like media planning, management, timeliness etc. The positioning may be done with regard to markets and price also.

STRATEGIES WITH REFERENCE TO CLIENTS

Strategies for all the customers of agencies are not the same. Strategies vary with various factors like size, brand, age, resources etc.

During entrepreneurial phase, the agencies have to be quick responsive to decision making. The agency usually offers personalised services to entrepreneur thus looking for quick and bold decisions. The person from agency must be mature and do meticulous account planning. The focus is usually on low cost and unconventional media planning. Agency must realise that this phase is of survival and the focus should be on brand positioning.

EXISTING PLAYERS

There can be two unique conditions, First - Client's growth is faster than rate at which market grows and second market growth is faster than that of client. In the first case

effort is to make a strategic move for building the brand a market leader while in the later it may be necessary to plan out strategies by which the brand becomes an active player. The agency should promote formalised decision making which should be outcome of meticulous account planning.

LEADERS

When brands are in dominant position, market shares can hardly expand and hence the key force is to maintain the existing position of a brand. Plan and strategies have to be evolved by way of which competitor's strategies will have to be pre-emptive and defensive. The brand position may be challenged by imitators against, which it is to be guarded. The decision making is formalised and follows hierarchial structure.

CHANGING STRATEGY IN SIZE OF AGENCY

Small agencies due to limitations of funds and available structures do not deal with large brands .In fact, the agencies have to search for the right clients whereby success of product becomes a synonym to the success of an agency. Small agencies also offer some specialised services, which is their strength, and cases where small agencies have large brands, their incomes depend on them. This becomes both an advantage and a disadvantage.

A medium agency invests in both, i. e. the present and future and has balanced client mix. It has some brand leaders, brand players, and small clients who have a potential to become leaders in future.

A leader agency sets industry standards. It is not only additionally involved in publishing market indices but also imparts training to aspiring professionals. Their one of the objectives is to bring about overall improvements in business environment of agencies.

CONCLUSION

Business of agencies is different compared to that of industries. Advertising is a business of managing clients on one hand and employees at the other hand. It is an intelligent work requiring bringing our different between two products. A successful agency creates a specific position for itself in the market.

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CASE

VIII

SONALIKA GROUP OF INDUSTRIES

Om Tyagi

"Sonalika" came into existance in 1967, as a small scale Agricultural Equipment manufacturing unit at Hoshiarpur near Jalandhar in Punjab. The name came from a very famous variety of wheat seed developed by Dr. Bholkar, named as "Sonalika". This variety was known for its high grain quality and yield per hector and with this began, the "era of green revolution" in India. In the initial days of establishment of Sonalika group, its sole unit "M/s Sonalika Agriculture Industries" was engaged in manufacturing tractor drawn agricultural implements. A year later, it started manufacturing threshers on a small scale. In 1969, when demand of its threshers increased, a separate company named "M/s Sonalika International" was born to exclusively manufacture and market wheat and paddy threshers. In the subsequent years, the company developed multicrop threshers and almost all kinds of agricultural implements and equipment including submersible pumps. In order to take care of requirement of cast iron components needed in agricultural equipments, Sonalika established another firm in the name of "M/s Casting Corporation of India" in 1973. In the year 1975, a separate unit to produce higher power agricultural implements, the Sonalika group raised another unit, "M/s punjab Agriculture Industries". The "Sonalika" brand name was accepted so well by the Indian farmers that it captured nearly 65% of the market in 1990, in farm equipment market in India. A survey conducted in 1992 on agricultural implement manufacturers' production in the organised sector and sale in the country revealed that "Sonalika" had infact captured over 85% of the threshers market.

BUSINESS DIVERSIFICATION

In the process of business expansion and furthering growth prospects of the group, in 1994, the management of Sonalika, planned to diversify into manufacturing and marketing of agricultural tractors. This was primarily driven by the fact that tractor was a single main machine owned / to be owned by a farmer. Since Sonalika had established itself as a household name in farming community, the expected level of acceptance of

product was almost assured. Thus the development of agricultural tractors started towards the end of calendar year 1995.

The company entered into a technology transfer agreement with CMERI for design of tractor gear box. The same institution had designed and developed tractor gear box for M/s Punjab Tractors Limited. This Punjab (Mohali near Chandigarh) based company is engaged in manufacturing and marketing of "Swaraj" brand of agricultural tractors. Initially Sonalika developed a 40 hp tractor. The prime-mover, a 40 hp engine requirement was (and for this model even today) fulfilled by Simpson, a Chennai based Amalgamation Group Company.

Table C.8.1Sonalika Group of Industries

Total Product Range

Existing	Proposed
Tractors 30 Hp to 60 Hp	Tractors 65 Hp to 150 Hp
Multicrop Threshers	4 wheelers (Jeep)
Combine Harvesters	Two Wheeler (M/Cycles)
Crop Reapers	Multi-utility Vehicle (Track-car)
Potato Planters	
Maize Shellers	
Paddy Threshers	
Seed cum Fertilizer Planters	
Submersible Pumps	
Stationary Engines	

ENTRY INTO INDIAN TRACTOR MARKET

With the development of its 40 hp tractor, Sonalika floated another company as "M/s International Tractors Limited" in 1995. Its first tractor rolled out in September 1996. For over one year, the company concentrated on establishing its lone 40 hp tractor model. In the second year, it developed tractors with 30 hp and 50 hp engine again bought from Simpson. Today, ITL manufactures and markets about 21 tractor models in the range from 30 to 60 horse power. It has appointed over 500 tractor dealers in the country including Nepal. Twenty-two tractor distributors in the country support the supply line.

IN-HOUSE DEVELOPMENTS

With the prime mover (Engine) support from an outside company, it was felt that in near future it may become difficult to grow at the pace, the Sonalika was habitual of

growing. That generated the need to develop company's own engine. The company, therefore, went into a technical collaboration in 1999 with Zetormatic of Checkoslovakia for engine development. This technical tie-up provided the company with design of engines from 30 hp to 60 hp. In the same year, the company established a State-of-the-Art tractor manufacturing plant spread over 100 acres. This plant has installed annual capacity of producing 40,000 tractors. Here, the company has its own gear and gear-box component manufacturing unit, engine component manufacturing and assembly unit and fully automatic conveyorised tractor assembly line. An imported paint shop bought from Heydon of Germany, for world class product in terms of paint quality, supports the tractor assembly line.

FOREIGN COLLABORATION

The company's vision was not to limit itself to the Indian tractor market alone. It had plans to generate foreign exchequer for the country as well. With this viewpoint, the company entered into a three-tier tie-up with "Renault Agriculture of France" towards the end of the year 1999. The tie-up includes-

1. Technology transfer for tractors from 55 hp to 150 hp.
2. Financial participation with 20% equity stakes of Renault.
3. Overseas marketing tie-up for existing set-up of Renault Agriculture of France spread in nearly 50 countries in the world.

EXPORT SET-UP

It was not enough to depend upon the set-up of Renault Agriculture of France available world-wide. Sonalika has established an altogether separate company in the year 2000, "M/s Renault Sonalika International" with its headquaters at Mauritius, to manage export of its tractors and other products. This has a 40:60 equity participation of Sonalika and Renault respectively.

MANPOWER

Sonalika has a total manpower strength of about 2500 people including well educated and competitively trained engineers and business managers. Out of this, a total blue collar strength is about 2000 numbers.

COMPANY'S VISION : MARKET LEADERSHIP ORIENTATION

Sonalika has its eye on number one position on manufacturing and marketing agricultural farm equipment. The "Vision Statement" of the company reads as

"To be number one company in the field of agricultural equipment manufacturing and marketing in India & amongst top 10 farm mechanistion companies in the world by providing 'Total Farm Solution' to the farmers."

ANALYSIS

Sonalika has primarily been a company engaged in manufacturing and marketing farm equipments. It has the largest dealer network in the country. In a period of less than 5 years, the company has developed biggest range of tractors. It has established itself as a household name in the farming community over the past 34 years. Its product range today covers almost all farming needs in India. It is the first tractor company in India to have joined hands with major European giant in farm mechanisation and agriculture development in developed markets. All these factors point towards a growth rate faster than any other player in the country in this sector and so this vision.

COMPANY'S MISSION : A TIME BOUND PLAN OF GROWTH

Sonalika has a mission for time bound growth. Its Mission Statement reads as

"It shall be our endeavor to retain & gain on our existing customer base of 85% in threshers market in India by providing efficient and quality after sales service, to attain minimum 22% market share in tractors business by 2005 & thus be number one in this industry in India, to launch new tractor model every six month, to launch company's own four wheel commercial vehicle & multi-utility vehicle by 2002 and to develop and pilot launch two-wheeler by 2003. "

Analysis

Sonalika believes in retaining its customers and building growth on its relationship with its product users. It emphasises on quality and after sales service. It has planned introduction of products at regular intervals. The strength of Sonalika is its fast pace of development of new products. Though it is relatively new in tractor industry but as the current annual growth rate is over 55%, the company, it makes the company to eye larger share in comparatively shorter period.

The tractor industry in India is largely governed by seven major players wherein the leader enjoys a market share of about 32% today. Sonalika has clicked 5.5% in the last fiscal year. The tractors industry in India today is at a level of 2,45,000 numbers. With the current market trends, it appears to touch a level of 2,70,000 numbers by 2005. With Sonalika eyeing 22% market share, its volumes should be at the level of about 60,000 numbers in 2005. The company has closed the last fiscal year at 13,500 numbers. The company has envisaged production capacity enhancement to 75,000 numbers per annum by 2003. With this, the figures of 60,000 in year 2005, appears attainable.

INTERNATIONAL TRACTORS LIMITED

(First Quarter Comparison)

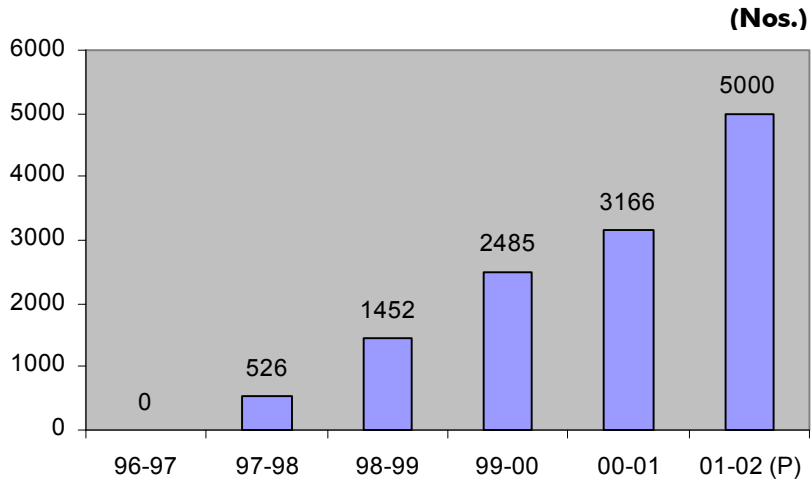


Fig. C.8.1*Growth in Tractors Sales*

INTERNATIONAL TRACTORS LIMITED

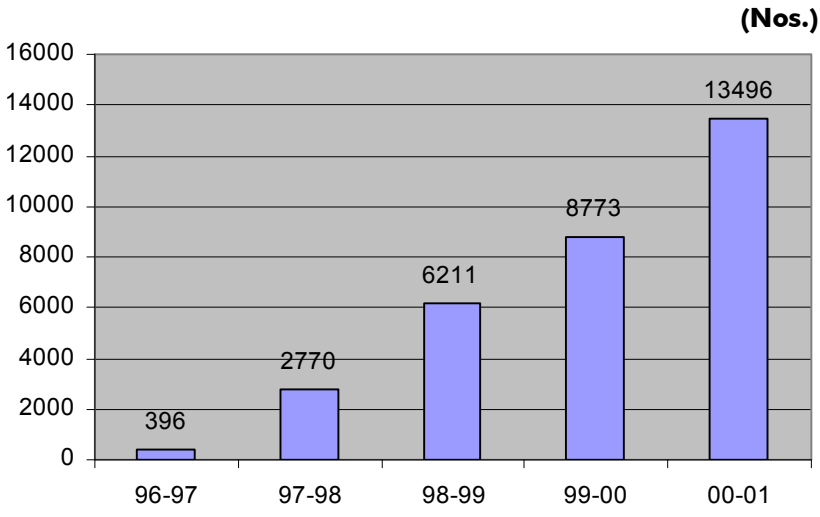


Fig. C.8.2 *International Tractors Limited*

MARKETING STRATEGIES

Sonalika has five pronged marketing strategy for its tractors business:

1. Presence in each segment with competitive product.
2. Spread in the entire country and reach to tehsil level.
3. Capitalise on its brand equity of reliable farm equipment manufacturer.
4. Strengthening the dealer network in terms of financial needs by providing them higher incentives and low interest burdons.
5. Developing the neighbouring markets as well as tapping export potential through overseas partners.

ENVIRONMENT ANALYSIS

Manufacturers Status

Out of seven major players, the largest share of market is with three of them. With M&M at 32% and PTL & Escorts both at about 18% each. Rest 32% market is with 4 operators. Sonalika as on date has product range even better than PTL. So the market appears favourable to its plans.

The Financing scenario

The agricultural financing scenario in the country is very liberal today. It needs only 25% of the total price of a tractor plus three implements all put together, with the farmer as margin money. All commercial banks, Co-operative banks and Land Development Banks in the country today are aggressive on farm equipment financing.

INTERNATIONAL TRACTORS LIMITED

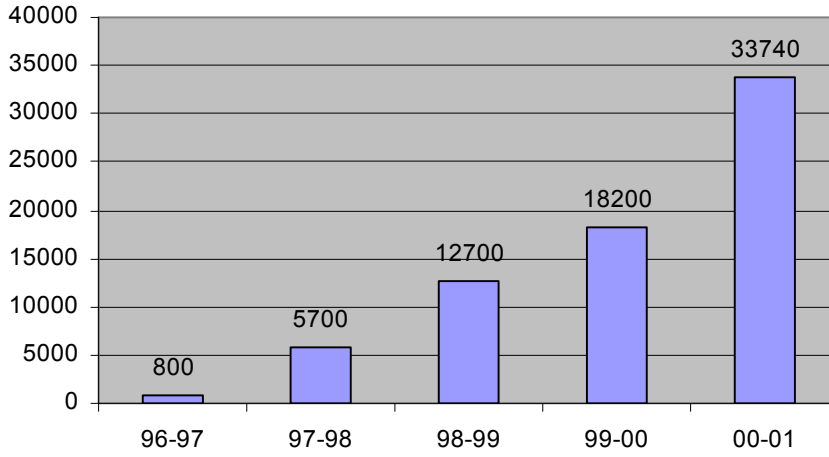


Fig. C.8.3 *Growth in Revenue (Rs. Lakhs)*

The Crop Scenario

Barring a few states, the entire country has had 12 consecutive good monsoons. This year, it is expected that the drought affected states of Madhya Pradesh, Chhattisgarh, Gujarat, Rajasthan and Maharashtra would have a better rain fall. Yes! The prospects of tractor market have a larger dependence on this year's rain fall, one,—because these statesgovern about 43 % of the entire tractor industry in India and two, the agriculture in these states is largely dependent on rains.

CASE

IX

ORIENTIAL INSURANCE CORPORATION

Roy Verghese

The Oriental Insurance Company Ltd. (OICL) is one of the leading General Insurance companies in India and is a subsidiary of the General Insurance Corporation (GIC) of India. It is one of the oldest Insurance companies and was established in the year 1947. The company transacts all kinds of non-life insurance businesses ranging from insurance covers for very big projects to small rural insurance covers.

OICL has its Head Office in New Delhi. The company has 21 Regional Offices, 311 Divisional Offices and 635 Branch offices in various cities of the country. The company has overseas operations in Nepal, Kuwait and Dubai.

The Premium Income of the company has gone up to Rs. 21665.5 millions in 1999-2000 from Rs. 19698.8 millions for the previous year, registering a reasonable growth of around 10%. Likewise, Investment Income has increased to Rs. 3675.3 millions from Rs. 3412.2 millions. On the other hand, Capital and Reserve Funds of the company showed an increase of 10.62%, i.e. Rs. 1664.3 millions, bringing the total to Rs. 17336.8 millions. (Exchange Rate: $1 = 46.56 approx. as on 16/02/2001)

OICL is managed by a professionally qualified and experienced Board of Directors, who have vast experience in conducting General Insurance business, both nationally and internationally.

Reinsurance connections are spread all over the world. The company has a very high reputation in the Reinsurance market.

OICL specialises in devising special covers for large projects like power plants, petro chemical, steel plants and chemical plants. It has a highly technically qualified and competent team of professionals, to render the best customer service.

The company has a dedicated project cell at the Head Office as well as major cities of India. A special R&D team has been dedicated to bring out special innovative covers like Stock-Brokers' policies, special package policies etc.

POPULAR POLICIES

A few of the most wanted and useful policies are:

- Electronic Equipment Insurance Policy
- Group Mediclaim Policy
- Householders' Insurance Policy
- Individual Mediclaim Policy
- Janata Personal Accident Policy
- Kissan Package Insurance
- Motor Comprehensive Policy
- Office Umbrella Policy
- Overseas Mediclaim (Study)
- Overseas Mediclaim Business and Holiday
- Overseas Mediclaim Employment and Study
- Personal Accident—Individual
- Shopkeepers' Insurance Policy
- Videsh Yatra Mitra Policy

CORPORATE POLICIES

To contribute to the socio economic objectives of the nation by being a vibrant and viable organisation catering to the growing insurance needs of the community. Towards this end company will strive for effective management of business operations.

CORPORATE OBJECTIVES

1. To serve better the insurance needs of the entire community, keeping customer as the focus.
2. To strengthen the tradition of the company of being customer-friendly, in order to provide quality service.
3. To manage business profitably, manage funds judiciously and deploy investible funds for optimum yield.
4. To optimise the retention of Indian business and con
   duct reinsurance and international operations in the
   best interest of the country.
5. To work towards minimisation of losses and develop risk management technologies.
6. To function as a strong and dynamic non-life insurer.

FINANCIAL PROFILE

(Rupeesin lakh)

Particulars	1995-96	1996-97	1997-98	1998-99	1999-2000
Gross Direct Premium	132555	152419	17096	196988	216655
Net premium	100918	111743	123584	142374	163203
Net Claims	83718 (83.0%)	93367 (83.6%)	99193 (80.2%)	123308 (86.6%)	133217 (81.6%)
Operating Expenses	33256 (32.9%)	30307 (27.1%)	29744 (24.1%)	34995 (24.6%)	49424 (30.3%)
Operating Surplus	(16056) (-15.9%)	(11931) (-10.7%)	(5353) (-4.3%)	(15929) (-11.2%)	(19438) (-11.9%)
Increase in Reserve for Unexpired Risks	10737 (10.6%)	4595 (4.1%)	5916 (4.8%)	9797 (6.9%)	10412 (6.4%)
Underwriting Profit/Loss	(26793) (-26.5%)	(16526) (-14.8%)	(11269) (-9.1%)	(25726) (-18.1%)	(29850) (-18.3%)
Investment Income	22902	28192	31223	34122	36753
Profit before Tax	(4204)	11091	18368	6709	6080
Tax	393	1949	2981	924	561
Profit after Tax	(4597)	9142	15387	5785	5519
Paid-Up Capital	4000	4000	4000	4000	4000
General Reserve	44671	50595	67643	74095	80325
Reserve for Unexpired Risks	57484	62079	67996	77793	88206
Capital Reserve and Other Reserves	837	837	837	837	837
Total Funds	106992	117511	140476	156725	173368
Total Investments	200454	230628	270341	304930	344943

* Last Modified: February 16, 2001

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