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SIKKIM

BUSINESS STRATEGY

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Subject: BUSINESS STRATEGY **Credits: 4**

SYLLABUS

Defining Strategic Management

Characteristics of Strategic Management Types and Hierarchy, Formulation of Strategy: Various Stages and Components of Strategic Management, Determination of various objectives like corporate, divisions and departmental objectives: Vision, Mission and Purpose, Environmental Scanning: Internal & External environment, Types of Strategies, Guidelines for crafting strategies, Tailoring strategies to fit specific Industry.

Strategic Analysis and Choice:

Environmental Threat and Opportunity Profile (ETOP), Organizational Capability Profile – Strategic Advantage Profile, Corporate Portfolio Analysis – SWOT Analysis, Synergy and Dysergy – GAP Analysis, Porter's Five Forces Model of Competition, Mc Kinsey's 7s Framework, GE 9 Cell Model, Distinctive competitiveness – Selection of matrix while considering all models discussed above, Implementation of strategy: Analysis and development of organizational policies marketing, production, financial, personnel and management information system, Strategy implementation: Issues in implementation – Project implementation –Procedural implementation.

Resource Allocation (Technological and demand forecasting)

Budgets – Organization, Structure – Matching structure and strategy, Behavioural issues – Leadership style – Corporate culture – Values – Power – Social responsibilities – Ethics- Building a capable organization, Functional issues – Functional plans and policies – Financial, Marketing, Operations and Personnel plans and policies, Strategy Evaluation – Importance.

Symptoms of malfunctioning of strategy

Organization anarchies, Operations Control and Strategic Control- Measurement of performance – Analyzing variances – Role of organizational systems in evaluation, Rescheduling of resources-Techniques for improving organization effectiveness.

Suggested Readings:

1. Lawrence R. Jauch, William F. Glueck, Business Policy and Strategic Management, McGraw- Hill, 5th Edition.
2. John A. Pearce II, R.B. Robinson, Jr., Strategic Management, 3rd Edition, A.I.T.B.S. Publications, Delhi.
3. Fred R. David, Strategic Management - Concepts and Cases, Pearson Education, 10th Edition

Unit 4: Strategic Evaluation and Control

Strategic Evaluation and Control: Concept of Strategic Evaluation and Control, Role of Strategic Evaluation and Control, Barriers in Strategic Evaluation and Control; Strategic Control: Control Process; Techniques of Strategic Evaluation and Control.

Suggested Reading:

1. Exploring Corporate Strategy, Johnson & Scholes, Prentice Hall.
2. The Strategy Process, Mintzburg, Quinn & Ghoshal, Prentice Hall.

BUSINESS STRATEGY

CONTENT

BUSINESS STRATEGY

CONTENT

LESSON 1: INTRODUCTION TO BUSINESS STRATEGY

Learning Objective

On completion of this chapter you should be able to:

- You should be able to understand the nature, need, benefits and terminology of the processes for producing and implementing major plans directing business activity.
- You will come to know about the nature and value of strategic management, emphasizes the practical value of a strategic management approach for a business organization.
- You will understand that strategic management activities are undertaken at three levels: corporate, business and functional.
- You will understand that business strategy is a set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organization.

Dear Students,

Definition of Strategy

There is considerable confusion in management literature regarding the various terms used in strategic management. A recent survey by the American Management Association revealed that respondents found it difficult to define policy, and differentiate between strategy, policy and objectives, further compounding the difficulty. According to Andrews, strategy, policy and objectives embrace a range of statements from the "broad" and "important" to "narrow" and "unimportant". Policies get merged into procedures and procedures into rules. Strategies get blended into tactics, resulting in an "end-means continuum". This can be illustrated by the following example. Suppose a company decides upon a sales growth of 35 per cent and desires to achieve this by acquiring other companies, instead of introducing new products. Acquisition in this case can be considered as a strategy chosen by the company. The company will then have to decide on the size of the firm to be acquired. If it decides on acquiring a small company, this becomes the objective.

Strategy

The word strategy has entered the field of management more recently. At first, the word was used in terms of Military Science to mean what a manager does to offset actual or potential actions of competitors. The word is still being used in the same sense, though by few only. Originally, the word strategy has been derived from Greek 'Strategos', which means generalship. The word strategy, therefore, means the art of the general.

When the term strategy is used in military sense, it refers to action that can be taken in the light of action taken by opposite party. According to Oxford Dictionary, 'military strategy is the art of so moving or disposing the instruments of warfare (troops, ships, aircrafts, missiles, etc.) as to impose upon the enemy, the place, time and conditions for fighting by oneself. Strategy ends, or yields to tactics when actual contact with enemy is made'.

In management, the concept of strategy is taken in slightly different form as compared to its usage in military form; it is taken more broadly. However, in this form, various experts do not agree about the precise scope of strategy. Lack of unanimity has resulted into two broad categories of definitions: strategy as action inclusive of objective setting and strategy as action exclusive of objective setting. Let us see some definitions in these two categories in order to conceptualize strategy properly.

You must have heard about the term strategy, let us discuss what does it mean:

First of all you need to look at the different views and opinions expressed by leading thinkers in the field of business strategy.

Tomorrow always arrives. It is always different. And even the mightiest company is in trouble if it has not worked on the future. Being surprised by what happens is a risk that even the largest and richest company cannot afford, and even the smallest business need not run.

-Peter Drucker

If you don't invest of the long term, there is no short term.

-George David

If we know where we are and something about how we got there, we might see where we are treading and if the outcomes which lie naturally in our course are unacceptable, to make timely change.

-Abraham Lincoln

Without a strategy, a company is like a ship without a rudder, going around in circles. It's like a tramp; it has no place to go.

-Hoel Ross & Michael Kami

If a man takes no thought about what is distant, he will find sorrow near at hand. He who will not worry about what is far off will soon find something worse that worry.

-Confucius

It is human nature to make decisions based on emotion, rather than fact. But nothing could be more illogical.

-Toshiba Corporation

No business can do everything. Even if it has the money, it will never have enough good people. It has to set priorities. The worse thing to do is a little bit of everything. This makes sure that nothing is being accomplished. It is better to pick the wrong priority than none at all.

- Peter Drucker

So, Tell me what do you mean by strategy?

Further,

Based on various thinkers point of view we need to define strategy:

Management is an art as well as science. Many of the concepts used in building management theory have been derived from practice. Unlike the pure sciences, which have their foundation in experimental research, management studies draw upon the practical experiences of managers in defining concepts. Business policy is rooted in the practice of management and has passed through different phases before taking its shape in the present form of strategic management. One of the earliest contributors to this young subject was Alfred D Chandler.

Alfred D Chandler (1962)

Chandler made a comprehensive analysis of interrelationships among environment, strategy, and organizational structure. He analyzed the history of organizational change in 70 manufacturing firms in the US. While doing so, Chandler 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." Note that Chandler refers to three aspects:

- Determination of basic long-term goals and objectives,
- Adoption of courses of action to achieve these objectives, and
- Allocation of resources necessary for adopting the courses of action.

Kenneth Andrews (1965)

Andrews belongs to the group of professors at Harvard Business School who were responsible for developing the subject of business policy and its dissemination through the case study method. Andrew defines strategy as: "The pattern of objectives, purpose, goals, and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be". This definition refers to the 'business definition', which is a way of stating the current and desired future position of company, and the objectives, purposes, goals, major policies and plans required to take the company from where it is to where it wants to be.

Igor Ansoff (1965)

Professor Ansoff is a well-known authority in the field of strategic management and has been a prolific writer for the last three decades. I n one of his earlier books, Corporate Strategy (1965), he explained the concept of strategy as: "The common thread among the organization's activities and product-markets… that defines the essential nature of business that the organization was or planned to be in future".

Ansoff has stressed on the commonality of approach that exists in diverse organizational activities including the products and markets that define the current and planned nature of business.

William F Glueck (1972)

Another well-known author in the area of strategic management was Glueck, who was a Distinguished Professor of Management at the University of Georgia till his death in 1980. He defined strategy precisely as:"A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved". The three adjectives, which Glueck has used to define a plan, make the definition quite adequate. 'Unified' means that the plan joins all the parts of an enterprise together; 'comprehensive' means it covers all the major aspects of the enterprise, and 'integrated' means that all parts of the plan are compatible with each other.

Henry Mintzbeg (1987)

Mintzberg of McGill University is a noted management thinker and prolific writer on strategy. He advocates the idea that strategies are not always the outcome of rational planning. They can emerge from what an organization does without any formal plan. He defines strategy as: "a pattern in a stream of decisions and actions". Mintzberg distinguishes between intended strategies and emergent strategies. Intended strategies refer to the plans that managers develop, while emergent strategies are the actions that actually take place over a period of time. In this manner, an organization may start with a deliberate design of strategy and end up with another form of strategy that is actually realized.

Michael E Porter (1996)

Michael Porter of the Harvard Business School has made invaluable contributions to the development of the concept of strategy. His ideas on competitive advantage, the five-forces model, generic strategies, and value chain (you will get to learn about all these later at appropriate places in this book) are quite popular. He opines that the core of general management is strategy, which he elaborates as: "… developing and communicating the company's unique position, making trade-offs, and forging fit among activities".

So, you can see how strategy got evolved.

Write down five names associated with business strategy and their area of contribution?

So what exactly business strategy is all about:

Strategic position is based on customers' needs, customers' accessibility, or the variety of a company's products and services. A company's unique position relates to choosing activities that are different from those of the rivals, or to performing similar activities in different ways. However, a sustainable strategic position requires a trade-off when the activities that a firm performs are incompatible. Creation of fit among the different activities is done to ensure that they relate to each other.

It must be noted that the different approaches referred to above to define strategy cover nearly a quarter of a century. This is an indication of what a complex concept strategy is and how various authors have attempted to define it. To put it in another way, there are as many definitions as there are experts. The same authors may change the approach they have earlier adopted. Witness what Ansoff said 19 years later in 1984 (his earlier definition is of 1965): "Basically, a strategy is a set of decision-making rules for the guidance of organizational behavior".

I have tried to give you an assortment of definitions out of the many available. Rather than an assortment, it may be more appropriate to call this section a bouquet of definitions and explanations of strategy. Each flower (definition) is resplendent by itself yet contributes synergistically to the overall beauty of the bouquet.

The field of strategy is indeed fascinating, prompting an author to give the title-: What is Strategy and does it matter?"- to his thought-provoking book. Drucker goes to the extent of terming the strategy of an organization as its "theory of the business".

By means of the deeper insight that developed through years of experience and thinking, they have attempted to define the concept of strategy with greater clarity and precision.

So, you can see that this discipline is in the process of evolution and a uniform terminology is still evolving.

By combining the above definitions we do not attempt to define strategy in a novel way but we shall try to analyze all the elements that we have come across.

You should note that strategy is:

- A plan or course of action or a set of decision rules forming a pattern or creating a common thread,
- The pattern or common thread related to the organization's activities which are derived from its policies, objectives and goals,
- Related to pursuing those activities, which move an organization from its current position to a desired future state.

You have looked at a few practical illustrations in the previous section, which were aimed at developing an understanding of strategy and at some representative definitions of strategy, in this section.

Lets take an example to focus more on strategy:

Strategy defines a framework for guiding the choice of action. Some time we may ask, "What is Coca-Cola's strategy to go on to become a market leader?

Is Strategy static in nature or dynamic?

Because the firm's internal and external environment change over time, the Strategy also changes consequently, the idea that strategy is dynamic is inherent in our conception of strategic management.

Strategy has four components.

Firstly, strategy should include a clear set of long term goals.

Second components are that it should define the scope of the firm i.e. the types of products the firm will serve etc.

Thirdly, a strategy should have a clear statement of what competitive advantage it will achieve and sustain.

Finally, the strategy must represent the firms' internal contest that will allow it to achieve a competitive advantage in the environment in which it has chosen to compete.

Thus, you may say,

'Goals' are 'What' of the strategy

'Competitive Advantage; is how of the strategy

and the; logic is the 'Way' of the strategy.

Examples-

Goals______________, Where ______________

Where does the management of the firm want it to be?

Scope______________,What ______________

What kinds of products will the firm produce? Or

What markets will the firm target?

Competitive Advantage______,How______,How the firm intends to have the cost leadership?

How the firm intends to achieve its long-term goals?

Logic_____________,Why____________,Sree Leathers, the shoe manufacture's strategy is to attract more and more of middle class and lower middle class customers by offering low priced durable leather shoes.

Similarly, you take an example and try to explain how company A or company B

focuses on its business strategy?

So after seeing the way thinkers look at strategy we need to define what is 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.

Lets compare business strategy and military strategy?

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.

Thus, strategic management can be defined as follows:

Strategic management is the process of systematically analyzing various opportunities and threats vis-à-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.

So, in your opinion, what is the single major benefit of using a strategic management approach? Justify your answer

If you recall what various thinkers contributed to the study:

It has been defined by Lloyd L. Byars asStrategic 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 interrelationships 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 what Alfred D. Chandler has made reference to three basic aspects of strategic process;

1. Determination of basic longterm goals,

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

3. 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.'

So, by now you have understood how the old rules of business have become obsolete and there is a paradigm shift in approaches to business.

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

Activity 1

Now you try to do an activity which is aimed at giving practical exposure about how companies focuses on strategic management.

Step1. Choose any company that is listed on the stock exchange and whose information is freely available e.g Reliance industries.

Step 2. Identify what you consider to be threats, strengths, weaknesses & opportunities for the company identified.

Step 3. Through discussion, compare your number of factors to those developed by other team mates. Further add some factors to your list from the discussion. Keep this information for use in later activities.

Thus you see, strategy covers the following aspects.

1. Exploring and determining the vision of the company in the form of a vision statement.
2. 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.
3. Defining the company profile that includes the internal culture, strengths and capabilities of an organisation.
4. Critical study of external environmental factors, threats, opportunities etc.
5. Finding out ways by which a company profile can bematched with its environment to be able to accomplish mission statement.
6. Deciding on the most desirable courses of actions for accomplishing the mission of an organisation.
7. Selecting a set of longterm objectives and also the corresponding strategies to be adopted in line with vision statement.
8. Evolving shortterm and annual objectives and defining the corresponding strategies that would be compatible with the mission and vision statements.
9. Implementing the chosen strategies in a planned way based on budgets and allocation of resource, outlining the action programs and tasks.
10. Installation of a continuous compatible review system to create a controlling mechanism and also generate data for selecting future course of action)

SO, in what ways you as a learner expect to benefit in your personal life by studying business strategy?

LESSON 2:
INTRODUCTION TO STRATEGIC MANAGEMENT

Learning Objectives

On the completion of this chapter you should be able to:

- You should be able to understand the model of strategic management process.
- You will understand that the model is representative of further subsequent chapters, which includes in depth discussions of one of the major components of the model.
- You will understand how companies determine their mission including broad statement about its purpose, philosophy and goals.
- You will understand how a company profile reflects internal conditions and capabilities.
- You will understand how to assess the company's external enviroment, in terms of both competitive and contextual factors.
- You will understand how to choose the strategy which is needed to achieve the desired options
- You will understand that how strategic choice decisions are implemented based on budgeted resource allocation
- You will understand the review and evaluation of the success of the strategic process to serve as a basis for control and as an input for future decision making.

Thus, you will understand a strategy reflects a company's awareness of how to compete against whom, when, where and for what.

Strategic Management Processes

I had already explained and described the historical evolution of business strategy and said that strategic management is carried out through a process of strategic management.

So, you will find 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.

You must have observed that different thinkers have defined business strategy differently, yet there are some common elements in the way it is defined and understood.

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

What are these 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.

1. **Defining the vision, business mission, purpose, and broad objectives.**
2.. Formulation of strategies.
3. Implementation of strategies.
4. 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. 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.

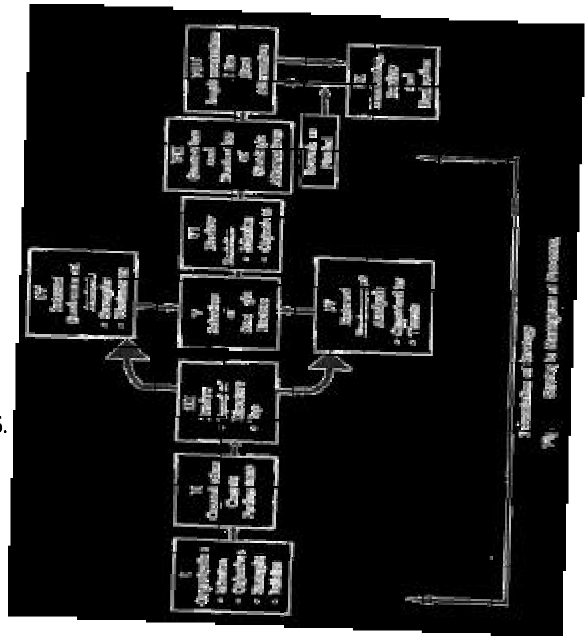
My purpose to depict this diagram is to assist you in remembering and recalling it with ease

Exhibit Phases of Strategic Management Process

Strategic Management Process

Strategic management process that could be followed in a typical organization is presented in Fig.The process takes place in the following stages:

1. The Strategic Planner has to define what is intended to be accomplished (not just desired). This will help in defining the objectives, strategies and policies.
2. In the light of stage I, the result of the current performance of the organisation are documented.
3. The Board of Directors and the top management will have to review the current performance of the documented.
4. In view of the review, the organization will have to scan the internal environment for strengths and weaknesses and the external environment for opportunities and threats.
5. The internal and external scan helps in selecting the strategic factors.

6. 

7. These have to be reviewed and redefined in relation to the Mission and Objectives.
8. At this stage a set of strategic alternatives and generated.
9. The best strategic alternative is selected and implemented through programme budgets and procedures.
10. Monitoring, evaluation and review of the strategic alternative chosen is undertaken in this mode. This can provide a feedback on the changes in the implementation if required.

As can be seen, this provides a rational approach to strategic decision making and it can be successfully practiced by Indian organizations, which now have to operate in a competitive environment.

Benefits of Strategic Management

Studies have revealed that organizations following strategic management have outperformed those that do not[13]. Strategic planning ensures a rational allocation of resources and improves co-ordination between various divisions of the organization. It helps managers to think ahead and anticipate problems before they occur. The main benefit of the planning process is a continuous dialogue about the organisation's future between the hierarchical levels in the organization. In short, the most highly rated benefits of strategic management are:

- Clarity of strategic vision for the organization
- Focus on what is strategically important to the organization
- Better understanding of the rapidly changing business environment.

Strategic management need not always be a formal process. It can begin with answering a few simple questions:

1. Where are we now?
2. In no changes are made, where will we be in the next one year? Next two years? Next three years? Next five years?

Are the answers acceptable? If the answers are not acceptable, what actions should the top management take? With what results and payoffs?

Today,as you 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 nonexistent. 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 stakeholders have become more aware of their rights.

Think of yourself as a consumer who has got several alternatives to choose from ? You as a customer looks for real value for your money. You have become aware of quality and cost ratios and then diligently select the products. You are 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 you are 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. Eg. 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. 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.

What do you think will business strategy concepts and techniques benefit foreign businesses as much as domestic firms? Give an example.

The need is now to distinguish between longrange planning and strategic planning. 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

Have a look at the difference between the two:

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.

Let us now look at the domain of top management?

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 reengineering of their business processes to gain strategically better position

Strategic Directions are Futuristic

Strategies are essentially for the future. Strategic decisions are taken based o 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 MultiBusiness Effects

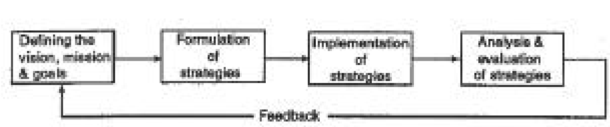
Every company has several business units. Strategic decisions are coordinative in nature among all the business units of the company. Many strategic decisions on product mix, competitive edge, organisational structure etc. affect various departments and functions that may be classified as strategic business 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.

So, Business Strategy as a discipline focuses at the organization as one single unit.

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

Strategic Planning Model



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. These steps can be illustrated with the help of a flow diagram. The following discrete twelve steps can be considered as comprehensive.

1. Defining the vision of the company
2. Defining the mission of the company
3. Determining the purposes or goals
4. Defining the objectives
5. Environment scanning
6. Carrying out corporate appraisal
7. Developing strategic alternatives
8. Selecting a strategy
9. Formulating detailed strategy
10. Preparing a plan
11. Implementing a strategy
12. Evaluating a strategy

Strategic Management Models

Firstly have a look at the various model which has got relevance to the strategic process.

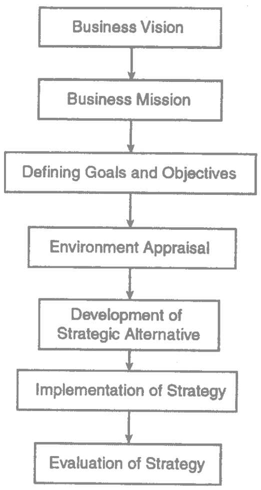
Now think of a firm which in your opinion has been successful over the past 15 years and list down the things you think have attributed to its success: Some of the strategic management models are shown . Now, I will discuss each of the elements of strategic management model.

Exhibit Strategic Management Model

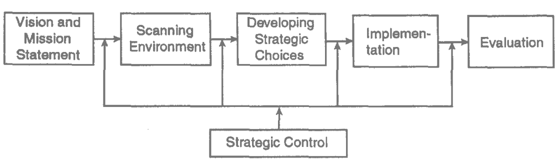
- Company vision statement
- Company mission statement
- Company profile
- External environment and internal environment
- Evolutionstrategic choices and selection
- Longterm objectives
- Grand strategy

- Annual objective
- Functional strategy
- Operating policies
- Institutionising Strategy
- Control and evaluation

Comprehensive Model of Strategic Management



Working Model of Strategic Management



After looking at the above given flow charts I will now discuss each phase in detail.

Let us, now discuss in details the 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:

1. 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.
2. 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.
3. Define broad objective regarding performance of the firm and its growth in various fields vital to the firm.

So, lets talk about our own university, find out what is the vision statement and list down various purposes of our vision statement.

Vision is a theme which gives a focused view of a company.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.

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 high jacked 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 you as an individual working in a firm should become an active participant and collaborator in accomplishing corporate objectives. You must understand and share the vision of the firm because you 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.

Step 1. Name of the company

Step 2. Practices that have made the company successful

The primary purpose of the strategic management process is to enable companies to achieve strategic competitiveness and earn aboveaverage returns. Research have indicated that companies that engage in strategic management generally out perform those that do not. The attainment of an appropriate match or fit between a company's environment and its strategy, structure, and processes has positive effects on the company's performance. Bruce Henderson, founder of the Boston Consulting Group, pointed out that a company cannot afford to follow intuitive strategies once it becomes large, has layers of management, or its environment changes substantially. As the world's environment becomes increasingly complex and changing, today's companies, as one way to make the environment more manageable, use strategic management.

Strategic competitiveness is achieved when a company successfully formulates and implements a valuecreating strategy. By implementing a valuecreating strategy that current and potential competitors are not simultaneously implementing and that competitors are unable to duplicate, a company achieves a sustained or sustainable competitive advantage.

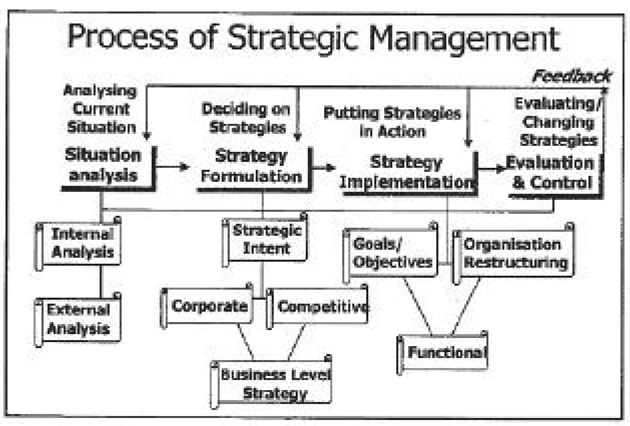
So long as a company can sustain (or maintain) a competitive advantage, investors will earn aboveaverage returns. Aboveaverage returns represent returns that exceed returns that investors expect to earn from other investments with similar levels of risk (investor uncertainty about the economic gains or losses that will result from a particular investment). In other words, above averagereturns exceed investors' expected levels of return for given levels of risk.

In the long run, companies must earn at least average returns and provide investors with average returns if they are to survive. If a company earns below average returns and provides investors with belowaverage returns, investors will withdraw their funds and place them in investments that earn at least average returns. Internationally these types of companies are prime take over targets, a concept that is picking up in India.

A framework that can assist companies in their quest for strategic competitiveness is the strategic management process, the full set of commitments, decisions and actions required for a company to systematically achieve strategic competitiveness and earn aboveaverage returns. This process is illustrated in Figure below .

This diagram will show you about the areas I will be discussing in coming lectures.

Strategic Management Process



From the above figure you will see the dynamic, interrelated nature of the elements of the strategic management process and provides an outline of where the different elements of the process are covered is given below:

Feedback linkages among the three primary elements indicate the dynamic nature of the strategic management process: Situation Analysis, Strategy Formulation and Strategy Implementation.

- Situation Analysis: in the form of information gained by scrutinising the internal environment and scanning the external environment, is used to develop the company's strategic intent and strategic mission.
- **Strategy Formulation**: is guided by the company's strategic intent and strategic mission, and is represented by strategies that are formulated or developed and subsequently implemented or put into action.
- **Strategy Implementation**: strategic competitiveness and above average returns result when a company is able to successfully formulate and implement value- creating strategies that others are unable to duplicate.
- **Strategy Evaluation & Control:** links the elements of the strategic management process together and helps companies continuously adjust or revise strategic inputs and strategic actions in order to achieve desired strategic outcome

So, Lets get down to an activity which is aiming at how companies in your city are doing strategic planning. This will help you to gain experience interacting on a professional basis.

Now perform the following steps:

Step1. Use the telephone to contact local business owners or top managers. Find out a company that does strategic planning. So it's a kind of phone interview

Step 2. Seek answers to the following questions or else you can design your own question.

Q1. How does your company conduct strategic planning?

Q2. Who is involved in the process?

Q3. Does your company have a formal mission statement?

Q4. How was the statement developed?

Q5. When was the statement last changed?

Q6. What are the benefits of engaging in strategic planning?

So, like this you can ask few question and report your findings to the class.

LESSON 3:
DIFFERENCE BETWEEN POLICY, STRATEGY AND TACTIC

Learning Objective

On completion of this chapter you should be able to:

- You should be able to define and elaborate features of Strategy.
- The students should be able to differentiate strategy from tactic.
- The students should understand the meaning of policy

You should be able to clearly outline the points of distinction between policy and strategy.

Every organisation is involved in a complicated pattern of decisions ranging from broad decisions of setting long-term objectives to specific decisions about day-to-day operations. Some of these decisions have long-term orientations while others are made within the context of earlier decisions. Decisions with long-term orientation provide guidelines to subsequent decisions. In the context of planning, these decisions generate strategic and operational plans. The strategic plans are in the form of long-term specific objectives and strategies. In order to put strategies in operations, managers have to formulate operational or tactical plans in the form of various standing plans like policy, procedures, rules, methods and single-use plans like projects, budgets, and standard.? Since organisational activities are performed on continuous basis, the single-use plans are undertaken on regular basis to put the strategic plans in opera-tion. Let us see how different plans work in organisations.

Strategy

The term strategy has entered the management literature comparatively much later than its use in Military Science. Game theorists have used strategy-in the same sense in which the term policy was used earlier. Therefore, the concept of strategy and various actions involved are quite confusing and, sometimes, even contrasting. At first, the term strategy was used in management in terms of Military Science to mean what a manager does to offset actual or potential actions of competitors. The term is still being used in the same sense though by few only. Originally, the term strategy has been derived from Greek word 'strategos' which means general. The word strat-egy, therefore, means the art of general.

When the term strategy is used in military sense, it refers to actions that can be taken in the light of action taken by opposite party. According to the Oxford Dictio-nary, 'military strategy is the art of so moving or disposing the instruments of warfare (troops, ships, n aircrafts, missiles, etc.) as to impose upon the enemy the place, time and conditions for fighting by oneself. Strategy ends, or yields to tactics when actual contact with enemy is made.

In management, the concept of strategy is mostly taken in a slightly different form rather than in military form; it is taken more broadly. However, even in this form, various experts of the field do not agree about the precise scope of strategy. In earlier views, strategy was taken in a very comprehensive way. For example, Chan-dler, who made a comprehensive analysis of the interrelationship among the environment, strategy, and organisation structure has defined the term strategy in 1962 as follows:

"Strategy is the determination of the basic long-term goals and objectives of an enterprise and the adoption of the course of action and the allocation of resources necessary for carrying out these goals."

Similar views have been held by Professors at Harvard Business School who have made considerable contributions in the development of strategic management. One of them (Andrews) has defined strategy as follows:

"Strategy is the pattern of objectives, purpose or goals and 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.

The above two definitions of strategy are quite comprehensive and include ob-jective setting as part of strategy. As against this, Stanford Research Institute, USA takes a different view when it states that strategy is a way in which the firm, reacting to its environment, deploys its principal resources and marshalls its main efforts in pursuit of its purpose. Almost similar view is held by Glueck who defines strategy as follows:

"A strategy is a unified, comprehensive, and integrated plan relating the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved.

Two approaches of defining strategy, particularly in terms of the actions in-cluded in strategy, are different with former approach including objective setting as part of the strategy while latter excluding it. This difference is likely to continue unless we arrive at universally acceptable concept of strategy. For the purpose of this text, strategy is defined as follows:

Strategy is course of action through which an organisation relates itself with envi-ronment so as to achieve its objectives.

Features of Strategy

1. Strategy relates the firm to its environment, particularly the external environ-ment in all actions whether objective setting, or actions and resources required for its achievement. This definition emphasizes on the systems approach of management and treats an organization as part of the society consequently affected by it.
2. Strategy is the right combination of factors both external and internal. In relating an organization to its environment, the management must also consider the internal factors too,

particularly its strengths and weaknesses, to take various courses of action.

3. Strategy is relative combination of actions. The combination is to meet a particu-lar condition, to solve certain problems, or to attain a desirable objective. It may take any form; for every situation varies and, therefore, requires a somewhat different approach.
4. Strategy may even involve contradictory action. Since strategic action depends on environmental variables, a manager may take an action today and revise or reverse his steps tomorrow depending on the situations.
5. Strategy is forward looking. It has orientation towards the future. Strategic ac-tion is required in a new situation. Nothing-new requiring solutions can exist in the past, and so strategy is relevant only to the future.

Strategy and Tactics

It is beneficial to make distinction between strategy and tactics so that managers can concentrate themselves on strategic functions rather than engaging in tactical func-tions. Organisational decisions range across a spectrum, having a broad master strat-egy at one end and minute tactics at the other. The major difference between strategy and tactics is that strategy determines what major plans are to be undertaken and allocates resources to them, while tactics, in contrast, is means by which previously determined plans are executed. Beyond this major difference, there may be some other differences, which can be understood better by analysing military use of strat-egy and tactics.

Carl von Clausewitz, a Prussian army general and military scientist, defines military strategy as 'making use of battles in the furtherance of the war' and the tactics as 'the use of armed forces in battle.' A successor to Clausewitz, Count von Moltke is more lucid in making distinction between strategy and tactics. He states that:

'Strategy is a system of makeshifts. It is carried through an originally conceived plan under a constantly shifting set of circumstances. Strategy furnishes tactics with the opportunity to strike with the prospect of success. It does this through its conduct of the armies and their concentration on the field of battle. On the other hand, however, strategy concept accepts the results of every single engagement and builds on them. Strategy retires when a tactical victory is in the making in order later to exploit the newly created situation.`

The basic goal of strategy accordingly is to break the will pf the army, deprive him of the means to fight, occupy his territory, destroy or obtain control of his resources or otherwise make him submit. The goal of tactics is success in a given action which is only one part in a group of related military actions.

A further distinction between strategy and tactics as used in Military Science is made on the basis of delegation of decision making authority. Strategic decisions are not delegated too low in the organisation. Normally the authority is not delegated below the levels than those which possess the perspective required for the most effective decisions.

Such a distinction between strategy and tactics is quite sharp. However, business is different from war in its true perspective not only in terms of its objectives vis-a-vis its competitors but also in terms of process of achievement of objectives. In business, there is seldom a win-lose situation as is the case with the war. Therefore, the distinction should be made between strategy and tactics in business terms.

Distinction between Strategy and Tactics

1. **Level of Conduct**. As discussed earlier, strategy is developed at the highest level of management either at the headquarter or at major divisional offices and related exclusively to decisions in the province of these levels. Tactics is employed at and relates to lower levels of management.
2. **Periodicity**. The formulation of strategy is both continuous and irregular. The process is continuous but the timing of decision is irregular as it depends on the appearance of opportunities, new ideas, crisis, management initiative, and other non-routine stimuli. Tactics is determined on a periodic basis by various or-ganisations. A fixed timetable may be followed for this purpose, for example, prepa-ration of budgets at regular intervals.
3. **Time Horizon.** Strategy has a long-term perspective; specially the successful strategies are followed for quite long periods. In occasional cases, it may have short-term duration. Thus, depending on the nature and requirement, its time horizon is flexible, however, emphasis is put on long-term. On the other hand, time horizon of tactics is short-run and definite. The duration is uniform, for example budget prepa-ration.
4. **Uncertainty**. Element of uncertainty is higher in the case of strategy formulation and its implementation. In fact, strategic decisions are taken under the conditions of partial ignorance. Tactical decisions are more certain as these are taken within the framework set by the strategy. Thus, evaluation of tactics is easier as compared to evaluation of a strategy.
5. **Information Needs**. The total possible range of alternatives from which a man-ager can choose his strategic action is greater than tactics. A manager requires more information for arriving at strategic decision. Since an attempt is made to relate the organisation to its environment, this requires information about the various aspects of environment. Naturally the collection of such information will be different. Tacti-cal informaton is generated within the organisation particularly from accounting procedures and statistical sources.
6. **Subjective Values.** The formulation of strategy is affected considerably by the personal values of the person involved in the process. For example, what should be the goals of an organisation is affected considerably by the personal values of the persons concerned. This aspect will be taken for further discussion m this text later. On the other hand, tactics is normally free from such values because this is to .be taken within the context of strategic decisions.
7. **Importance.** Strategies are most important factors of organisation because they decide the future course of action for the organisation as a whole. On the other hand, tactics are of less importance because they are concerned with specific

part of the organisation. This difference, though seems to be simple, becomes important from managerial action point of view.

8. **Type of Personnel Involved in Formulation.** Generally separate group of managerial personnel are involved m strategy and tactics formulation and their im-plementation. As discussed earlier, strategic decisions are never delegated below a certain level m the managerial hierarchy. The basic principle m this context is not to delegate below the levels than those possess the perspective required for most effec-tive strategic decisions. Tactical decisions can be taken by personnel at lower levels because these involve minute implementation of strategic decisions.

Though these differences between strategy and tactics are there, often the lines of demarcation between these two are blurred both conceptually and operationally. At the one extreme end, the differences are crystal clear, as discussed above. But these differences may not always hold true because tactics is generated by strategy and may rightly be called sub-strategy. What is one manager's strategy is another manager's tactics and vice-versa. For example, strategies are developed at the head-quarters m the strategic planning process. Sub strategies within this strategic planning may then be pursued by various divisions of the company. Thus, what might be considered tactical plans at the headquarters may be termed as strategy at the divisional levels. Thus, depending on the level of the organisation, an action may be strategic or tactical.

Levels of Strategy

Strategy may operate at different levels of an organisation-corporate level, business

level, and functional level.

Corporate Level Strategy

Corporate level strategy occupies the highest level of strategic decision-making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBUs for optimal performance. Such decisions are made by top management of the organisation. The nature of strategic decisions tends to be value-oriented, conceptual and less concrete than decisions at the business or functional level.

Business-level Strategy

Business-level strategy is - applicable in those or-ganisations which have different businesses-and each business is treated as strategic business unit (SBU). The fundamental concept in SBU is to identify the discrete independent product/market seg-ments served by an organisation. Since each prod-uct/market segment has a distinct environment, a SBU is created for each such segment. For example, Reliance Industries Limited operates in textile fabrics, yarns, fibres, and a variety of petro-chemical products. For each product group, the nature of market in terms of customers, competition, and marketing channel differs. There-fore, it requires different strategies for its different product groups. Thus, where SBU concept is applied, each SBU sets its own strategies to make the best use of its resources (its strategic advantages) given the environment it faces. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of re-sources among functional areas and coordination between them for making optimal contribution to the achievement of corporate-level objectives. Such strategies operate within the overall strategies of the organisation. The corporate strategy sets the long-term objec-tives of the firm and the broad constraints and policies within which a SBU operates. The corporate level will help the SBU define its scope of operations and also limit or enhance the SBU's operations by the resources the corporate level assigns to it.There is a difference between corporate-level and business-level strategies.

For example, Andrews says that in an organisation of any size or diversity, corporate strategy usually applies to the whole enterprise, while business strategy, less comprehensive, defines the choice of product or service and market of individual business within the firm. In other words, business strategy relates to the 'how' and corporate strategy to the 'what'. Corporate strategy defines the business in which a company will compete preferably in a way that focuses resources to convert distinctive competence into competitive advantage.',

Corporate strategy is not the sumtotal of business strategies of the corporation but it deals with different subject-matter. While the corporation is concerned with and has impact on business strategy, the former is concerned with the shape and balancing of growth and renewal rather than in market execution.

Functional-level Strategy

Functional strategy, as is suggested by the title, relates to a single functional operation and the activities involved therein. Decisions at this level within the organisation are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function,alloca-tion of resources among different operations within that functional area and coordi-nation between them for optimal contribution to the achievement of the SBU and corporate-level objectives. Below the functional-level strategy, there may be opera-tions-level strategies as each function may be dividend into several subfunctions. For example, marketing strategy, a functional strategy, can be subdivided into promo-tion, sales, distribution, pricing strategies with each sub function strategy contribut-ing to functional strategy.

Strategies at all the three levels are interlinked in which a higher-level strategy generates a lower-level strategy and a lower-level strategy contributes to the achievement of the objectives of higher-level strategy.

Formulation Of Strategy

Formulation of strategies is a creative and analytical process. It is a process because particular functions are performed in a sequence over the period of time. The.pro-cess involves a number of activities and their analysis to arrive at a decision. Though there may not be unanimity over these activities particularly in the context of or-ganisational variability, a complete process of strategy formulation and implementa-tion can be understood.

The process set out above includes strategy formulation and its implementation, what has been referred to as strategic management process. The same process can be applied to both strategy and policy. The figure suggests the various elements of strategy formulation and process and the way they interact among themselves. Ac-cordingly .the various elements are organisational mission and objectives, environmental analysis, corporate analysis, identification of alternatives, and choice of alternative. Upto this stage the formulation is complete. However, implementation is closely related with formulation because it will provide feedback for adjusting strategy. A brief discussion of each element will be helpful to understand the prob-lems involved in each.

Organisational Mission and Objectives.

1. **Organisational Mission and Objectives.** Organisational mission and objectives are the starting point of strategy formulation. As discussed earlier, mission is the fundamental unique purpose of an organisation that sets it apart from other or-ganisations and objective is the end-result which an organisation strives to achieve. These together provide the direction for other aspects of the process.
2. **Environmental Analysis.** The second aspect of the process is the environmental analysis. Since the basic objective of strategies is to integrate the organisation with its environment, it must know the kind of environment in which it has to work. This can be known by environmental analysis. The process of environmental analysis includes collection of relevant information from the environment, interpreting its impact on the future organisational working, and determining what opportunities and threats-positive and negative aspects-are offered by the environment. The environmental information can be collected from various sources like various publi-cations, verbal information from various people, spying, and forecasting. The pro-cess of environmental analysis works better if it is undertaken on continuous basis and is made an intrinsic part of the strategy formulation.
3. **Corporate Analysis.** While environmental analysis is the analysis of external factors, corporate analysis takes into account the internal factors. These together are known as SWOT (strengths, weaknesses, opportunities and threats) analysis. It is not merely enough to locate what opportunities and threats are offered by the environ-ment but equally important is the analysis of how the organisation can take the advantages of these opportunities and overcome threats. Corporate analysis dis-closes strengths and weaknesses of the organisation and points out the areas in which business can be undertaken. Corporate analysis is performed by identifying the factors which are critical for the success of the present or future business of the organisation and then evaluating these factors whether they are contributing in posi-tive way or in negative way. A positive contribution is strength and a negative contribution is a weakness.
4. **Identification of Alternatives.** Environmental analysis and corporate analysis taken together will specify the various alternatives for strategy. Usually this process will bring large number of alternatives. For example, if an organisation is strong in financial resources, these can be used in many ways, taking several projects. How-ever, all the ways or projects cannot be selected. Therefore, some criteria should be set up to evaluate each alternative. Normally the criteria are set in the light of organisational mission and objectives.
5. **Choice of Strategy.** The identification and evaluation of various alternatives will narrow down the range of strategies which can seriously be considered for choice. Choice is deciding the acceptable alternative among the several which fits with the organisational objectives. Normally at this stage, personal values and expectations of decision-maker play an important role in strategy because he will decide the course of action depending on his own likings and dislikings. This happens because in one way the organisational objectives reflect the personal philosophy of individuals particularly at the top management level.
6. **Implementation.** After the strategy has been chosen, it is put to implementation, that is, it is put into action. Choice of strategy is mostly analytical and conceptual_while implementation is operational or putting into action. Various factors which are necessary for implementation are design of suitable organisation structure, develop-ing and motivating people to take up work, designing effective control and informa-tion system, allocation of resources, etc.

When these are undertaken, these may produce results which can be compared in the light of objectives set and control process comes into operation. If the results and objectives differ, a further analysis is required to find out the reasons for the gap and taking suitable actions to overcome the problems because of which the gap exists. This may also- require a change in strategy if there is a problem because of the formulation inadequacy. This puts back the managers at the starting point of the strategy formulation.

Implementation of Strategy

Once the creative and analytical aspects of strategy formulation have been settled, the managerial priority is one of converting the strategy into operationally effective action. Indeed a strategy is never complete, even as formulation, until it gains a commit-ment of the organisation's resources and becomes embodied in organisatio-nal activities. Therefore, to bring the result, the strategy should be put to action because the choice of even the soundest strategy will not affect organisational activi-ties and achievement of its objectives. Therefore, effective implementa-tion of strat-egy is a must for the organisation.
Implementation of strategy can be defined as follows:

Implementation of strategy is the process through which a chosen strategy is put into action. It involves the design and management of systems to achieve the best integration of people, structure, processes and resources in achieving organisatio-nal objectives.

Judging from this definition, it can be observed that the scope of managerial activities associated with strategy implementation is virtually coexistensive with the entire management process. This is because the entire management process is geared up according to the needs of the strategy. In particular, following factors are import-ant in strategy implementation

1. **Institutionalisation of Strategy** The first basic action that is required for putting a strategy into operation is its institutionalisation. Since strategy does not become either acceptable or effective by virtue of being well designed and clearly an-nounced, the successful implementation of strategy requires that the strategy framer acts as its promoter and defender. Often strategy choice becomes a personal choice of the strategist because his personality variables become an influential factor in strategy formulation. Thus, it becomes a personal strategy of the strategist. There-fore, there is an urgent need for the institutionalisation of strategy because without it, the strategy is subject to being undermined. Therefore, it is the role of the strate-gist to present the strategy to the members of the organisation in a way that appeals to them and brings their support. This will put organisational people to feel that it is their own strategy rather than the strategy imposed on them. Such a feeling creates commitment so essential for making strategy successful.
2. **Setting Proper Organisational Climate** Setting organisational climate rel_vant for strategy implementation is important for making strategy to work. Organisatio-nal climate refers to the characteristics of internal environment which conditions the co-operation, the development of the individuals, the extent of commitment and dedication of people in the organisation, and the efficiency with which the purpose is translated into results. Organisanons whose strategy is implemented with condu-cive climate are more effective than those whose are not. People are the instruments in implementing a particular strategy and organisational climate is basically a peo-ple-oriented attempt. A top manager can play an important role in shaping the organisational climate not only by providing standards for what others do but also what he does because organisational climate is a matter of practice rather than the precept.
3. **Developing Appropriate Operating Plans** Operating plans are the action plans, operational programmes and decisions that take place in various parts of the or-ganisation. If they are made to reflect desired strategic results, they contribute to the achievement, of organisational objectives by focusing attention on those factors which are important. For example, in budgeting, more resources will be allocated on those factors which are critical to the success of the organisation as spelled out during the strategy formulation process. There are various ways of making sure that operating plans contribute. If every manager understands strategy, he can certainly review the programme recommendations of staff advisers and line subordinates to see that they are consistent with the requirements of the strategy. Major programmes can be reviewed by appropriate committees to see if they contribute positively. This lends an aura of formality to the programme decisions and their influences on strat-egy may become clear. .
4. **Developing Appropriate Organisation Structure** Organisation structure is the pattern in which the various parts of the organisation are interrelated or intercon-nected. It prescribes relationships among various positions and activities. For im-plementing strategy, the organisation structure should be designed according to the needs of the strategy. The relationship between strategy and structure can be thought of in terms of utilising structure for strategy implementation because struc-ture is a means to an end, that is, to provide facilities for implementing strategy. Therefore, both should be integrated. In the absence of such an integration, outcome may be confusion, misdirection and splintered effort within the organisation. There can be various ways of designing an organization structure. However, the major issues involved in designing the structure to fit the strategy involves the answers of following questions:

- What should be the different units of the organisation?
- What components should join together and what components should be kept apart?
- What is the appropriate placement and relationship of different units?

5. **Periodic Review of Strategy** There should be periodic review of strategy to find out whether the given strategy is relevant. This is required because even the care-fully developed strategies might cease to be suitable if events change, knowledge becomes more clear, or it appears that the environment will not be as originally thought. Thus, strategies should be reviewed from time to time. What should be the frequency for such a review is not universal but major strategies should be reviewed atleast once a year. In fact this is done by most of the organisations who believe in relating themselves with the environment.

Policy

The term policy has more precise definition as compared to strategy. It has been derived from the Greek word 'politeia' meaning citizen and latin word 'politis' mean-ing polished, that is, to say clear. According to New Webster Dictonary, policy means "the art of manner of governing a nation, the line of conduct which rulers of a nation adopt on a particular question specially with regard to foreign countries, the principle on which any measure or course of action is based". While these descrip-tions of policy relate to any field, policy in management context is defined by Weihrich and Koontz as follows:

"Policies are general statements or undertsandings which guide or channel think-ing in decision making".

Kotler has defined policy more elaborately as follows:

"Policies define how the company will deal with stakeholders, employees, cus-tomers, suppliers, distributors, and other important groups. Policies narrow the range of individual discretion so that employees act consistently on important issues"

We may define the policy as follows:

A policy is the statement or general understanding which provides guidance in decision making to members of an organisation in respect to any course of action.

Features of a policy can be identified

1. A policy provides guidelines to the members of the organisation for deciding a course of action and, thus, restricts their freedom of action. Policy provides and explains what a member should do rather than what he is doing. Policies, when enforced, permit prediction of roles with certainty. Since a policy provides guidelines to thinking in decision- making, it follows that it must allow some discretion, otherwise it will become a rule.
2. Policy limits an area within which a decision is to be made and assures that the decision will be consistent with and contributive to objectives. A policy tends to predecide issues, avoid rt:;peated analysis, and give a unified structure to other types of plans, thus permitting managers to delegate authority and still retaining control of action. For example, if the organisation has framed a policy that higher positions in the organisation will be filled by internal promotion, the managers concerned can deal with the situation in this light whenever a vacancy at higher level arises. Thus, organisation gets assurance that higher positions are filled by internal members without further control.
3. Policies are generally expressed in qualitative, conditional, or general way. The verbs most often used in stating policies are to maintain, to continue, to follow, to adhere, to provide, to assist, to assure, to employ, to make, to produce, or to be. Such prescriptions may be either explicit or these may be interpreted from the behaviour of organisation members, particularly at the top level. When such a behaviour is interpreted as policy guideline, it is normally known as precedent, that is what has happened in the past on a particular issue if there is no clearly specified declaration.

Policy formulation is a function of all managers in the organisation because some form of guidelines for future course of action is required at every level. However, higher is the level of a manager, more important is his role in policy making. Similarly, policies may exist in all areas of the organisation from major organisational policies to minor policies applicable to the smallest segment of the organisation.

Policy and Strategy: A Comparison

Strategy is now the more common term for what used to be called policy, though there is no consensus on this also. For example, some writers make distinction between the two referring as the general or grand strategy as policy and competitive ;srategy as the strategy used in military sense. The situation is, therefore, still confus-ing. Steiner has observed that for some years and after much travail, the term policy was fairly understood. Then the game theorists began to use the term strategy with re result that management literature now is thoroughly confused about its meaning and relationship to policy. However, in this text, two terms have been used with fairly different meaning and based on that, the difference between the two can be identified.

A distinction between policy and strategy is made on the basis that former is a guideline to the thinking and action of those who make decisions while the latter is concerned with the direction in which human and physical resources are deployed in order to maximise the chances of achieving organisational objectives in the face of environmental variables. Ansoff makes difference between policy and strategy by putting that “policy is a contingent decision whereas strategy is a rule for making decision. A contingent event is recognised because it is repetitive but the specific occurrence cannot be specified. For such repetitive events, it is not worth while to decide every time what to do when such a contingency arises. It is better to decide in advance what ill be done in such a case.

LESSON 4:
LONG RANGE PLANNING AND STRATEGIC PLANNING

Difference between Longrange

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, FutureOpportunities, threats etc.
Organisation	Bureaucratic/Stable	Entrepreneurial/Flexible
Leadership	Conservative	Creative
ProblemSolving	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.

LESSON 5:
CHARACTERISTICS OF STRATEGIC DECISIONS

Strategic Decision-making

Strategic management is characterized by its emphasis on strategic decision-making. As an organization grows bigger and becomes complex with higher degree of uncertainty, decision-making also becomes increasingly complicated and difficult. Strategic decisions have to deal essentially with the long-term future of the organization and have three important characteristics.

1. Rare. Strategic decisions are not common and have no precedents.
2. Consequential. Strategic decisions involve committing substantial resources of the company and hence a high degree of commitment from persons at all levels.
3. Directive. Strategic decisions can serve as precedents from less important decisions and future actions of the organisations[10].

Mintzberg's Model

According to Mintzberg, the modes of strategic decisions-making are:

1. **Entrepreneurial mode.** Formulation of strategy is done by a single person in this mode. The focus is on opportunities. Strategy is guided by the founder's vision and is charactersied by bold decisions. In the Indian set-up, we can cite the case of Wipro Infotech as an example of this mode of strategy formulation.
2. **Adaptice mode.** This mode of decisions making is referred to as "muddling through". It is characterized by reactive solutions rather than a proactive search for new opportunities. We can again cite the example of Wipro Infortech introducing the sale of customized Personal Computers in response to Dell Computers entering the Indian market.
3. **Planning mode**. This mode of decision making involves systematic information gathering for situational analysis, generating alternate strategies and selection of the appropriate strategy. As could be inferred, this mode includes both the proactive mode and the reactive solutions to current problems. For example, entry of MNCs into the automotive markets in India has made the lead player Maruti Suzuki to come out with new models and discard/slow down production of non-moving and old models.

Sometimes organizations may adopt a fourth mode, called the logical incrementalisation mode. This is a synthesis of all the three modes of strategic decision making listed above. Quninn[12] describes logical incrementalisation as: "An interactive process in which the organization probes the future, experiments and learns from a series of partial (incremental) commitments rather than through global formulation of total strategies."

As already explained, strategic decisions involve an interface between an organization and its external environment. This is in contrast to operating decisions which are more frequent. The effects of strategic decisions permeate throughout the organization at all levels for a considerable length of time since it involves committing substantial amount of resources of the organization. Sometimes this is referred to as a non-self-generating decision, implying that though strategic decisions may be few in number, the organization should always be aware of the need to make such decisions.

Hence, it is essential to put a mechanism in place to take strategic decisions. This is more so in the case of Indian organizations lwith the onset of liberalization. Table 1.1 provides a comparison of the operating and strategic decisions. As may be seen from the table, the organisations' short-term survival is affected by its operating and administrative efficiency. Its success or failure in the long term depends on right strategic decision-making, i.e. it depends on doing the right things rather than on doing the things right.

What / How	Strategic Decisions	
	Clear	**Unclear**
Operating Decisions Effective	**I** Clear strategy and effective operations have contributed to success in the past and will contribute to success in the future	**II** Unclear strategy but effective operations have contributed to success in the past but success in the future is doubtful
Ineffective	**III** Clear strategy but ineffective operations have sometimes worked in the past in the short run, but increasing competition makes success doubtful in the future	**IV** Unclear strategy and ineffective operations have meant failure in the past and will be so in the future

LESSON 6:
LEVELS OF STRATEGY

Learning Objective

On completion of this chapter you should be able to:

- You should be able to understand the various levels of business strategy
- You should be able to understand that strategic management is not a single, simple action but a series of related decisions and actions.
- You should be able to understand strategies at the operational level
- You should be able to understand the characteristics of strategic decision
- Finally you should be able to the role played by strategic management

Levels of Strategies

You can see the various levels of strategies at the Corporate, SBU and Functional level. The levels of strategy offers you a glimpse of the complexity about different levels at which strategy is formulated. The business strategy must contain wellcoordinated action programs aimed at securing a longterm competitive edge and which should be sustained by the company.

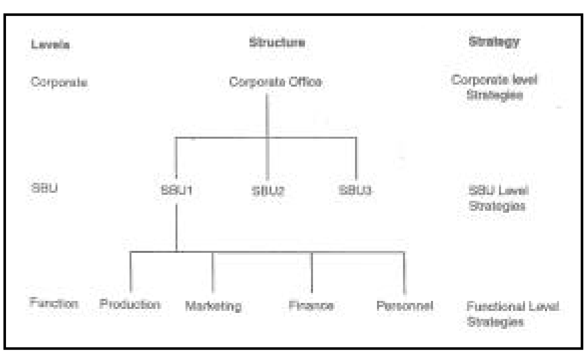
Lets take an example of Hindustan Levers,a multinational subsidiary, is in several businesses such as animal seeds, beverages,oils and dairy fat , soaps and detergents.

Similarly Sundaram Clayton and its associate companies operate in technology areas as diverse as brake and signal systems for railways, two wheelers and electrical appliance

Three types of level are depicted in the exhibit.

The first level is the corporate strategy which is an overarching plan of action covering the various functions performed by different

Levels of Strategies

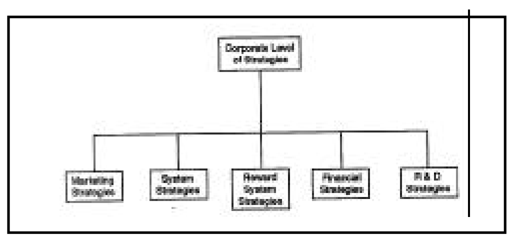


Corporate Level

Take an example of any organisation, there are basically three levels. The top level of the organisation consists of chief executive office of the company, the board of directors, and administrative officers. The responsibility of the top management is to keep the organisation healthy. You see that their responsibility is to achieve the planned financial performance of the company in addition to meeting the nonfinancial goals viz. social responsibility and the organisational image. The issues pertaining to business ethics, integrity, and social commitment 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.

In the given exhibit you will find that business strategy is a comprehensive plan providing objectives for SBU'S, allocation of resources among functional areas, coordination between them for optimal contribution to the achievement to the achievement of corporate level objectives.

Corporate Level Strategies



This is the level where vision statement of the companies emerges. Exhibit shows typical levels of strategymaking in an organization.

In the given exhibit you will see that various companies are organized on the basis of operating divisions. These divisions are known as profit centers or strategic business units. Generally SBU's are involved in a single line of business

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 competition 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. The managers 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.

Just think for a while how does business strategy make the study and practice of management more meaningful?

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.

Further, put down atleast five reasons how business strategy serves the need of

a. Management students

b. Middle-level executives.

Now look at this diagram and see how various function are interrelated

Interaction of Various Functions

The managers at this level of product, geographic, and functional areas develop annual objective and shortterm 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. Thus ExhibiT shows the interaction of various functions for deciding strategies at the operational level.

LESSON 7:
CHARACTERISTICS OF STRATEGIC DECISIONS AT 3 LEVELS

Characteristics Of Strategic Decisions At Three Levels:

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

As you can see:

Characteristics of Corporate, Business and Functional Level Strategies

Characteristic	Corporate Level	Business Unit Level	Functional Level
Nature	Conceptual	Conceptual butrelated to businessunit	Totallyoperational
Measurability	Non-measurable	Measurable tosome extent	Quantifiable
Frequency	Large spans5-10 years	Periodic	Annually
Adaptability	Poor	Average	High
Character	Innovative andcreative	Action-oriented	Totally actionoriented
Risk	High	Moderate	Low
Profit	Large	Moderate	Low
Flexibility	High	Moderate	Low
Time	Long range	Medium range	Short range
Costs Involved	High	Medium	Low
CooperationNeeded	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 farreaching 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.

Thus, Formulation of business strategy is a set of multiyear broad action programs.

At the functional level, the decisions involve actionoriented operational issues. Essentially these are shortterm 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, inspite of being less profitable.

Article - 1

Wipro Ltd. is a 55-year-old company, engaged in a wide range of businesses including the development and export of software, manufacture of electric bulbs and tube lights. It has registered its trademark Wipro. In 1999, it adopted a distinctive packaging for electric bulbs with the picture of distinctive packaging for electric bulbs with the picture of a rainbow flower, the slogan ‘Applying thought’, claim ‘lasts 30 percent longer’, trademarks 'longlite', Watts such as 60 written in yellow colour and a red colour background. The company introduced electric bulbs in 1994.They learnt that company introduced electric bulbs in a deceptively similar Shivam Lamps was selling electric bulbs in a deceptively similar packing as that of Wipro's Longlite electric bulbs packing. They went to court. Wipro claimed that Shivam had copied the rainbow flower's picture, the slogan 'Applying thought' trademark Longlite, claim 'lasts 30 per cent longer', the colour combination, layout and get -up of their packing. The only noticeable difference was in the trademark, Gokul.

The Delhi High Court granted an ex pate ad interim injunction against Shivam lamp Industries 'as the object of granting injunction may be defeated by delay.' Shivam was restrained from manufacturing, selling and offering for sale, advertising, directly or indirectly dealing in electric bulbs, tube lights and electrical fittings and apparatus which were substantial reproduction of the plaintiffs (Wipro Ltd.) copyright in the artistic work Wipro Longlite electric bulb packing… were further restrained from using the trade mark Rainbow flower device.' The court also appointed the local commissioner to visit the premises of Shivam Lamp Industries, where the infringing goods were alleged to be stored and take the same into custody.

Brand Strategy

Article - 2

Creating A Powerful Corporate Brand

Nothing touches the customer more than how he or she perceives your corporate image. This fundamental perception not only determines whether the customer will conduct business with you, it also provides competitive advantages, increase employee morale and loyalty, and a future direction for the organisation.

Developing a powerful corporate brand is a circular, continuous, five-phase process that can be applied at any stage of an organisation's development. The five phases are:

- Preliminary Audit, Research and Evaluation
- Analysis, Strategy, Planning and Development
- Creative Exploration
- Refinement and Implementation
- Monitoring, Managing and Marketing of the Corporate Image

A Qualitative Process

Part of the initial process comprises qualitative interviews with internal and external audiences. The internal interviews are conducted at all levels of the organisation, from frontline staff and backroom support personnel to senior management and the Board of Directors. The interviews with external audiences will include key customers, end users, joint venture or other business partners, shareholders or other stakeholders, suppliers, distributors, retailers, prospective customers and partners, government officials, senior media people and other outside influencers, competitors, and members of the general public.

The objective is to gain an understanding of the market's perception of the organisation by its customers, partners and competition, and to contrast these perceptions with those held by its own employee and management staff. Another aim is to identify the organisation's internal willingness and current acceptance levels for change.

The interview process answers these key questions:

- How is the corporate image being portrayed and projected today?
- How is the organisation perceived by its key internal and external audiences?
- How does the image of the organisation compare with those of its competitors?
- How does the image of the organisation compare to the image desired by management?
- Will the current corporate image enable the organisation to reach the goals and objectives set for it over the next three to five years?

By starting the corporate brand development process with a review of the existing corporate brand perceptions, the organisation has a clear view and understanding of where it is today, an important criterion when trying to decide how one wants to be perceived in the foreseeable future.

From here, you can conclude it is a matter of relatively simple steps to create a well-defined corporate brand positioning platform that is supported by the core attributes of the organisation and a series of strategic image marketing objectives that will help to guide future business directions and brand development.

Your corporate brand image needs to be thoroughly thought out, planned, nurtured, executed, monitored and, when necessary, modified. It's the organisation's most valuable commodity and deserves to always be treated as such.

Article - 3

Let us have a look at this article about Enron as a Corporate in India which could not be successful.

Corporate Ethics, Corporate Culture and Corporate Image

Enron. HIH Insurance. OneTel. WorldCom. Aggressive accounting procedures. Corporate governance. Business honesty. Corporate reputations being destroyed. Share prices dropping at the first hint of any financial shenanigans.

These are the headlines and the key business stories of today.

And they all relate to one critical management subject - **the Corporate Image.**

Every organization has a corporate image, whether it wants one or not.

When properly designed and managed, the corporate image will accurately reflect the organization's commitment to quality, excellence and its relationships with its various constituents: such as current and potential customers, employees and future staff, competitors, partners, governing bodies, and the general public.

As a result, the corporate image is a critical concern for every organization, one deserving the same attention and commitment by senior management as any other vital issue.

Managing The Corporate Image

The fallout from the Enron collapse continues to impact the global business community.

The sad fact is that it appears that it wasn't the business concept that Enron got wrong; it was the corporate culture that was wrong. The impact now affects Andersen, the accounting firm that audited and appears to have approved the methodologies used by senior Enron executives to "cook" the books and to pad the financial reports given to shareholders, the investment community, and employees. It also affects numerous other companies as the investment community is acutely attuned to not getting caught out by the "next Enron." Even stalwarts such as General Electric have seen their stock prices dragged down by worries, concerns, and questions about how "aggressive" the company has been in interpreting financial reporting regulations.

Not surprisingly, the issues of ethics, business ethics, and corporate ethics, have suddenly become key topics of conversations and the subject of numerous articles in the business press. Unfortunately, the suggested solutions often mentioned - more rules and regulations, more oversight entities (both internal and external), and clearer reporting of financial transactions - will merely treat the symptoms of this current managerial crises but will do little to remedy the underlying condition.

The true way to fix this problem is to understand how to create the right corporate culture through the corporate image management process.

As I wrote in four years ago *"CORPORATE IMAGE MANAGEMENT: A Marketing Discipline for the 21st Century,"* corporate image management will help senior executives to deal with another of the critical issue facing management today: corporate ethics.

As The Economist asked in 1995, "how can a company ensure that its code of ethics is both followed and enforced?"

The sure-fire way is to develop a corporate culture that not only emphasizes ethical behavior, but a so punishes and ostracizes those who do not live up to the desired standards. Very rarely can a single employee engage in unethical behavior without other employees being "in the know," or at least suspicious.

A corporate culture, communicated and spread throughout the organization, that exhibits zero tolerance for unethical behavior and that is intricately tied to the corporate image is management's best form of assurance against this deadly disease.

This works a whole lot better than having internal policy police and a bundle of quarterly forms submitted, analyzed, and then stacked in some compliance officer's cupboard.

Companies that win the marketing battle are those who have the internal strength from knowing who and what they are, and where they are headed — three of the most critical elements for managing the corporate image.

The underlining principle of my marketing philosophy is *"if it touches the customer, it's a marketing issue.™"*

Nothing touches the customer more than how he or she perceives your corporate image. This fundamental perception will be the major factor that determines whether the customer will decide to conduct business with you and, more importantly, enter into a long-term and mutually rewarding relationship with your organization.

There may be no greater marketing issue than corporate image management in today's increasingly competitive markets.

Likewise, there may be no greater methodology for heading off potential business ethics and corporate ethics problems in your own organization than through re-evaluating your corporate image management process.

And it's not just in the area of financial manipulation that business ethics in recent years has gone astray.

How many people justify such so-called guerilla marketing tactics as releasing highly skewed market share data? Or the buying of market share and then claiming that market share actually grew, as if such growth had been organic. Or how about the stealing of someone else's idea? Or making a product announcement of a future product when the product is little more than a concept on the drawing board? The latter even resulted in new terminology in the IT industry - vaporware.

Unfortunately, as marketers we are often no less dirty in our shenanigans and tricks than our colleagues in the financial department have been. Are the dirty tricks of politics now firmly embedded in the business world? Is the business community about to sink to the same level of distrust as politicians? It is indeed a slippery slope that we collectively appear to be on.

What can you do to ensure that your company, department, or work group abides by the highest business ethics?

If you're the CEO, Managing Director, or other senior leader, you need to create and manage the right corporate culture.

If you are a department head or work group leader, you need to "walk the talk," — in your personal life as well as your corporate life.

Why?

If you brag about all the copyrighted music you downloaded for free from Napster, what message does this send to your subordinates and colleagues?

If you take your spouse or significant other out to dinner and put it on your corporate expenses, what message does this convey?

If you lift materials out of some one else's presentation, or download data off the Internet without crediting the source, what other actions does this suggest as allowable?

Ethics is not a gray issue.

If you have a single seed of doubt about what you are doing, or planning to do, is wrong, it probably is!

As Dr. Martin Luther King wrote:

"Cowardice asks the question - is it safe?

Expediency asks the question - is it politic?

Vanity asks the question - is it popular?

But conscience asks the question - is it right?

And there comes a time when one must take a position that is neither safe, nor politic, nor popular; but one must take it because it is RIGHT."

What does this have to do with marketing?

Everything

Because, "*if it touches the customer, it's a marketing issue.*"

Your business ethics will eventually be directly reflected in the way you interact and do business with customers, suppliers, channel partners, and others.

Conducting business the RIGHT way is the ONLY way. This principle should be a nucleus of your marketing strategy and corporate culture.

As Nelson Mandela said, "the time is always right to do right."

If you don't, then your organization could well be on its way to a future induction in the Hall of Shame & Failures.

Today's Most Important Managerial Issue

We live in a world of change. As a matter of fact, the rate of change today is faster, and affects a larger portion of the earth's population, than at any other time in history.

Yet, despite all this change, there is still one constant. And this is that marketing excellence and a strong corporate image are firmly linked. You cannot have one without the other. At least not for very long.

Because, at the end of the day, your competitors can mimic and better your product offer. They can create stronger distribution systems than yours. They can outspend you in advertising and promotions. And, of course, they can always beat you up on price.

But the one thing a competitor cannot mimic or copy is a well-defined corporate personality.

As I always advise my clients, "*if it touches the customer, it's a marketing issue.*" And nothing, nothing touches your customers more than how he or she perceives your corporate image.

This makes the management of your corporate image one of the most potent marketing and management tools available for senior executives to use in ensuring the viable execution of your corporate vision

Source - From the book "Corporate Image Management: A Marketing Discipline for the 21st Century" by Steven Howard.

Contributor - Steven Howard

LESSON 8 :
ROLE OF STRATEGIC MANAGEMENT

We will now move to the role played by strategic management:

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.

Lets put five benefits of working in a team:

Similarly, 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 companyplanning 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, VicePresidents, Executive VicePresident 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 jigsaw puzzle through everchanging circumstances. The experience shows that CEOs have to simultaneously handle several factors, activities etc. ,on a schedule that rarely give him time to contemplate.

Now put down at least five roles which the CEO of the company performs:

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

Mintzberg'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 wellinformed 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.

Lets suppose you are acting like a CEO of some company, which role would you like to play and why?

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.

You think for a while

Why it is important to integrate intuition and analysis in decision making roles of a CEO?

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.

Which CEO in India you like the most and what kind of attributes you like in him?

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 selfesteem.

So, now is the need for you to ponder over, what makes a particular organization successful or why certain organizations fail?

Similarly discuss today's business condition and evaluate whether the role played by the CEO can help the situation.

Role of Strategy

The role of carefully formulated strategies is quite significant in all types of or-ganisations-business or non-business, public sector or private sector, large or small, in developed countries or underdeveloped countries. Looking at the importance of strategies in organisational effectiveness, a new branch of management, known as strategic management has been developed which deals with strategy formulation and implementation.

The systems approach of management suggests interaction of an organisation with its environment on continuous basis. This interaction can better be maintained through formulation of suitable strategies. In fact, the function of formulation of strategies has become so important that it is equated with total top management function because it is the top management which is primarily responsible for or-ganisational adaptation to the needs of environment.

Careful strategies play significant role in the success of an organisation. If we look at the Indian industrial scene over the last generation or so, we find that great names like Martin Bum, Jessops, Andrews have touched the rock bottom, while total unknowns few years ago like Reliance, Larsen and Toubro, etc., have touched gigan-tic heights. Similarly, companies like Hindustan Lever, ITC Limited, TISCO,TELCO, have maintained their high profile. There are numerous such examples of good companies in the Indian scene as well as the world over which have been successful because they have adopted suitable strategies. This happens because strategies con-tribute in several ways in managing an organisation; the more important of them-are as follows:

Role of Strategy

1. Framework for Operational Planning.

Strategies provide the framework for plans by channelling operating decisions and often predeciding them. If strategies are developed carefully and understood properly by managers, they provide more consistent framework for operational planning. If this consistency exists and applied, there would be deployment of organisational resources in those areas where they find better use. Strategies define the business area both in terms of customers and geographical areas served. Better the definition of these areas, better will be the deployment of resources. For example, if an organisation has set that it will intro-duce new products in the market, it will allocate more resources to research and development activities which is reflected in budget preparation.

2. Clarity in Direction of Activities.

Strategies focus on direction of activities by specifying what activities are to be undertaken for achieving organisational objectives. They make the organisational objectives more clear and specific. For example, a business organisation may define its objective as profit earning or a non-business organisation may define its objective as social objective. But these definitions are too broad and even vague for putting them into operation. They are better spelled by strategies, which focus on operational objectives and make them more practical. For example, strategies will provide how profit objective can be sharply defined in terms of how much profits is to be earned and what resources Of how much profit is to be earned and what resources will be required for that. When objectives are spelled out in these terms, they provide clear direction to per-sons in the organisation responsible for implementing various courses of action. Most people perform better if they know clearly what they are expected to do and where their organisation is going

3. Increase Organisational Effectiveness.

Strategies ensure organisational ef-fectiveness in several ways. The concept of effectiveness is that the organisation is able to achieve its objectives within the given resources. Thus, for effectiveness, it is not only necessary that resources are put to the best of their effeciency but also that they are put in a way which ensures their maximum contribution to organisational objectives. In fact, this can be done by taking strategic management which states the objective of the organisation in the context of given resources. Therefore, each resource of the organisation has a specific use at a particular time. Thus, strategies ensure that resources are put in action in a way in which these have been specified. If this is done, organisation will achieve effectiveness

4. Personnel Satisfaction.

Strategies contribute towards organisation effectiveness by providing satisfaction to the personnel of the organisation. In organisation where formal strategic management process is followed, people are more satisfied by defi-nite prescription of their roles thereby reducing role conflict and role ambiguity. If the decisions are systematized in the organisation, everyone knows how to proceed, how to contribute towards organisational objectives, where the information may be available, who can make decisions, and so on. Such clarity will bring effectiveness at the individual level and consequently at organisationallevel. Strategies provide all these things in the organisation through which everything is made crystal clear.

Looking into the role of strategy, Ross and Kami have suggested that *"without a strategy the organisation is like a ship without a rudder, going around in circles. It is like a tramp; it has no place to go."* They ascribe most business failures to lack of strategy, or the wrong strategy, or lack of implementation of a reasonably good strategy. They conclude from their study that without appropriate strategy effec-tively implemented, failure is a matter of time.

Strategy in Action

[IKEA]

Managing strategy requires the consideration of a wide range of factors to develop a coherent long-term direction for an organization.

In 1953, just four years after Ingvar Kamprad had produced his first mail order catalogue featuring locally produced furniture, he opened his first store in Almhult, Sweden. Since then, he and his successors have created a global network of stores in 28 countries. Initially stores were opened only in Scandinavia, but as greater levels of success were experienced, stores were build in countries further afield where the rewards, but also the risks of failure, were much higher. In all these countries the retailing concept of Ingvar Kamprad remained the same: 'to offer a wide range of furnishing items of good design and function at prices so low that the majority of people can afford to buy them'.

In the 1980s, Andres Moberg became the chief executive. However, the influence of Ingvar Kamprad could still be found. IKEA had always been frugal in its approach. In its early years it had relocated to Denmark to escape Swedish taxation. Echoes of the same philosophy and style could be seen in Anders Moberg. He would arrive at the office in the company Nissan Primera, dressed in informal clothes, and clock in just as other employees did. When abroad he traveled on economy class air tickets and stayed in modest hotels. He expected his executives to do likewise. Such prudence was extended to the company whose shares where held in trust by a Dutch charitable foundation and not traded. Furthermore, IKEA's expansion plan envisaged only internal funding with 15 per cent of turnover being reinvested.

The 1980s saw rapid growth. IKEA benefited from changing customer attitudes, from status and designer labels to functionality, encouraged by an economic recession. It also developed a number of unique elements which came to make up IKEA's winning business formula: simple, high quality Scandinavian design, global sourcing of components, knock-down furniture kits that customers transported and assembled themselves, huge suburban stores with plenty of parking and amenities such as cafes, restaurants, wheelchairs and even supervised child-care facilites. A key feature of IKEA's concept was universal customer appeal crossing national boundaries, with both the products and shopping experience designed to support this appeal. Customers came from different lifestyles: from new homeowners to business executives needing more office capacity. They all expected well styled, high quality home furnishings, reasonably priced and readily available. IKEA met this expectation by encouraging customers to create value for themselves by taking on certain tasks traditionally done by the manufacturer and retailer, for example the assembly and delivery of products to their homes.

IKEA made sure that every aspect of its business system was designed to make it easy for customers to adapt to their new role. For example, information to assist customers make their purchase decisions was provided in a 200-page glossy catalogue; during their visit to the store customers were supplied with tape measures, pens and notepaper to reduce the number of sales staff required; furniture was displayed in 100 model rooms; and sales staff were expected to involve themselves with customers only when asked.

To deliver low-cost yet high-quality products consistently, IKEA also had 30 buying offices around the world whose prime purpose was to identify potential suppliers. Designers at head-quarters then reviewed these to decide which would provide what for each of the products, their overall aim being to design for low cost and ease of manufacture. The most economical suppliers were always chosen over traditional suppliers, so a shirt manufacturer might be employed to produce seat covers. Although the process through which acceptance to become an IKEA supplier was not easy, it was highly coveted, for, once part of the IKEA system, suppliers gained access to global markets, and received technical assistance, leased equipment, and advice on how to bring production up to world equality standards. By the mid 1990s IKEA was offering a range of 12,000 items, from 1,800 suppliers in 45 countries at prices 20-40 per cent lower than for comparable goods. However, by 1998 the means of achieving low cost was receiving some critical attention. It was reported that IKEA was sourcing its goods from suppliers in eastern Europe which paid its workers poverty level wages.

Having to cope with widely dispersed sources of components and high-volume orders, made it imperative for IKEA to have an efficient system for ordering its suppliers, integrating them into products and delivering them to the stores. This was achieved through a world network of fourteen warehouses. These provided storage but also acted as logistical control points, consolidation centers and transit hubs, and aided the integration of supply and demand, reducing the need to store production runs for long periods, holding down unit costs by minimizing the costs of inventory and helping stores to anticipate need and eliminate shortage.

By the end of the 1990s IKEA was turning its attention to new opportunities for growth. It had opened stores in eastern Europe and the one-time Soviet republics, believing these represented great future potential. In 1997 it announced its plan to open twelve new stores a year internationally in cities such as Frankfurt, Shanghai, Chicago, and Roclab in Poland and to double manufacturing capacity by building up to twenty factories in eastern Europe by 2002. There were also plan to develop new areas of business. In partnership with a building contractor, IKEA was market testing in Sweden 'flat packed' housing which could be assembled by two men and a crane in a week at prices about 30 per cent less than the going rate. It was also developing new sources of supply, entering into an agreement with a timber company to develop new wood material for furniture. However, the company was also facing problems. IKEA was experiencing growing competition on an international front. It had decided to implement a programme of cost savings, rationalizing its supply chain and product range in order to cut purchasing costs by an overall average of 10 per cent. The company had stated the intention of cutting what had become 2,400 suppliers by one-quarter and focusing on increased volumes with a smaller range of products and fewer suppliers.

In 1996, Ingvar Kamprad announced that IKEA would be split into three, comprising the retailing operations, an organization holding the franchise and trademarks, and a third arm involved mainly in finance and banking. The first two would form the core of the group, controlled at arm's length by trust-like organisations; the latter's shares would be jointly owned by Kamprad's three sons. The structure was devised in an effort to ensure that the privately held organization should not be broken up or sold off in a succession battle after Ingvar Kamprad retired. He also wanted to ensure that it would not be put under the sorts of external pressures for continual growth often faced by publicly quoted companies. Internally, IKEA's strategy was managed at different levels. A committee of senior executive at headquarters in Denmark was responsible for overseeing investment in new market and stores; responsibility for product development and purchasing lay with IKEA of Sweden; and country managers tailored the presentation and marketing of products to home territories.

Questions

1. Using the characteristics discussed in the case write out a statement of strategy for IKEA.
2. With reference to the case, note down the characteristics of IKEA's strategy which could be explained by the notions of:

(a) strategic management as 'environmental fit'

(b) strategic management as the 'stretching' of capabilities.

LESSON 9 :
CONCEPT OF OBJECTIVE,
MISSION AND VISION

Setting of organisational objectives is the starting point of managerial actions. Since organizations are deliberate and purposive creations, they have some objectives; the end results for which they strive. These end results are referred to as 'mission', 'purpose','objective', 'goal', 'target', etc. Many times, these terms are used inter-changeably as .all these denote end results. However, there are differences in the context in which these terms are used. As we shall see later in this chapter, the end results are arranged in a hierarchy. On the one extreme end, there may be enduring reasons why an organisation exists; on the other extreme end, there may be specific results that an individual in the organisation achieves in a specified period. Therefore, the end results have to be specified by different terms in the context of these two extreme ends and, in between. This contextual difference among various terms is important in understanding their nature relevent for managerial actions. From plan-ning point of view, an organisation must define why it exists, how. it justifies that existence, and when it justifies the reasons for that existence. The answers of these questions lie in the organisations:

1. mission and purpose,
2. long-term objectives, and
3. time-bound objectives.

Mission and Purpose

Mission and purpose are often used interchangeably, though at theoretical level, there is difference between the two. Mission has external orientation and relates the organisation to the society in which it operates. A mission statement helps the or-ganisation to link its activities to the needs of the society and legitimize its existence. Purpose is also externally-focused but it relates to that segment of the society to which it serves; it defines the business which the company will undertake. We may consider the mission and the purpose of Hindustan Lever Limited to visualise this difference. About its mission, the company states that:

Hindustan Lever's commitment to national priorities has ensured that the com-pany is a 'part of people's lives at the grass roots level, making a difference to India and to Indians-in depth, in width and in size. Hindustan Lever has always identified itself with the nation's priorities: employment generation, development of backward area, agricultural linkages, exports, contribution to the exchequer; etc.

About its Purpose, The Company States That

Our purpose in Hindustan Lever is to meet the everyday needs of people every-where-to anticipate the aspirations of consurners and customers and to respond creatively and competitively with branded products and services which raise the quality of life.

Thus, mission of the company says what it can do for the country (society in general) while purpose suggests how this contribution can be made. However, in general practice, mission and purpose are either used interchangeably or jointly. For example, Drucker has taken this stand while defining mission and purpose He says:

"The purpose or mission of an organisation is a general enduring statement of the organisation the extent of which embodies the decision maker's philosophy; it implies the image which the organisation seeks to project .

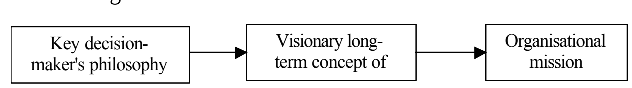
An organisation's mission when expressed in managerially meaningful terms, indicates exactly what activities the organisation intends to engage in now and in future. It suggests something specific about what kind of organisation it is and is to become. It depicts the organisation's business character and does so in ways that tend to distinguish the organisation from other organisations. Mission sets forth principles and conceptual foundation upon which the organisation reacts and the nature of the business in which it plans to participate. Organisational mission, de-fined properly, offers guidance to managers in developing sharply focused, result-oriented objectives, strategies, and policies. Therefore, a detailed understand-ing of organisational mission is the starting point for rational managerial action and for the design of its strategies. Managerial effectiveness tends to begin with clarity of mission with an accurate, carefully delineated concept of just what the organisation is trying to do and why.

A key feature of organisation's mission is that its focus must be external rather than internal. For example, Drucker has the following suggestion:

"To know what a business we have to start with is its purpose. Its purpose must lie outside the business itself. In fact, it must lie in society since business enterprise is an organ of society. There is only one valid definition of business purpose: to create a customer"

Formulation of Mission

Organisational mission encompasses the broad aims of the organisation; it defines what for the organisation strives. Therefore, the process of defining mission for any organisation can be best understood by thinking about it at its inception. Truly speaking, an organisation's mission lies in the basic philosophy of those who create and manage the organisation as shown in figure



Mission formulation

Philosophy. Philosophy, in the context of management of an organisation, consists of an integrated set of assumptions and beliefs about the. way the things are, the pur-pose of the activities, and the way these should be. These assumptions and beliefs of those who create an organisation (owners) and those who manage it (managers, specially the decision makers) become base for defining vision of the organisation. These assumptions and beliefs are sometimes explicit, and occasionally implicit, in the minds of the decision makers. The philosophy of a person has its origin in two premises-fact premises and value premises. Fact premises represent our descriptive view of how the world behaves. They are drawn from research findings and our experiences. Value premises represent our view of the desirability of certain goals and activities.

Vision. Vision of an organisation has a long-term orientation and is derived from organisational philosophy. Vision represents a challenging portrait of what the organisation and its members can be in the future. Therefore, the organization should create projections about where it should go and what major changes lie ahead. Once the vision is established, persistent and enthusiastic communication of it throughout the organisation is required so that various subsystems embrace it with commitment.

Key decision makers' philosophy and visionary long-term concept of the or-ganisation taken together define organisatipn's mission in the form of desires, beliefs and assumptions in the following form:

1. The product and service offered by the organisation can provide benefits at least equal to its price.
2. The product or service can satisfy the needs of the customers not adequately served by others presently.
3. Technology used in producing product or service will be cost and quality com-petitive.
4. The organisation can grow and be profitable than just survive in the long run with the support of various constituents.
5. The organisation will create favourable public image which will result in contri-butions from environment.
6. Entrepreneur's self-concept of the business can be communicated and adopted by employees and stakeholders.
7. The organisation will be able to satisfy the entrepreneur's needs and aspirations which he seeks to satisfy through the organisation.

At the initial stage, the above elements go into mission formulation. As the or-ganisation grows or is forced by competitive forces to alter its product, market, and technology, there may be need for redefinition of the mission. However, the revised mission will reflect the same set of elements as the original-like type of product to be offered, type of customer to be served, type of technology to be employed, growth of organisation, favourable public image, self-concept of entrepreneur, and needs and aspirations of entrepreneur, though in modified form.

Characteristics of Mission Statement

Every organisation has mission either defined explicitly or may be deduced from the actions of its top management. For a large organisation, where its members do not have face-to-face contact, explicit mission statement is desirable as it serves the pur-pose of communicating to the members about the corporate philosophy, identity, character, and image which govern their behaviour in the organisation. Further, section of the society dealing with the organisation knows well in advance as how to, interact with the organisation. Therefore, while framing the mission statement, fol-lowing points should be taken into consideration so that it serves the purpose for which it is prepared:

Features of a good Mission Statement

1. Mission should be clear, both in terms of intentions and words used;
2. It should be feasible, neither too high to be unachievable, nor too low to demotivate the people for work.
3. It should be precise but self-explanatory, neither too narrow so as to restrict the organisation's activities, nor too broad to make itself meaningless.
4. It should be distinctive, both in terms of the organisation's contributions to the society and how these contributions can be made.

Exhibit presents the mission statement of ITC Limited which is characterised by the following concerns:

Mission of ITC Limited

1. Concern for the ultimate customers-millions of customers.
2. Concern for the intermediate customers-the trade.
3. Concern for the suppliers-the spurces of raw materials and ancillaries.
4. Concern for the employees-the most valued asset.
5. Concern for the competitors-wishing them well as healthy competition ultimately benefits the customers.
6. Concern for the shareholders-the investing public.
7. Concern for the national aspiration-India's future.

Objectives

Objectives are more precise as compared to mission and used to specify the end results which an organisation wants to achieve. However, there are two problems in giving the precise definition of objectives. First, goals and objectives are used inter-changeably, though there are some differences between the two. Second, the end results, expressed as objectives, may be time-specific or without this specification. Therefore, objectives are defined in different ways. For example, McFarland has defined objectives in quite broad term which is as follows:

"Objectives are oils, aims, or purposes that organisations wish over varying periods of time."

Terry and Franklin have also used the term goal in defining an objective. They view that:

"A managerial objective is the intended goal that prescribes definite scope and suggests direction to the planning efforts of a manager.

We can define objective as the intended end result that an organisation desires to achieve over varying periods of fume. Because of time variation, objectives may be specified in different ways in which long-term objectives are supported by short-term objectives.

Features of Objectives

1. Each organisation, or group of individuals, has some objectives. In fact, or-ganisations or groups are created basically for certain objectives. Members in the organisation or group try to achieve these objectives.
2. Objectives may be broad or they may be specifically mentioned. They may per-tain to a wide or narrow part of the organisation. They may be set either for the long term or for the short term. For example, the basic objective of a business organisation may be to earn profit. This may be quite a broad objective. In order to achieve this broad objective, some specific objective may be set, for example, how much profit and in which period. Thus, general objectives may be trans-lated into operative objectives to provide definite action.
3. Objectives may be clearly defined or these may not be clear and have to be interpreted by the behaviour of organisational members, particularly those at top level. However, clearly defined objectives provide clear direction for mana-gerial action.
4. Objectives have hierarchy. At the top level, it may be broad organisational pur-pose which can be broken into specific objectives at the departmental level. From departmental objectives, units of the department may derive their own objec-tives. This is possible because organisation is created by combining people into sections, departments, divisions, etc. All of them try to achieve organisational objectives and, at each level a unit may contribute to the fulfillment of tasks assigned to it. Thus, a hierarchy of objectives is created.
5. Organisational objectives have social sanction, that is, they are created within the social norms. Since organisations are social units, their objectives must conform to the general needs of the society. Various restrictions on organisational objectives are put through social norms, rules and customs.
6. An organisation may have multiple objectives. For example, Hindustan Lever Limited, under the chairmanship of T. Thomas (during 1973-80) formulated the following objectives:

(i) to expand and diversify in the area of chemicals;

(ii) to continue to control costs and improve productivity very rigorously;

(iii) to build up management skills for future growth;

(iv) to utilize R & D more effectively in creating new-business opportunities;

(v) to build a strong Board balancing the advantages of decentralising profit responsibility against the advantages of centralised controls on personnel, finance, and technology;

(vi) to communicate more openly and purposefully, internally as well as exter-nally; and

(vii) to develop succession to the Board and to Chairmanship.

It can be emphasized that many of these objectives are functional objectives; many of these objectives are intertwined and interrelated. Sometimes, many of the objectives may be even incompatible. This happens because over a period of time, many interest groups exert their pressure on organisational objectives. For example, economic and social objectives of an organisation may be incompati-ble; the achievement of one may be at the cost of the other at one point of time, while at other time, both can be integrated.

7. Organisational objectives can be changed; old objectives may be replaced by new ones. It is possible because organisations are free to set their objectives within the overall social norms. Since objectives are formulated keeping in view the environmental factors and internal conditions, any change in these may result into change in objectives. For example, in response to various changes in the social environment, the objectives of YMCA have been transformed from religion and spirituality to recreation and physical exercise. Similarly, the Red

Cross which was originally formed to hold itself in readiness in the war or any calamity to help the people found itself under-employed after Word War I and lost members' contributions, and public esteem. The Reg. Cross subsequently added another objective-that of preserving and improving public health.

Objectives and Goals: A Comparison

Objectives and goals are the end results which an organisation strives for. Since there may be different ways in expressing end results like market leadership (a qualitative measurement), or a certain percentage of increase in sales in a particular year (a quanti-tative measurement), the question is: for which result the term objectives should be used and for which result the term goal should be used. This problem arises because these two terms are used in variety of ways; many of them are conflicting.

First, these terms are used interchangeably meaning one and the same thing. Therefore, there is no difference between the two. To make distinction between long-term and short-term orientations, these prefixes are used either with objectives or goals. Second, some authors use goals as the long-term results which an organisa-tion seeks to achieve and objectives as the short-term results. Third, some writers reverse the usage referring to objectives as the desired long-term results and goals as the desired short-term results. This latter view is, however, more prevalent and we will take this view in our discussion. From this point of view, Ackoff has defined both the terms as follows:

"Desired states or outcomes are objectives. Goals are objectives that are scheduled

for attainment during planned period.,,

Thus, objectives and goals defined in this way convey two different concepts. The distinction between these two concepts is important because management needs both.

The difference between Objectives and Goals may be drawn in terms of the following four dimensions.

1. **Time Frame**. Objectives are timeless, enduring, and unending; goals are tempo-ral, time-phased, and intended to be superceded by subsequent goals. Because objec-tives relate to the ongoing activities of an organisation, their

achievement tends to be open-ended in the sense of not being bounded by time. For example, the survival objective of a business organisation is never completely attained since failure is always a future possibility.

2. **Specificity.** Objectives are stated in broad, general terms, dealing with matters of image, style and self-perception. These are aspirations to be worked in the future. Goals are much more specific, stated in terms of a particular result that will be accomplished by a specific date. In the above example, survival as an objective is not very specific because it leads to different interpretation of the state of survival. On the other hand, goals can be expressed in terms of say achievement of 10 per cent growth in the net sales in the next year. This is more specific and time bound.

3. **Focus.** Objectives are usually stated in terms of some relevant environment which is external to the organisation; goals are more internally focused and carry important implications about how resources of the organisation are utilised or will be utilised in future. Therefore, objectives are more generalised statements like main-taining market leadership, striving continuously for technological superiority, etc. A goal may imply a resource commitment requiring the organisation to use those resources in order to achieve the desired outcomes.

4. **Measurement**. Both objectives and goals can be stated in terms which are quanti-tatively measured but the character of measurement is different. Generally quantita-tive objectives are set in relative terms. For example, Reliance Industries has put its objectives like this: to acquire top position among the Indian companies. This objec-tive may not be achieved in anyone year, but it is timeless and externally focussed, providing a continuing challenge for the company. Quantitative goals are expressed in absolute terms. For example, a company has stated its goal to achieve 10 per cent growth in its sales in the next year. The achievement of this goal can be measured irrespective of environmental conditions and competitors' actions.

Hierarchy of Objectives

Organisational objectives form a hierarchy ranging from the broad aim to specific individual objectives. The process of assigning a part of a mission to a particular department and then further subdividing the assignment among sections and indi-viduals creates a hierarchy of objectives. The objectives of each subunit contribute to the objectives of the larger unit of which it is a part. In fact, the organisation itself can be thought of as a social unit and, as such, its objectives are the extension of the objectives of the society. This can be explained in terms of end-means chain which suggests that what is a means for one unit may be an end for another unit. For example, if accomplishment of the overall objectives is the responsibility of top management in the organisation, acquisition of the requisite means may be an end for the next lower level. In order to achieve this sub-objective, sub-means are necessary. Obtain-ing these sub-means then becomes the responsibility and consequently the objective of still lower level. This process goes on till a decision can be drawn on the existing product or programme available in the organisation's environment. This is presented in figure

Hierarchy of organisational objectives

Top-down and Bottom-up Approach

Hierarchy of objectives can be explained in two approaches: top-down approach and bottom-up approach. Understanding of this phenomenon is essential because a question arises whether objectives should be set at the top and communicated lower down the line or it is in reverse direction. In the top-down approach, at the extreme top of the hierarchy is the purpose which has two dimensions. First, there is the purpose of the society, such as requiring the organisation to contribute to the welfare of the people by providing goods and services at the reasonable cost. Second, there is the purpose of the business which may be the ultimate objectives of the business such as what an organisation would like to be. For example, mission might be described as the basic philosophy of the organisation. However, the distinction be-tween purpose and mission is not\ very obvious and are often used synonymously.

At the next level of the hierarchy, overall organisational objectives as specified by various strategies and policies are defined. These lead to specify overall objectives in forms of quantitative standards. These objectives are further carried into divisional, departmental, and individual objectives. At indi-vidual level, two types of objectives exist: performance of individuals which contributes to the achievement of or-ganisational objectives and personal objectives of individuals which they want to satisfy while working in the organisation. At each level of objectives, managers of different levels are involved. For example, overall objectives are formulated. by top management. It also sets objectives for all key-result areas where performance is necessary to achieve organisational objectives. Middle-level managers are involved in the setting of key-result-area objectives, divisional objectives, as well as depart-mental objectives. The primary concern of lower-level managers is the setting of objectives on the departmental and unit level as well as the objectives of their subor-dinates. Although in the hierarchy of objectives, individual performance and objec-tives have been shown at the bottom level, managers at the higher levels also should set objectives for their performance and development. Thus, in top-down approach, upper-level managers determine the objectives for their subordinates, while in bot-tom-up approach, subordinates initiate the setting of objectives for their position and present them to their superi-ors.

There is a controversy whether an organisation should use the top-down ap-proach for setting the objectives or it should use bottom-up approach. Proponents of top-down approach suggest that the total organisation needs direction through or-ganisational objectives provided by the top management which may include owners of the organisation. Proponents of the bottom-up approach, on the other hand, argue that top management needs to have inforIl1ation from lower levels in the form of objectives. Subordinates are more likely to be motivated and committed by the objec-tives which they initiate. While both approaches have certain positive and negative aspects, in order to take the advantages of both, a combination of the two is f61-lowed. To what extent both will be combined depends on situations such as size of the organisation, organisational culture, leadership styles of managers, etc.

Role of Objectives

Every organisation has some objectives, either specified or unspecified. Clearly de-fined objectives govern behaviour of organization members, and as such, every or-ganisation should specify its objectives clearly. However, contingency approach recognises that in some situations, either it may not be possible to set specific objec-tives or it is not desirable to set objectives. For example, contingency approach suggests that:

“In some situations, it is difficult or impossible to set goals. In fact, many manag-ers realise that some of their most important planning takes place without even explicitly considering specific goals.

Such situations require directional objective setting which identifies preferred style of action for the organisation or individual and an arena for activities. The emphasis switches from carefully formulating what objective is to be accomplished to consideration of a manager’s thrust. This approach is more flexible than tradi-tional objective-setting approach and suggests that under three conditions, it is not desirable or possible to set objectives: (i) in the formative period of an organisation’s development when it is too early to set objec-tives; (ii) when the environment in which the .organisation operates is unstable or uncertain owing to fast social, eco-nomic, technological, legal, or other changes; and (iii) when members cannot build enough trust or agreement to decide upon a common objective.

No doubt, in these situations, it may not be very desirable or possible to set objectives, but not all situations are like this. Specific objectives are appropriate in cases marked by the following conditions:

1. managers want to narrow the focus and efforts of organisational members;
2. the environment is relatively stable and certain;
3. there are severe time and resource limitations; and
4. organisational members require more specific conditions as a result of low toler-ance for ambiguity and uncertainty.

Objectives should be specified because they perform a number of functions. For

example, Drucker maintains that objectives are essential in all key areas where per-formance and results directly contribute to the growth and survival of business for enabling managers to: (i) organise and explain the whole range of business phenom-ena by such objectives; (ii) verify the objective in actual business operation; (iii) predict employee behaviour; (iv) vouchsafe the soundness of decisions; and (v) im-prove their performance.

The Major Functions and Contributions of Objectives are as Follows

1. **Defining an Organisation.** Every organisation works in an environment con-sisting of several forces. These forces provide both opportunities and threats. In order to take the best possible from the environment, it must define itself, that is, what kind of company it is, or what kind of business it is in. This relates the or-ganisation with its environment. For example, the following descriptions provide the kind of company each is or the business it is in.

Modern ‘Food Industries Limited: manufacturing and market-ing of nutritional foods to the public.

India Photographic Company Limited: a quality-oriented photographic system ap-pealing to the consumer who desires instant photography.

Mirc Electronics Limited: the provision of high quality product in the area of electronic entertainment.

Such a definition of the company in relation to its environment provides a clear thinking for the type of efforts the company should make so that it achieves its objectives. The failure to define the nature of the company based on its objectives and environment leads to confusion about the way in which the company wants to move.

2. **Directions for Decision-making.** Objectives provide the directions for decision- making in various areas of the organisation’s operation. The objectives set the limits and prescribe the areas in which the managers can make decision. Since there is no ambiguity about the ends to be achieved, managers are quite clear about the expecta-tions which the organisation has from its functions. From this point of view, clearly specified objectives serve a number of purposes.

- Clear definition of objectives encourages unified planning. Objectives embody the basic idea and fundamental theories as to what the organisation is trying to achieve. This is necessary to give the meaning and direction to the work of the people associated with the organisation. Such objectives are the focus for differ-ent individuals, and unifying effect arises when various plans prepared by sev-eral people are adjusted to a common objective.
- Objectives work as a motivating force by providing direction to organisational members. Individuals have framework to fit their personal needs with or-ganisational objectives. A sense of accomplishment of meeting objectives is de-sired by all individuals. Thus, fulfilling of objectives itself is a source of motiva-tion for the people in the organization
- Voluntary coordination, an essential feature of the organisational objectives, is achieved easily if the objectives are clearly specified and mutually agreed upon. People tend to work within their own areas of discretion and adjust according to the needs of, others if they know their own and others’ objectives.

3. **Performance Standards**. Objectives provide standards against which perfor-mance of the organisation, its units, sub-units and individuals can be. measured. Without performance standards which are derived from the objectives, there cannot be any meaningful control activities in the organisation. Such control measures not only ensure the achievement of organisational objectives by taking corrective ac-tions, if needed, but also put a psychological pressure on those who are responsible for achieving the organisational objectives.
4. **Basis for Decentralization**. Decentralization includes assigning decision-making authority to lower-level people, thereby a subordinate is given considerable leeway in deciding to perform his work. Decentralisation is necessary for large-size or-ganisations. However, independent decision-making authority to subordinates may lead to disintegration of the organisation unless there is a clear indication of the contributions of each unit towards the realisation of common objectives. Objectives indicate the contributions to be made by each unit for tying them effectively and allowing the managers concerned to exercise their individual skills and initiative.
1. **Integrating**. Organisation, Group and Individual. Clearly specified objectives may provide integration of organisation and its various groups and individuals. An organisation cannot exist apart from its individuals, and various groups associated with it, such as creditors, customers, etc. If the objectives are clear, these will com-municate the relationship between the organisation and various groups and individ-uals. Therefore, the individuals and groups can better be integrated because they have clear basis for dealing with the organisation.

Objective Setting

Virtually all organisations have a formal, explicitly recognised, legally specified organ for setting the initial objectives or their amendments. Generally top manage-ment determines the overall objectives which the members of the organisation unite to achieve. In some organisations, the objectives may be set by the vote of the share-holders; in others, by a vote of the members, by a small number of trustees or by a few individuals who own and run the organisations. In large corporate entities, such bodies as board of directors, governing board, executive committee may set the objectives. These bodies may formulate or change the objectives according to the needs.

In practice, the objectives are set in a complicated power play involving various individuals and groups within and without the organisation, and by reference to the values which govern behaviour in general and the specific behaviour of the relevant individuals and groups in a particular society. There are many factors which enter into the struggle to determine the organisational objectives. From management point of view, these. factors may be: value system of managers, particularly at the top level, organisational strengths and weaknesses, and external environment. As such, while setting the organisational objectives, managers should take into account all these factors. On the 'basis of this interaction, management should set the general objec-tives. The general objectives are quite broad in nature and show the direction in which the\organisation will like to proceed. For example, the general objectives of the business organisations may be survival, growth, contribution to the need of the society, profit earning, etc. These objectives may not be mutually exclusive, rather these can be achieved simultaneously. It is the question of giving relative importance to these.

General objectives are too broad and sometimes intangible to be transformed into action. As such, within the framework of general objectives, managers deter-mine the specific objectives which they and their units of the organisation will seek to attain. Most of these objectives tend to be of shorter range in character and have definite time limits within which the organisation has to achieve them. The specific objectives may prescribe the manner in which the general objectives may be achieved as there is always ends-means chain. These objectives may be in the form of diversification of the firm, liquidation of unprofitable divisions, reorganisation of the company, etc. For example, a company has defined its spe-cific objectives as expansion of present range of product, higher sale targets, import substitution, reducing cost without affecting the quality of the product, and expanding range of markets. These specific objectives may fulfill two criteria. First, translation of general objectives into specific objectives should be tangible and meaningful. As far as possible, these objectives should be easily measurable as organisational performance is measured against these objectives. Second, short-term objectives should contrib-ute to the long-term objectives. In fact, the time-bound objectives are set to make the achievement of long-term objectives more feasible. For example, long-term objectives involving plans for the distant future may fail to make indi-vidual objective tangible and meaningful standards for control. This can be overcome by setting short-term objectives as different steps or stages of long-term objectives.

Guidelines For Objective Setting

1. Objectives must be clearly specified.
2. Objectives must be set taking into account the various factors affecting their achievement.
3. Objectives should be consistent with organisational mission.
4. Objectives should be rational and realistic rather than idealistic.
5. Objectives should be achievable but must provide challenge to those responsi-ble for achievement.
6. Objectives should yield specific results when achieved.
7. Objectives should be desirable for those who are responsible for the achieve-ment.
8. Objectives should start with the word 'to' and be followed by an action verb.
9. Objectives should be consistent over the period of time.
10. Objectives should be periodically reviewed.

Areas of Objective Setting

As discussed earlier, organisational objectives are of multiple character. Even major objectives are multiple in nature. Thus, an organisation has to set objectives in many . areas. However, what objectives should be selected must meet three criteria: (i)

They must be consistent with the values of the management in the organisation. (ii) They must pinpoint the organisational strengths and weaknesses. (iii) They must satisfy the external environmental forces. From these points of view, the organisation will set its objectives in several areas. For example, Peter Drucker has emphasised the area's which an organisation must emphasize as its objectives. These are:

"market standing, innovation, productivity, physical and financial resources, prof-itability, manager performance and development, worker performance and attitude, and public responsibility."

Some research studies also indicate that companies set objectives in different areas. A research study on setting objectives in 65 companies shows that or-ganisations set objectives in terms of corporate growth, maximisation of profit or return's, supply of quality products, employee satisfaction, and other objectives strengthening of manufacturing base, maintaining market leadership, change in product mix, technological leadership, growing returns to shareholders, social obli-gations, interest of consumers and labour, maintaining organizational assets as national assets, export development, and funds management 0 In another study of 28 companies, it has been found that the companies emphasise objectives in five broad areas in varying proportion-profit, marketing, growth, employee, and so-cia1.Il In a study of 72 companies, conducted later, it has been found that the companies have emphasised their objectives in the areas of growth through ex-pansion in the same line of business, diversification in related product lines, manufacturing products requiring high technology., development of product base, and cooperative existence with rival companies. It can be empha-sized here that objectives are intertwined and interrelated. For example", growth of the com-pany may result into profitability, _consequently shareholder's higher returns either in terms of higher dividend or in terms of bonus and consequently higher dividend. However, the emphasis on the strategic management .may differ in these two cases.

Various, objectives identified above are more in the form of common denomina-tors rather than a true reflection of the objectives that the companies actually set for themselves. In the case of individual companies,- there may be wide variations in the objectives that they set. The examples of two companies- Bharat Heavy Electricals Limited (BHEL) and Associated Cement Companies (ACC) Limited illustrate what objectives have been set by these companies. '

Translating General Objectives into Specific Objectives

Organisational objectives, discussed so far, are of general and broad nature. They provide direction for action on continuous basis. However, these objectives are too general and, some-times, intangible to be transformed into action. In order to make these operative, managers determine specific objectives. within the framework of general objectives, which the organisation and its various units will seek to achieve within a specific period. For example, growth is one of the vital objec-tives of every organisation. This provides direction for undertaking various activities_ through . which growth can be achieved. However, this is very general and does not provide clue about how much growth in what period of time. In order to overcome this problem, organisations set specific objectives to be achieved in specified time. For example, Tata Group has set growth objective in terms of doubling group turnover in four years and doubling net profit in three years.13 Such a specific objective provides sharp focus on the activities that may be undertaken to achieve this volume of growth. .

Most of the specific objectives tend to be of short range in character and have definite time limits within which the organisation has to achieve these. Translation of general objectives into specific and operative objectives must fulfil two criteria.

1. Translation of general objectives into specific objectives should be tangible and meaningful. As far as possible, these objectives should be easily measurable as organisational performance is measured against these objectives.
2. Specific objectives should contribute to the achievement of general objectives. In fact, time-bound objectives are set to make the achievement of general objectives more feasible. For example, long-term objectives involving plans for the distant future may fail to make individual objectives tangible and meaningful standards for control. This can be overcome by setting specific objectives at different stages of general long-term objectives.

Change in Objectives

Organisational objectives are not static but dynamic and these are modified over the period of time to have better alignment of the organisation with its environment. This process is known as objective or goal succession. This may happen in three specific conditions:

1. If existing objectives have been achieved and the organisation has no alternative,

   it must adopt new objectives for its continuous existence.
2. If it is not desirable to pursue the existing objectives because of change in environment and/ or internal conditions, the organisation has to evolve new objec-tives.
3. If the existing objectives are such that they cannot be achieved, the organisation has to modify or alter them.

The change in objectives may take the character of objective multiplication ex-pansion, or substitution of objectives depending on the situations. Many organisations have ex-panded their objectives over the period of time. For example, Reliance has expanded its objectives to include petrochemical business alongwith its textile business and the contribution of petrochemicals to its revenues is significantly more than textiles. Similarly,. ITC Limited has added hotel, paper- and packaging business in its fold alongwith tobacco business. Many organisations have trans-formed themselves from a mere marketing organisation to manufacturing organisations like Hindustan Lever, Voltas, etc. Similarly, many organisations have substituted their original objectives with new objectives. For example, Re-Cross Society was established primarily for helping those who suffered from war or any other casualty. After the World Wars, this objective became meaningless and the Red

Cross has now adopted the objective of preserving and improving public health. YMCA transformed itself from religious and spiritual exercises to recreational and physical exercises because of changed social environment.

From management point of view, following factors are important to effect changes in organisational objectives.

Change in Aspiration Level of Management

Change in aspiration level of top management and 9ther key strategists of the or-ganisation requires a change in organisational objectives. In one way, the organisa-tion becomes a means for satisfying personal needs and ambitions of promoters. and/ or top-level managers who perform the role of key decision makers. These personal needs and ambitions are reflected in organisational objectives. Whenever there is any change in -aspiration level, it affects the organisational objec-tives; there will be a change in the objectives or a change in priority ordering of objectives. For example, Dhirubhai Ambani, the chairman of Reliance Industries Limited, once com-mented that he had the ambition of being number one industrialist of the country. The result is: he set highly ambi-tious objectives for Reliance and it grew at very fast rate. Change in orgartisational objectives caused by a change in aspiration level of management is more often found when a new team of executives or new chief executive from outside the organisation having no commitment to the past strategies and objectives takes over the reins of management.

Demand for Change by Coalition Groups

Coalition refers to combination of two or more individuals, groups, or organisations for common objectives. Thus, coalition. is goal-oriented alliance among individuals, groups, or organisations with different interests and is formed to mobilize joint efforts. Coalition concept is very common in political parties where two or more political parties combine themselves to fight against the third. Business or-ganisations have similar coalition. A business organisation is viewed as consisting of a number of groups such as owners, managers, suppliers, employees, government agencies, etc. In this coalition, each group has a bargaining power and the result of complex bargaining process determines, to a great extent, the objectives of the or-ganisation. Emergence of a certain interest group as more dominant and powerful, necessitates modification of organisational objectives. For example, change in owner-ship of a company, owner being a dominant group in the coalition, may necessitate change in the company's objectives.

Change in Environment

An organisation, being a subsystem of the broader societal system, has to work within the framework provided by the society and its various constituents, 'com-monly referred to as external environment or just environment of the organisation. The organisation sets its objectives and strategies taking environmental variables into account. The environment is dynamic and changes over time. Any change in the environment may disturb the present working of the organisation, necessitat-ing change in the organisation's operations including change in objectives. For example, after the liberalisation of Indian economy in 1990s, many foreign companies entered in India making the bl1siness environment quite competitive. In such a situation, existing Indian organisations had to change their strategies and objectives. For exam-ple, in pre-liberalisation era, automobile companies, particularly in two-wheeler and car segment, did not emphasize on product innovation because they were operating in sellers' market. In the post-liberalised era, product innovation became one of their objectives to face competition effectively. Similar phenomenon has happened in other segments too.

Change in Life - Cycle of Organisation

Organisations have life cycles similar to human beings and pass generally through different stages in their life cycle from infancy to adulthood, maturity and then possibly decay as in old age_. At each stage of life cycle, there may be specific thrust

on an objective or set of objectives. presents relationship between life cycle,

organisational objectives and strategic focus of the organisation.

Organizationally Cycle, Objectives and Strategic Focus

Life – cycle stage	Organizational Objectives	Strategic focus
Birth	Survival – create new entity	Identify an entrepreneurial idea and find resources
Infancy	Define mission and search environment	Define products, markets and functions to offer
Youth	Quantitative growth	Increase market share, claim more territory
Youth adult	Achieve uniqueness and establish niche	Redefine products, markets and functions
Adult	Qualitative growth, gain reputation	Reap rewards, mine markets for benefit
Maturity	Stabilize and contribute to society	Maintain position with stability.
Old age	Survival	Procreate and retrench parts that are no longer healthy

How much time will be taken by an organization to reach to a particular stage of its life cycle from its previous stage cannot be determined. Some-organisations com-plete the life cycle quickly while others lake lot of time. For example, Toes, established in 1907, is still going great and its hunger for expansion is yet to be satiated. As against this, many leasing and hire-purchase companies establish in 1980s have completed their lifecycle and have exited. Similar was the case with Soya extraction compa-nies. The major determinants of life cycle are quality of pro-moters, their management philosophy, and. nature of industry.

LESSON 10: COMPARATIVE ANALYSIS OF OBJECTIVE, MISSION AND VISION OF VARIOUS COMPANIES

Let us go through the various examples of Objective, mission and vision of different companies to get a better understanding of the concept.

Objectives of Madras Fertilizers Ltd.

1. To produce and market fertilizers and bio-fertilizers and market agro-chemicals, efficiently and economically, in an environmentally sound manner;
2. To take up and implement schemes for saving energy;
3. To continuously upgrade the quality of human resources and promote organizational and management development.
4. To continually improve plant and operational safety;
5. To take up R&D schemes.

Objectives of National Thermal Power Corporation Ltd.

In line with the Corporation's mission, the Corporation's objectives are as under:

1. To add generating capacity by installing thermal power plants including gas based power plants as per the prescribed time schedules, cost and reliability levels.
2. To establish transmission systems adequate fro the evacuation of power from the generating units set up by the Corporation within the prescribed time schedules, costs and reliability levels.
3. To operate and maintain the existing generating units and the transmission systems in an efficient manner so as to unsure higher availability and reliability levels.
4. To manage and financial operation of the Corporation in accordance with sound commercial practices to enable generation of adequate internal resources in order to be able to contribute in the National Power Development Programme.
5. To take up environmental and rehabilitation measures in coordination with the programme of the State governments and other agencies concerned and to initiate requisite studies in this behalf.
6. To develop and implement a well-knit Human Resources Development Policy, result oriented personnel development Programme and an organizational culture which motivates employees to contribute their best towards achievement of organizational objectives.
7. To develop and utilise specialized technical expertise as well as general managerial skills in enabling employees to achieve professional excellence and organizational goals.
8. To strengthen in house technical and managerial capabilities not only to be self reliant to cater to the needs for setting up of its projects/transmission system and their operation but also for providing consultancy services to the organisations within the country and abroad.

The objectives and goals in National Thermal Power Corporation Ltd. have been put

Together for comparison purposes and to ascertain the

difference between these two terms.

Distinction between objectives and goals of

National Thermal Power Corporation Ltd. for the year 1990-1991.

Objectives	Goals
1. To add generating capacity by installing thermal power plants including gas based power plants as per the prescribed time schedule costs and reliability levels.	1. The Corporation would make efforts to commission one unit of 210 MW at the National Thermal Power Project, Dadri and one unit of 131 MW at the Dadri Gas Project also during 1990-91.
2. To manage the financial operation of the Corporation in accordance with sound commercial practices to enable generation of adequate internal resources in order to be able to contribute in the National Power Development Programme.	2. The NTPC will generate a total of 46,475 million units during the year from its various power stations representing and increase of about 15% over the generation of 40,892 million units in the previous year.The Corporation will achieve a total sale of Rs. 2429.72 crores during the year, based on the existing tariff. The Corporation will earn a total profit before tax of Rs. 257.13 crores during the year, based on existing tariff rates.The net internal resources available for plan schemes during the year would be Rs. 309.27 crores.
3. To develop and implement a well-knit Human Resource Development Policy, result oriented personnel development programme and an organizational culture which motives employees to contribute their best towards	3. To review on a continuous basis, the Human Resources Development Systems/Sub-systems, to make them more responsive to the changing organisational requirements and employees aspirations, and in particular, to review during the year Performance Appraisal System and Promotion Policy so as to

achievement of organizational objectives.	promote merit, promote excellence and serve as an objective measure of performance and to enthuse the executives for effective performance.To Develop sub-system of Human of Human Resource Development, like job rotation, potential appraisal of employees so as to develop appropriate career path and career planning to meet the current and future organisational requirements.
4. To strengthen in-house technical and managerial capabilities not only to be self-reliant to cater to the needs for setting up of its projects/transmission systems and their operation but also for providing consultancy services to the organisations within the country and abroad.	4. The Corporation will strive to increase its role in consultancy through the Consultancy wing established by it, by serving and executing consultancy assignments in the area of power development and power management in India and abroad.

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.

Statement by Lalita D. Gupta

Joint Managing Director and Chief Operating Officer,

ICICI In 45th Annual Report 19992000

"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.

So, again you will take the example of your own university and write down the mission statement and put down the purpose of the mission statement.

Usually Short- term 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.

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.

Now I will discuss about how mission statements are formulated and communicated. Lets take up few examples:

a. **HCL**: The enviroment for computer companies became quite competitive by 1991.A need was felt to provide a feeling of oneness in the organization. So management felt to assess the internal strength and design a customer –centric mission statement for team-building, mutual trust and empowerment.

b. Similarly **RANBAXY** realized that competition in pharmaceuticals industry was becoming tough and it could not survive just by selling generic drugs. Later, measures were taken to communicate it extensively throughout the company down to the level of workers.

Last but not the least in UTI too an extensive corporate planning exercise was undertaken in 1992. That is the time when they formulated their Mission statement.

Lets take up an activity in which you write down the Mission statement of two companies and further analyse whether the statements possess the characteristics described above.

Similarly let us look at the way Pepsi motivates their employee.

Motivating People The Pepsi Way

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

- It awards onetime scholarship to children of employees to study abroad
- It has set up multiskilled 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 Pepsiday 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.

Vision of a firm is in fact its corporate philosophy. Let us see some examples of vision statements of companies in Exhibit 1.13

BHEL Vision 2001

Vision

A worldclass, innovative, 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

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

Objectives of BHEL

The objectives of BHEL are formulated in terms of growth, profitability, image, and continuity

which are as follows:

Growth: To ensure a steady growth in business so as to fulfill national aspirations from BHEL and expand international operations.

Profitability: To provide a reasbnableand adequate return on capital employed primarily through improvements in opera-tional efficiency, capacity utilization and productivity, and generate adequateinteroal resources to finance the company's growth.

Image: To build up a high degree of customer confidence by sustaining international standard of excellence. in product quality, performance and service, particularly in regard to supply of spares and after-sales service; to fulfil the expectations which stakeholders like Government as owner, employees, customers and the country at large have from BHEL.Continuity: To invest in human resources development, sustained research and development,strive for excellence" in management and other long-term objectives to ensure a leadership status

for BHEL. .

Objectives of Ace Limited

1. To strive continuously to maintain the leadership of the cement industry by modernisation, expansion and the establishment of wide and efficient marketing network.
2. To achieve a fair and reasonable return on the capital employed by promoting productivity throughout the company.
3. To ensure a steady growth of business by strengthening the Company's position in the cement sector and also by diversifying. into other areas consistent with the overall corpo-rate objectives.
4. To maintain the high' quality of the Company's products and services, and to ensure supply of these products and services at fair prices.
5. To promote and maintain fair and harmonious industrial relations, and an environment for the effective involvement, welfare and development of staff at all levels.
6. To promote research and development efforts in the areas of product development, energy and fuel conservation, to innovate and optimise productivity.
7. To discharge its obligations to society specifically in the areas of integrated rural development schemes and safeguarding of environment and natural ecological balance.

Examples of Good Objective Setting.

Given below are certain examples as to how the organisations should define their objectives so as to provide direction for their course of action.

1. "We want to make our product the number one selling brand in its field in terms of units sold." This leaves little doubt about the intended sales objectives and market standing.
2. "We seek to produce the most durable, maintenance-free product that money can buy." This obviously focuses on the organisation striving to become leader in respect to high quality product.
3. "Our profit objective is to increase the earning so that we earn 12 per cent post-tax return on the net worth of the company's This is a very clear objective, easily measurable and providing direction about the quantum of profit for the organisation.
4. "We strive to become leader in product innovation in our field by investing five per cent of our sales revenue on research and development." This provides direction to management about what the organisation wants to do in the field of innovation and how it can be ,achieved.

Examples of Poor Objective Setting

Some organisations do not define their objectives as sharply as above statements suggest. Their objective setting is quite poor and may not provide clear direction. Following are some examples of such objective setting:

1. Our objective is to maximise our profit." This statement of objective is not subject to measurement because it does not provide any yardstick for that. Therefore, the organisation cannot know whether it is -achieving its objective or not.

Further it does not spell out the way in which the objective can be achieved. Therefore, it does not spell out commitment on the part of the management.

2. Our objective is to offer best and cheapest product." This statement does not provide yardstick for measuring cheapest and best product, hence fails to pro-vide direction.
3. We will go to great length to develop new ideas." This is not very precise and clear, hence fails to provide direction.

Exercise : So, lets put down five benefits of the vision statement by taking an example of some organization.

LESSON 11:
UNDERSTANDING OBJECTIVE, MISSION AND VISION

Learning Objectives

On Completion Of This Chapter You Should Be Able To

- You will be able to understand that vision statement of a company, identifies it's a major strategic business unit and their interaction and its corporate philosophy
- You will be able to understand the vision of a company is a direction for an individual employee.
- You will be able to understand clearly 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 organization.

Vision

Aspirations, expressed as strategic intent, should lead to an end, otherwise they would just be castles in the air. That end is the vision of an organisation or an individual. It is what the firm or a person would ultimately like to become. For instance, some of you, say in 10 years, or may be even earlier, would like to become general managers managing an SBU in a large, diversified multinational corporation. Or some others among you would like to believe that you will be an entrepreneur in 1015 years owning your own company dealing with IT services and employing cuttingedge technology to serve a global clientele. A firm thinks like that too.

Witness what Tata Steel says about its vision: "Tata Steel enters the new millennium with the confidence of a learning, knowledgebased and happy organisation. We will establish ourselves as a supplier of choice by delighting our customers with our service and our products. In the coming decade, we will become the most cost competitive steel plant and so serve the community and the nation." A vision, therefore, articulates the position that a firm would like to attain in the distant future. Seen from this perspective, the vision encapsulates the basic strategic intent.

Tell me what is your vision as an individual?

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Understanding Vision

A vision is more dreamt of than it is articulated. This is the reason why it is difficult to say what vision an organisation has. Sometimes it is not even evident to the entrepreneur who usually thinks of the vision. By its nature, it could be as hazy and vague as a dream that one experienced the previous night and is not able to recall perfectly in broad daylight. Yet it is a powerful motivator to action. And it is from the actions that a vision could often be derived. Henry Ford wished to democratise the automobile when he visualised that an affordable vehicle could be available for the masses. Walt Disney probably wanted to make people happy.

Defining Vision

Vision has been defined in several different ways. Kotter (1990) defines it as a "description of something (an organisation, corporate culture, a business, a technology, an activity) in the future". ElNamaki (1992) considers it as a "mental perception of the kind of environment an individual, or an organisation, aspires to create within a broad time horizon and the underlying conditions for the actualisation of this perception". Miller and Dess (1996) view it simply as the "category of intentions that are broad, allinclusive, and forward thinking". The common strand of thought evident in these definitions and several others available in strategic management literature relates to 'vision' being future aspirations that lead to an inspiration to be the best in one's field of activity

The Benefits of Having a Vision

Parikh and Neubauer (1993) point out the several benefits accruing to an, organisation having a vision. Here is what they say:

- Good visions are inspiring and exhilarating
- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be
- Good visions help in the creation of a common identity and a shared sense of purpose
- Good visions are competitive, original and unique. They make sense in the market place as they are practical
- Good visions foster risktaking and experimentation
- Good visions foster longterm thinking.
- Good visions represent integrity, they are truly genuine and can be used for the benefit of people.

Next you shall learn about envisioning, the process of creating vision.

The Process of Envisioning

The process of envisioning is a difficult one as we see from what Collins and Porras (1996) have to say about it. According to them, a wellconceived vision consists of two major components: core ideology and envisioned future. The core ideology defines the enduring character of an organisation that remains unchangeable as it passes through the vicissitudes of vectors, such as, technology, competition, or management fads. The core ideology rests on the core values (the essential and enduring tenets of an organisation) and core purposes (an organisation's reason for being)." The envisioned future too consists of two components: a 1030 years audacious goal and a vivid description of what it will be like to achieve that goal. The process envisioning is indeed fascinating as can be seen from which presents a vivid description by a young and dynamic inheritor of the Birla group"

Mission

While the essence of vision is a forwardlooking view of what an organisation wishes to become, mission is what an organisation is and why it exists.

Several years ago Peter F Drucker raised important philosophical questions related to business: What is our business? What will it be? and What should it be? These three questions, though simply worded, are in reality the most fundamental questions that any organisation can put to itself. The answers are based on the analysis of the underlying needs of the society that any organisation serves to fulfill. The satisfaction of that need is, then, the business of the organisation.

Understanding Mission

Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission. Mission is a statement, which defines the role that an organisation plays in a society. It refers to the particular needs of that society, for instance, its information needs. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner. Both have different objectives but an identical mission.

So, formulate a mission statement for your own business school ?

Defining Mission

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organisation. Thompson (1997) defines mission as the "essential purpose of the organisation, concerning particularly why it is in existence, the nature of the businesses it is in, and the customers it seeks to serve and satisfy" Hunger and Wheelen (1999) say that mission is the "purpose or reason for the organization's existence". Now there is not much difference of opinion about the definition of mission. Yet, you finds instances of organisations confusing mission with vision or objectives. In strategic management literature, mission occupies a definite place as a part of strate gic intent.

How are Mission Statements Formulated?

Most organisations derive their mission statements from a particular set of tasks they are called upon to perform in the light of their individual, national or global priorities* Several public sector organisations, set up in India during the 1950s and 60s owe their existence to the vision of Jawaharlal Nehru, the first prime minister, who enunciated and tirelessly worked for the national aim of building a strong and self reliant India by laying the foundations of many of our basic infrastructural industries. Mission statements, whether derived from set priorities or not, could be formulated either formally or informally.

Usually, entrepreneurs lay down the corporate philosophy which an organisation follows in its strategic and operational activities. Such a philosophy may not be consciously and formally stated but may gradually evolve due to the entrepreneur's actions. Generally an entrepreneur has a perception of the type of organisation that he, wants his company to be. Mission statements could be formulated on the basis of e vision that an entrepreneur decides on in the initial stages of an organisation's, growth.

As an entrepreneur of an organization formulate a mission statement for the organization you want to work for?

Major strategists could also contribute to the development of a mission statement. They do this informally by lending a hand in the creation of a particular corporate identity or formally through discussions and the writing down of a mission statement. Chief executives plan a major role in formulating a mission statement both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management. Consultants may also be called upon to make an indepth: analysis of the organisation to suggest an appropriate mission statement.

B N Sinha, (managing director of the Scientific Instrument Company Ltd) who took the help of, a management consultant in deciding his company's mission and purpose, describes the process of formulating a mission: as a starting point, we (i.e., the company managers, consultant and the chief executive) spent quite a bit of time on identifying our 'mission' of business. After a lot of discussion, he identified our mission as follows: to be a vibrant organisation set on contributing to the scientific and technical progress of the country; keeping its customers and employees satisfied in terms of service and work reward; giving adequate return on investment to the shareholder .

Exhibit provides a few other illustrations of how companies formulate and communicate their mission statements.

Exhibit

How Mission Statements are Formulated and Communicated

Eicher Consultancy: It was born in 1991 With a mission statement. It decided to have an ambitious statement directly addressed to the wellbeing of the country.

HCL: The environment for computer companies became quite competitive by 1991. A need was felt to provide a feeling of oneness in the organisation. A core management team assessed the internal strengths and designed a customercentric mission statement for teambuilding, mutual trust, internal customerserver equations, and empowerment.

Marico Industries: Its first mission statement was designed in 1990 triggered by the divestment of its consumer division It wanted to be seen as a multiproduct, consumeroriented company. It took about seven months to evolve a common, shared purpose. The CEO outlined the goals and aspirations after hectic consultations with the senior management. A threeday workshop of managers prepared a fourMe mission statement. In 1995 a need was felt to rewrite the mission statement in the light of changed circumstances.

Ranbaxy Laboratories: The Company realised that competition in pharmaceuticals industry was becoming tough and it could not survive just by selling generic drugs. In 1993, after a year of deliberations on future direction, the strategies to be involved in achieving this mission and past experience, the CEO enunciated the mission and values. Later, measures were taken to communicate it extensively throughout the company down to the level of workers.

Unit Trust of India: An extensive corporateplanning exercise was undertaken in 1992. UTI's mission statement was formulated as a part of that exercise.

The trend of defining a mission statement is fast catching up in India. The AIMA commissioned a nationwide study to find out what management techniques and tools companies are likely to employ. The study was conducted between April and June 1997. Business Today reported that 72 per cent of the total 160 companies surveyed had a written mission statement. Among these, 91 per cent were giant companies, 78 per cent were large, 83 per cent were mediumsized, and 55 per cent were small companies.

A mission statement, once formulated, should serve an organisation for many years. But a mission may become unclear as the organisation grows and adds new products, markets and technologies to it activities. Then the mission has to be reconsidered and reexamined to either change or discard it, and evolve a fresh statement of organisational mission.

Characteristics of a Mission Statement

Organisations legitimise themselves by performing some function that is valued by society. A mission statement defines the basic reason for the existence of that organi-sation. Such a statement reflects the corporate philosophy, identity, character, and image of an organisation. It may be defined explicitly or could be deduced from the management's actions, decisions, or the chief executive's press statements. When explicitly defined it provides enlightenment to the insiders and outsiders on what the organisation stands for. In order to be effective, a mission statement should possess the following seven characteristics.

1. **It should be feasible.** A mission should always aim high but it should not be an impossible statement. It should be realistic and achievableits followers must find it to be credible. But feasibility depends on the resources available to work towards a mission. In the sixties, the US National Aeronautics and Space Administration (NASA) had a missionto land on the moon. It was a feasible mission that was ultimately realised.
2. **It should be precise.** A mission statement should not be so narrow as to restrict the organisation's activities nor should it be too broad to make itself meaningless. For instance, 'Manufacturing bicycles' is a narrow mission statement since it severely limits the organisation's activities, while mobility business' is too broad a term as it does not define the reasonable contour within which the organisation could operate.
3. **It should be clear**. A mission should be clear enough to lead to action. It should not be a high sounding set of platitudes meant for publicity purposes. Many organisations do adopt such statements but probably they do so for emphasising their identity and character. For example, Asian Paints stresses 'leadership through excellence', while India Today sees itself as 'the complete news magazine'. The Administrative Staff College of India considers itself as 'the college for practicing managers' and Bajaj Auto believes in 'Providing, value for money, for years'. To be useful, a mission statement should be clear enough to lead to action. The ITC's stated corporate philosophy of aligning its organisational activities with national priorities helps it in choosing areas for diversification like the hotel, paper and agroindustry.
4. **It should be motivating.** A mission statement should be motivating for members of the organisation and of society, and they should feel it worthwhile working for such an organisation or being its customers. A bank, which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients. Customer service, therefore is an important purpose for a banking institution.
5. **It should be distinctive.** A mission statement, which is indiscriminate, is likely to have little impact. If all scooter manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But if one defines it as providing scooters that would provide 'value for money, for years' it will create an important distinction in the public mind.
6. **It should indicate major components of strategy.** A mission statement along with the organisational purpose should indicate the major components of the strategy to be adopted. The chief executive of Indal expressed his intentions by saying that his company "begins its fifth decade of committed entrepreneurship with the promise of a highly diversified company retaining aluminium as its mainline business, but with an active presence in the chemical, electronics and industrial equipment business". This statement indicates that the company is likely to follow a combination of stability, growth and diversification strategies in the future.
7. **It should indicate how objectives are to be accomplished.** Besides indicating the broad strategies to be adopted a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished. The Centre for Development of Telematics (C

DOT) had set its first three yearsmission (198487) as developing, designing, and engineering a large digital exchange suitable for Indian conditions and its second mission (198790) as developing the technological prerequisites for an integrated systems digital network of the future. 14 These mission statements specially deal with the objectives to be achieved within a given time period.

So, check your mission statement which you framed for your business school fulfill all the seven purposes.

Exhibit

A Few Illustrations of Mission Statements

Given below are a few examples of mission statements. To learn about how these were formulated refer to the previous exhibit.

Eicher Consultancy: "To make India an economic power in the lifetime, about 10 to 15 years, of its founding senior managers".

HCL: "To be a world class competitor

Marico Industries: "The three P's of Marico: People, Products, and Profits"

Ranbaxy Laboratories: "To become a researchbased international pharmaceutical company."

Unit Trust of India: "To keep the common man in sharper focus; to encourage and investment habits among them. . ."

Exhibit provides a few illustrations of mission statements. Readers could analyse these statements to assess whether these possess the characteristics described

In daytoday decisionmaking, managers are not concerned about survival and, therefore do not actively think about their organisation's mission for society. Thus, a statement becomes an ideology that can be used occasionally for legitimisation. But, for strategic decisionmaking it is important to consider the mission in each phase of the strategic management process. A helpful approach to defining as well as refining a mission statement is to define the business itself"

Goals

The next step for the company, after formulating the mission statement, is the establishment of major goals. The goals designate specific results the businesses want to achieve. In this context, the purpose of goals is to specify, as accurately as possible, as to what is to be done, if the company is to attain its mission. Goals are more specific than the mission but less specific than objectives. Objectives define and refine the goals further. Strategic goals help managers to establish end results of activities in general without getting bogged down in issues of measurement and timing.

Goals, in general, can be longterm or shortterm. Shortterm goals generally cover a period of about one year. Longterm goals cover a time period beyond one year. Sometimes, there is a category of intermediate goals which cover a time period of between one and five years. Longterm goals are usually related to such issues as customer satisfaction, improvements in product quality, worker efficiency and productivity, innovation and so on. These longterm goals require management to do strategic planning in terms of longterm profitability and in terms of longterm investments in equipment, people, research and development and so on.

Goal Characteristics

According to M.D. Richards, meaningful goals should have four characteristics. First, goals should be sufficiently specific so that they are precise and measurable. It would assist management in monitoring the progress towards achievement of these goals at each specific point in time.

The second characteristic is concerned with the issues that a goal addresses. A goal should only address important issues. Shortterm goals and objectives should be left to the lower management to plan and achieve. Such important issues as reducing costs or improving quality should be included in goals, which are to be achieved by top or middle management. For example, Boeing's goal of being a market leader in aircraft business by maintaining a minimum of 60 percent market share is an important issue that a goal addresses.

A third characteristic of wellconstructed goals is that they should be realistic and challenging. Challenging goals motivate managers to be innovative and ambitious about improving the operations. However, the goals have to be realistic and compatible with the resources available. An unrealistic goal would cause resentment among employees.

For example, Boeing Company decided to achieve a 30 percent unit cost reduction by improving efficiency of operations. However, the time period they projected in achieving this goal was 6 years. This goal was considered challenging and realistic. The goal would have been unrealistic and unachievable if they had projected the time period for such cost reduction much less than 6 years'

The fourth characteristic of realistic goals is the specification of time period in which a given goal is to be achieved. For example, when Boeing decided to cut the per unit cost by 30 percent, they put the time frame to be 6 years. Deadlines, if realistic, can inject a sense of urgency into goal attainment and can motivate employees to work hard and with dedication. The dedication becomes even higher when appropriate rewards are related with the timely goal attainment.

Some of the strategic goals established by Elpaso Electric Company in various areas of concern are taken from their annual report and are briefly stated below:

1. **Customer Service**

- Provide a quality of service to customers at least equal to the highest standards in the industry.
- Maintain reliability of service to customers at a level above 99 percent.
- Insure that customers are educated on the safety aspect of focusingelectricity.

2. **Community Service**

   Promote economic growth and increased development of the company's total service area. Provide job opportunities and an investment in the service area, which promotes a higher standard of living for all citizens a Cooperate with and serve the educational institutions located in the service area in a manner consistent with other leaders in the industry.

3. **Shareholder Relations**

- Assure that all expenditures are made in such a way as to protect and enhance the shareholder's investment.
- Provide a rate of return to the shareholders which is competitive with other investments.
- Base all company involvement in new programmes or projects on solid economic principles.

4. **Employeemanagement Obligations**

- Monitor and strive to improve the quality of manage ment and supervision. Attract, develop and retain able and loyal employees.
- Provide equal employment opportunities and a high degree of training along with modem, professional tools.

5. **Corporate Communications**

- Make an assertive effort to provide informative communications on relevant company issues.
- Keep senior management apprised and educated on current topics of interest. Enhance the community image of the company by being receptive to the needs of customers and the community.

Activity

Lets put down what are your goals for :

3years

5years

7years

10 years

LESSON 12:
STRATEGIC INTENT

Learning Objectives

On Completion Of This Chapter You Should Be Able To:

- You will be able to understand the hierarchy of strategic intent
- You will be able to understand the different aspects related to the formulation of the goals and objectives.
- You will be able to understand the process of envisioning
- You will be able to understand the characteristics that makes a good and meaningful mission statement.
- You will be able to understand what objectives are set and how they are formulated

Strategic Intent

By strategic intent I refer to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. Broadly stated, these could be in the form of a vision and mission statement for the organisation as a corporate whole. At the business level of a firm these could be expressed as the business definition. When stated in precise terms, as an expression of the aims to be achieved operationally, these may be the goals and'objectives. Here you take the position that strategic intent lays down the framework within which firms would operate, adopt a predetermined direction, and attempt to achieve their goals. But the term strategic intent has a definite meaning in strategic management. Let's first see the meaning and some associated concepts before you learn about the hierarchy of strategic intent.

Understanding strategic Intent Lets discuss who coined strategic intent ?

Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession with an organisationan obsession with having ambitions that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation while sustaining that obsession in the quest for global leadership. They explain the term 'strategic intent' like this:

"On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress ... At the same time, strategic intent is more than simply unfettered ambition ... The concept also encompasses an active management process that includes: focusing the organization's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations."

Hamel and Prahalad quote several examples of global firms, almost all of American and Japanese origin, to support their view. In fact, the concept of strategic intentas evident from their path breaking article, published in 1989 in the Harvard Business Reviewseems to have been proposed by them to explain the lead taken by Japanese firms over their American and European counterparts.

Yet, strategic intent has wider implications and carries a lot of meaning for the strategic management of firms. There is merit in their view as business groups and companies, which have aspired for global. Leadership, can be found in the Indian context too. See Exhibit 2.1 for illustrations of Indian groups and companies with a high ranking on strategic inten

Exhibit : Indian Business Groups and Companies Ranking High on Strategic Intent

In a 1998 survey of 50 family business houses, Business Today, ranked highly the B KK M Birla group, the Lalbhai group, the Essar group of Ruias, the Hero group of Munjals, Ranbaxy, and the Reliance group of Ambanis, on the criterion of strategic intent. These groups were considered to be globally competitive global / local players. For instance, Dhirubhai Ambani of the Reliance group is credited with having a strategic intent of being a global leader in its field of activity by being the lowestcost producer of polyester products, a status achieved by a relentless pursuit of scale, vertical integration, and operational effectiveness. Likewise, the late Parvinder Singh of the Ranbaxy group is considered as a visionary industry leader who worked hard towards the creation of a globally competitive, researchbased pharmaceutical giant.

It is not as if only the family business groups headed by entrepreneurs exhibit a high propensity for strategic intent. The professionallymanaged and multinational subsidiary sectors too have their heroes. Hindustan Lever has undertaken a process of transformation through whichas Business Today interestingly puts itit is attempting to be a large corporation with the soul of a small company. This entails rebuilding the mega-corporation as a configuration of empowered virtual companies, each built around a single category of products.

For HCL, the Indian hardware giant, the strategic intent is an aspiration to become a global software and service company through focussing on global systems integration market that involves putting hardware, software and networking together and making it work.

Q1. What do you understand by 'strategic intent'?

(a) What is a Business Organisation?

An organisation that fulfils itself through marketing a product or a service is a business.

Organisation in which marketing is either absent or incidental is not a business. Marketing is the distinguishing, the unique function of the business. A business itself apart from all other human organisation by the fact that it markets a product or a service. Thus Temple, Church or Mosque or state are not business organisation.

Thus a business is an economic enterprise created and managed by human being. The creation of customer for the business is the specific role of management.

(b) Functions of business or Purpose of a business

There are Three Basic Functions

1. Marketing

Markets are not created by God, nature or economic forces but by business man. The want they satisfy may have been felt by the customer before he has offered the means of satisfying it. There may have been no want at all until business action created it by advertising by salesmanship or by inventing something new.

In every case it is business action that creates the customer.

It is the customer and customers alone, who through being willing to pay for a good or for a service, converts economic resources into goods. What the customer thinks he is buying, what he considers 'value' is decisiveit determines what a business is, what it produces and whether it will prosper. Thus customer is the foundation of a business and keeps it in existence.

2. Innovation

The second function of business is therefore innovation, that is, the provision of better and more economic goods and services. It is not enough for thebusiness to provide just any economic goods and services, it must provide better and more economic ones. It is not necessary for a business to grow bigger but it is necessary that it constantly grows better.

Innovation may take the form of lower price the form with which the economist has been must concerned for the simple reason. That it is the only one that can be handled by his quantitative tools.

But it may also be a new and better product a new convenience or the creation of a new want. It may be finding new uses for old products. To sell the Eskimos a refrigerator to keep food cold is finding a new market. To sell a refrigerator to keep food from getting too cold is actually creating a new product. Technologically there is of course only the same old product but economically there is innovation.

Innovation goes right through all phases of business. It may be innovation in design in product in marketing techniques. It may be innovation in price or in service to the customer. It may be innovation in management organisation or in management methods.

Innovation in distribution has been as important as innovation in manufacturing and so has been innovation in an insurance company or in a bank.

3. Profit Making

Profit making is an important function of a business Profit is the result of the performance of the business in marketing, innovation and productivity. Profit is ultimately the test of good performance of the business.

It is the first duty of a business is to survive. In the present age of open global economy, the business must be productive and innovative to economically face competition and survive.

It is the absolute necessity for the business enterprise to produce at the very least the profit required to cover its own future risks, the profit required to enable if to stay in business and to maintain intact the wealthproducing capacity of its resources. Management, inorder to manage a business needs a profit objective a least equal to the required minimum profit, and yard stickes to measure its profit performance against this requirement.

Ion and Purpose of a Business

Mission is the statement which defines the role of a business enterprise. Purpose is anything which a business enterprise strives for.

In business policy, both these terms are either used jointly or singly. Mission & Purpose of a business go hand in hand.

Mission refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organisation strives to achieve in order to fulfil its mission to the society.

For example, a book publisher and a magazine editor have different purposes but an identical Mission.

A Mission statement defines the basic reason for the existence of the organisation. Such a statement reflects the corporate philosophy, identify, character and image of an organisation.

ONGC, a Navratra PSU, states its mission and purpose as "To stimulate, continue and accelerate efforts to develop and maximise the contribution of the energy sector to the economy of the country".

A mission when explicitly defined, provides enlightenment to the public of what the organisation stands for.

In. order to be effective, a mission statement should process the following seven characteristics (objectives)

1. It should be feasible.
2. It should be precise.
3. It should be clear.
4. It should be motivating i.e. motivating to the organisation employees and to the general public.

5. It should be distinctive organisation with same type of business should produce their mission statements differently.
6. It should indicate major components of strategy. The CEO of INDAL expresses his intention by saying that his company "begins its fifth decade of committed entrepreneurship with the promise of a highly diversified company retailing aluminum as its main line business, but with an active presence in the chemical, electronics and industrial equipment business".

   This mission statement indicates that the company is likely to follow a combination of stability growth and diversification strategies in the future.
7. It should indicate how objectives are to be accomplished.

The mission statements deal with objectives to be achieved within a given time period.

For strategic decision making it is important to consider the mission each phases of the strategic management process.

Prof F. Drucker has framed the following questions

(a) What is our Business?

(b) What will our Business be?

(c) And what should it be ?

(d) What is our Business?

(a) What is our Business?

What is our business is not determined by the producer but by the consumer. It is not defined by the company's name, statues or articles of incorporation, but by the want the consumer satisfies when he buys a product or a service.

The question can therefore be answered only by looking at the business from the outside, from the point of view of the consumer and the market.

Management must make conscious efforts to get honest answers from the consumer himself rather than attempt to read his mind.

It is then, the first responsibility of top management to ask the question "What is our business" and to make sure that it is carefully studied and correctly answered.

To raise this question and to study it thoroughly is most needed when a business is successful.

(b) What will our business be?

When the management asks question "What will our business be?" this involves finding out four things

1. The first is market potential and market trend, How large can we expect the market for our business to be in five or ten years, assuming no basic changes in market structure or technology? And what are the factors that will determine this development?
2. Secondly, what changes in market structure are to be expected as the result of economic developments, changes in fashion or taste or moves by competition?
3. Thirdly, what innovations will change the customer's wants, create new ones, extinguish old ones, create new ways of satisfying his wants, change his concepts of value or make it possible to give him greater value Satisfaction? This has to be studied in respect of all activation of the business.
4. Finally, what wants does the consumer have, that are not being adequately satisfied by the products or services offered him today?

   It is the ability to ask this question and to answer it correctly that usually makes the difference between a growth company and one that depends for its development on the rising tide of its economy or industry; and whoever contents himself to rise with the tide will also fall with it.

(c) And what should it be?

The analysis of 'our business' is not yet complete, however, Management still has to ask " Are we in the right business or should we change our business"?

Of course many companies get into a new business by accident; they stumble into it rather than steer into it. But the decision to shift major energies and resources to new products and away from old ones, the decision, in other words, to make a business out of an accident should always be based on analysis; "what is our business and what should it be?"

Changes in the nature of business arise out of following (what changes are effected for a business enterprise in course of time?)

(a) Innovation

(b) Productivity

(c) Profitability

(d) Objectives must be set according to what is right and desirable for the enterprise and all objective have to be reexamined continually and change to be effected, if necessary.

Organisation Directions or Goal provide the foundation for all managerial activity

Organisation directions or goals provide standard for measuring performance to attain the end objective, Goal aid in legitimizing an organisation and creating a place for it in the environment.

Goals have public relation value, they might help in drawing support from various group in environment. Organisational direction can also help in image building with suppliers customers and the government.

Organisation goals can be classified into three types

1. Official goals are the general aims of the organisation as described in a memorandum of association. They may also be found in public statements by top executives.
2. Operative goals indicate what the organisation is really attempting to do. They may be inferred from the actual operating policy of the organisation. They help the organisational manager to focus attention & reduce uncertainty.

3. Operational goals are used by supervisory personnel or managers in the organisation to influence the behaviour of subordinates and to measure their performance.
4. Mission implies the fundamental and enduring objectives of an organisation that set it apart from other organisation of similar nature.

The mission is a general enduring statement of instruction of an organisation.

The corporate mission highlights the organisation self concept and indicates the nature or product or service to be offered or rendered for fulfilment of the requirements of the customers, and the society as a whole.

The mission may be described as the scope of operation in terms of product, market of the service as well as customers and clients.

An organisation may define its mission highlighting. The philosophy and purpose.

Vision

The vision of an organisation refers to an idealized, Yet achievable status to which the organisation stands committed.

A worker in an organisation can attain managerial vision only through his performance. In other words, a worker sees the enterprise as if he were a manager responsible, through his performance for its success and survival

This vision an employee of a business enterprise can only attain through the experience of participation.

Vision gives an employee pride in his work and a sense of importance or accomplishment.

(a) Vision and Business Principles Examples

1. According to recently departed business legend Dhirubhai Ambani of Reliance Industry group "Vision should not be in the air, it should be achievable".
2. Syngenta India Limited, a multinational company in the crop protection business, have highlighted following seven core dimensions to provide a set of guidelines for company's vision and business principles, in The Annual Report 2001 2002CUSTOMERFOCUSED "We focus our actions on our customer's needs, we develop and sustain strong customer relationships."

- **Innovative** "We generate innovative solutions; we challenge the statusquo and push boundaries; we try different and novel ways to deal with work problems and opportunities".
- **Decisive** "We draw conclusions and choose a timely course of action based on relevant facts, constraints and probable consequences".
- **Communicative** "We clearly convey information and Ideas; we encourage open and continuous communications; we are keen to listen and learn".
- **Trusted** "We develop and maintain an environment of openness, trust and integrity; we gain the confidence of our stakeholders".
- **Teamoriented** " We actively participate as members of a team to move the team toward completion of goals; we collaborate effectively across organisational boundaries".
- **Resultsoriented** "We deliver on our commitments; we set aspirational goals and work tenaciously to reach or exceed them".

Based on the corporate objectives, department objectives which are meant to be achieved in the short run need to be formulates and finalised.

P. F. Drucker has suggested eight important areas of business objectives

1. Marketing
2. Innovation
3. Human Organisation
4. Physical Resources
5. Financial Resources
6. Productivity
7. Social I Responsibility
8. Profit Requirement

Business Objectives

Business objectives are usually called the corporate objectives. Major business objectives are corporate objectives.

In building up an enterprise, the first important task is laying down objectives and goals fixation. Objectives represent ends toward which not only planning but all other activities of the management are directed. There may be long term or short-term objectives, depending upon the venture.

The objectives should be flexible so as to allow alteration if any conflict arises later. Major business objectives or corporate objectives refer to the long term planning i.e. what is the company trying to accomplish, what business is the company really in.

Some obvious questions at this stage would be 1 What markets should the company try and reach ? 2 To what extent should the company try to be selfsufficient? To what extent should the company diversity the product line ? 4 To what extent should the company make and to what extent buy?

Objectives are always considered as a hierarchy of objectives and never as a single objective.

There are 3 essential elements of objectives

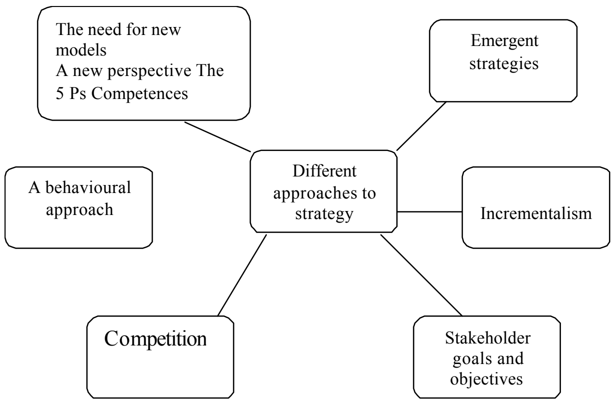
(i) Starting point or the present position.

(ii) Terminal point or the expected result.

The specified duration of time by which the objectives are to be achieved

LESSON 13:
APPROACHES TO STRATEGY

The Need For New Models



A new perspective

The example below puts into a radically different perspective the issues raised in the previous chapters. It will show why the rational model cannot always be trusted.

Example

Honda

Honda is now one of the leading manufacturers of motor-bikes. The company is credit with identifying and targeting an untapped market for small 50cc bikes in the US, which, enabled it to expand, trounce European competition and severely damage indigenous US bike manufacturers. By 1965, Honda had 63% of the US market. But this occurred b accident. .

On entering the US market, Honda's planned strategy was to compete with the larger European and US bikes of 250ccs and over. These bikes had a defined market, and we. sold through dedicated motorbike dealerships. Disaster struck when Honda's larger machines developed faults - they had not been designed for the hard wear and tear imposed by US motorcyclists. Honda had to recall the larger machines.

Honda had made little effort to sell its small 50 cc motorbikes - its staff rode them errands around Los Angeles. Sports goods shops and ordinary bicycle and department stores had expressed an interest, but Honda did not want to confuse its image in its 'target' market of men who bought the larger bikes.

The faults in Honda's larger machines meant that reluctantly, Honda had no alternative but to sell the small 50cc bikes just to raise money. They proved very popular with people who would never have bought motorbikes before. Eventually the company adopted this new market with enthusiasm with the slogan: 'You meet the nicest people on a Honda.'

The 5 Ps

Henry Mintzberg's overview of the work of many writers on strategy suggests five ways in which the term strategy is used. A strategy can be a plan, ploy pattern, position or perspective. They are not mutually exclusive.

The strategy had emerged, agents managers' conscious intentions, but they eventually responded to the new situation.

'P'	Comment
Plan	A 'consciously intended course of action'.
Ploy	A manoeuvre in a competitive game. For example a firm might add unnecessary plant capacity. The strategy is not to produce the goods but to discourage a competitor from
Pattern	entering the market.
Position	Emergent strategies.
Perspective	Environmental fit and relationships with other organisations. A position might be a distinctive niche, whereby the firm makes distinctive products or services or exploits a distinct competence. A unique way of looking at the world, of interpreting information from it, judging its opportunities and choices and acting. Different strategic perspectives might respond to the same environmental stimulus in different ways.

Activity 1 (10 minutes)

Here are some issues of strategy. Which of Mintzberg's categories (plan, position, ploy, perspective, pattern) do you think they fit into?

(a) The general manager of the Beardsley Hospital prepares a strategy. To minimise the time doctors spend walking from place to place she has rearranged the hospital so that services are clustered around patients. She has the resources so that this change will be phased in over three years, firstly

Ophthalmology, secondly Oncology, thirdly Paediatrics, and so on.

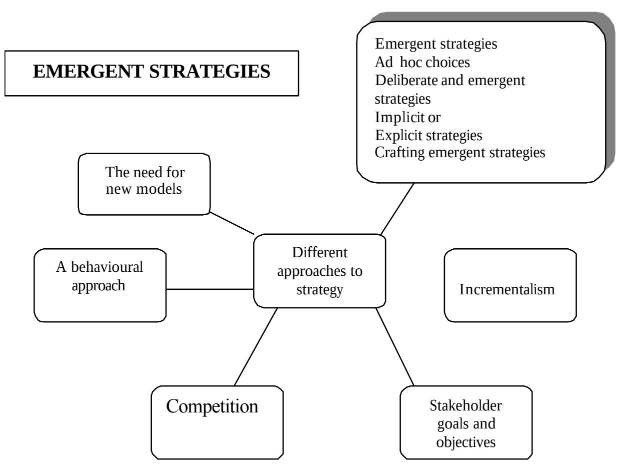
(b)Two market traders sell fruit and vegetables. One decides to specialize in exotic fruits, as he feels there are enough well-off and/or experimentally minded people in his area to make it worth his while.

Competences

The distinctive competence of an organisation is what it does well, uniquely, or better than its rivals. For example, for a relatively undifferentiated product like cement, the ability of a maker to run a truck fleet more effectively than its competitors will give it competitive strengths (if, for example, it can satisfy orders quickly).

Strategic opportunities must be related to the firm's resources. A strategic approach involves identifying a firm's competences. Members of organisations develop judgments about what they think the company can do well - its core of competence. T4ese competences may come about in a variety of ways.

- Experience in making and marketing a product or service
- The talents and potential of individuals in the organisation
- The quality of co-ordination



Ad hoc choices

In the Honda case example at the beginning of this chapter, we mentioned that the planned strategy of selling large bikes had to give way to a strategy which had emerged' by accident, almost. Henry Mintzberg develops this theme further.

Definition

Emergent strategies do not arise out of conscious strategic planning , but from a number of ad hoc choices, perhaps made lower own the hierarchy. They may not initially be recognised as being of strategic importance. Emergent strategies develop out of patterns of behaviour in contrast to planned strategies or senior management decisions which are imposed from above.

An activity will make the point clearer.

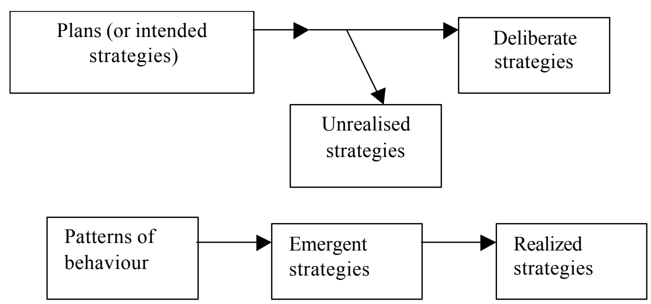
<u>Activity 2</u> (20 minutes)

Aldebaran Ltd is a public relations agency founded by an entrepreneur, Estella Grande, who has employed various talented individuals from other agencies to set up in business. Estella Grande wants Aldebaran Ltd to become the largest public relations agency in North London. Management consultants, in a planning document, have suggested growth by acquisition. In other words, Aldebaran should buy up the other public relations agencies in the area. These would be retained as semi-independent business units, as the Aldebaran Ltd group could benefit from the goodwill of the newly acquired agencies. When Estella presents these ideas to the Board there is general consensus with one significant exception. Livia Strange, the marketing director, is horrified. 'How am I going to sell this to my staff? Ever since we've been in business, we've won business by undercutting and slagging off the competition. My team have a whole culture based on it. I give them champagne if they pinch a high value client. Why acquire these new businesses - why not stick to pinching their clients instead?'

What is the source of the conflict?

Deliberate and emergent strategies

The diagram below should help explain the point



(a) **<u>Intended strategies</u>** are plans. Those plans or aspects of plans which are actually realised are called deliberate strategies.

(b)**<u>Emergent strategies</u>** are those which develop out of patterns of behaviour.

Example

The task of strategic management is to control and shape these emergent strategies as they develop.

3:PP began life as a training company. Lecturers had to prepare course material. This offered for sale in a bookshop in the BPP building. Owing to the demand, BPP began offering its material to other colleges, in the UK and world-wide. BPP Publishing, which began as a small offshoot of BPP's training activities, is now a leading publisher in the market for targeted study material for the examinations of several professional - dies. It is unlikely that this development was anticipated when the course material was first prepared.

No realised strategy will be wholly deliberate or wholly emergent. The line between deliberate and emergent elements within each strategy will be in part influenced by organisation structure and culture.

Implicit or explicit strategies

Entrepreneurs often have a theory of the business, which they mayor may not document.

- Implicit strategies may exist only in the chief executive's head
- Explicit strategies are properly documented

Some plans are more explicit than others.

With these in mind, Mintzberg identified eight styles of strategic management

Planned strategies **Entrepreneurial strategies** **Ideological strategies** **Umbrella strategies** **Process Strategies** **Disconnected strategies** **Consensus strategies** **Imposed strategies**	• Precise intentions • Explicit intentions (ie written down, documented) • Imposed by central leadership • Large number of controls • Maximises predictability • Intended strategy derives from the vision of strong leadership • Not always explicit • Intended strategy is the collective vision of the organisation's • members • Control is through shared values • These strategies involve changing the environment • Strategic targets ('ends') are defined and deliberate • How they are achieved ('means') is emergent • Processes are formal (eg hiring) and deliberate • Content of strategies (what is done) is emergent • Members of subunits 'do their own thing' • Strategies are emergent for the whole organisation, deliberate for subunits • Groups in the organisation converge on common patterns of Activity 2 Strategy is imposed by the environment (eg a strong customer) which pre-empts the organisation own choice

Crafting emergent strategies

Managers cannot simply let emerging strategies take over. Why?

(a) Direction. The emergent strategy may be inappropriate for the long-term direction of the organisation and may have to be corrected.

(b)Resources. It may have future implications for resource use elsewhere: in most organisations, different parts of the business compete for resources.

(c)Managers might wish to build on the strategy by actively devoting more resources to it.

Mintzberg uses the metaphor of crafting strategy to help understand the idea. Strategies are shaped as they develop, with managers giving help and guidance, devoting more resources to some, exploiting new opportunities and responding to developments. For example, Honda's management reacted to the emergent strategy, eventually, and shaped its development.

Separating 'thinking' and 'doing' has the following result.

(a) A purely deliberate strategy prevents learning. For example it is hard with deliberate strategies to 'learn from mistakes', or stumble by accident into strategic growth.

(b)A purely emergent strategy defies control. It may in fact be a bad strategy!

Deliberate strategies introduce strategic change as a sort of quantum leap in some organisations. In this case, a firm undergoes only a few strategic changes in a short period but these are very dramatic.

The strategist must be able to recognize patterns and to manage the process by which emergent strategies are created. In other words, the strategist must be able to find strategies as well as invent them.

How to craft strategy

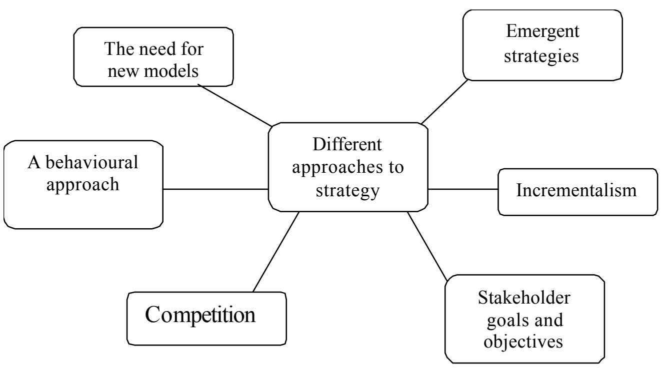
Mintzberg lists these activities in crafting strategy.

Activity **Manage stability** **Detect discontinuity** **Know the business manage patterns** **Reconciling change and continuity**	• Most of the time, managers should be implementing the strategies, not planning them. • Obsessions with change are dysfunctional. Knowing when to change is more important. Formal planning is the detailed working out of the agreed • strategy. • Formal planning is the detailed working out of the agreed strategy. • Environments do not change regularly, nor are they always turbulent, though managers should be on the lookout for changes. Some small environmental changes are more significant for the long term than others, though guessing which these are is a problem. • An intimate feel for the business has to include an awareness and understanding of operations. • Detect emerging patterns and to help them take shape. Some emergent strategies must be uprooted, others nurtured.

Activity 3 (15 minutes)

Britannia Hospital has just appointed a new director, Florian Vole, imported from the private sector, where he had run 'Hanky House' a niche retail operation specializing in handkerchiefs and fashion accessories. The recession put the business into receivership, but Mr Vole was sought out to inject his private sector expertise into running a public sector institution. He calls a meeting of the hospital's senior managerial, medical and nursing staffs. 'What the public sector has been missing too long is vision, and when you're eyeball-to-eyeball with change, it's vision that you need, not planning documents and statistics. We need to be nimble and quick to adapt to our customer's ever changing needs. That is our strategy!

What do think of Florian Vole's approach?



Johnson and "Scholes state that 'strategy need to be understood as an outcome of social, political and cultural processes of management in organisations'. They describe the following phases in the strategic decision-making process.

Step 1 Problem awareness

- Internal results, customer responses or environmental changes can , make individuals aware of a problem.
- A trigger alerts the formal information system to the problem that organisational activity takes over from the individual consideration of the problem.

Step 2 Problem diagnosis

Managers try to analyze and get to the root of problem.

Step 3 Solution development

Some possible solutions are developed and, is selected.

- Memory search: solutions which worked in the past
- Passive search: wait for a solution to suggest itself

Solutions begin with a vague idea, which is further refined and explored by internal discussion.

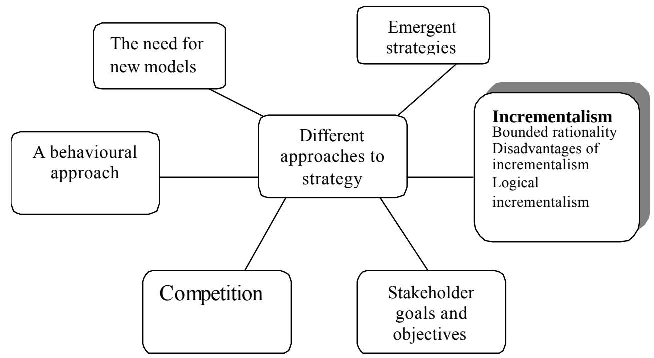
Step 4 Solution selection

- Eliminate unacceptable plans. This screening process involves bargaining, diplomacy and judgement rather than formal evaluation according to the business case.
- Endorsements. Many strategic decisions originate from management subsystems, which senior managers authorize. Junior managers might filter strategic information, or ignore certain options, to protect themselves.

Johnson and Schools are less averse to planning than Mintzberg, but instead of assuming a rational objectivity, they anchor plans in the behaviour of the organisation and the people in it.

For Discussion

A criticism of the rational model is that it ignores the fact that strategists are human beings, and strategy formation reflects the internal politics of the organisation.



Bounded Rationality

In practice, managers are limited by time, by the information they have and by their own skills, habits and reflexes.

- Strategic managers do not evaluate all the possible options open to them in a given situation, but choose from a small number of possibilities.
- Strategy making necessitates compromises with interested groups through political bargaining. This is called partisan mutual adjustment.
- The manager does not optimize (ie get the best possible solution).

Instead the manager satisfices. The manager carries on searching until he or she finds an option which appears tolerably satisfactory, and adopts it, even though it may be less than perfect. This approach Herbert Simon characterised as bounded rationality.

Definition

Incrementalism involves small scale extensions of past practices.

- It avoids major errors.
- It is more likely to be acceptable, because consultation, and compromise accommodation are built into the process. .

Disadvantages of Incrementalism

- Incrementalism does not work where radical new approaches are needed, and it has a built-in conservative bias. Forward planning does have a role.
- Incrementalism ignores the influence of corporate culture, which filters out unacceptable choices.
- It might only apply to a stable environment.

Logical Incrementalism

Definition

Logical incrementalism : managers have a vague notion as to where the organisation should go, but strategies should be tested in small steps, simply because there is too much uncertainty about actual outcomes.

Strategy is best described as a learning process. Logical incrementalism has the best of both worlds.

- The broad outlines of a strategy are developed by an in-depth review
- There is still practical scope for day-to-day incremental decision making.

LESSON 14: APPROACHES TO STRATEGY (CONTINUED)

Learning objectives

On completion of this chapter you should be able to :

- You will understand what are the various approaches to business strategy and their contributions
- You will be able to understand that there are practical and theoreticalProblems in asserting that a planning process is the only or the best of generating strategy.
- You will be able to understand that strategic planning has many benefits and many uses , it can force people to think,it can help direct activities and it can focus debates.

Approaches to Strategic Management

Before we proceed to undertake strategic management process, particularly strategy formulation, it is desirable to identify the various approaches which are applied In strategic decision making. This is essential because different approaches put varying emphasis on various elements of strategic management. There are different approaches to strategic decision making because an organisation may differ from other organisations in terms of :

1. Degree of formalisation in decision making processfrom highly formalised and structured to informal and unstructured process
2. Managerial power relationshipfrom the dominant role of the strategist to compromise of different interest groups; and
3. Nature of environmentfrom highly complex to simple and stable.

These differences determine the kind of approach individual organisations would adopt in their decisionmaking process, Including strategic decision making. However, various approaches that are available for adoption in strategic decision-making have been described by authors differently. For example, Mintzberg has classified various approaches into three forms (he has referred to these as modes). These are entrepreneurial, planning, and adaptive. As against this classification, Steiner et al have a fivefold classification: formalstructured, intuitiveanticipatory, entrepreneurialopportunistic, incremental, and adaptive. The difference between these two sets of classification can be resolved to some extent. Formalstructured approach resembles planning approach; incremental and adaptive approaches have common factors than differences and, therefore can be grouped together; entrepreneurial approach is basically based on intuition and anticipation as these elements require high level of vision in strategists to anticipate opportunities and threats posed by the relevant environment. Therefore, for further analysis, three types of approaches will be taken. These are:

1. Entrepreneurialopportunistic approach
2. Formalstructured approach, and
3. Adaptive approach.

EntrepreneurialOpportunistic Approach

Entrepreneurialopportunistic (or simply entrepreneurial) approach is adopted, generally, by heads of familymanaged organisations and is characterised by pushing an organisation ahead in the face of environmental odds. The basic features of strategy making under this approach are as follows:

1. The focus in this approach is on capitalising the opportunities rather than problemsolving. There is constant search of opportunities in the environment either formally or otherwise.
2. Decision power is centralised in the entrepreneur who is capable of, making bold and unusual decisions.
3. The bold and unusual decisions made in the face of environmental uncertainty, lead the organisation to move forward by unusual leaps and thrive with corresponding gains.
4. The most important objective in this approach is growth and expansion In assets, turnover, and market share.

Thus, decision making becomes emergent process as against formal process.

Suitablity and Limitations

Entrepreneurial approach is suitable in those organisations where key strategists have very high stake in the outcomes of a strategy. They are in a position to lead the organisation from front sidelining the views of other stakeholders. Usually, such strategists have very high level of aspirations, high level of vision about the future business scenarios, and have highrisk bearing profile. A basic advantage of this approach is that such decisions are made which may defy the basic principles of management text books. This is the reason that such organisations outperform their counterparts adopting formalstructured approach. Exhibit presents examples of how organisations have grown faster by adopting this approach.

Application of Entrepreneurial Approach

There are numerous examples throughout the world which suggest that organisations have achieved phenomenal growth through this approach.

1. Akio Morita, Chairman of Sony Corporation, Japan, asked his research and design engineers to design a walkman (a minicassette player). Pat came the reaction that this would not succeed in the market. But he insisted on that and walkman made a roaring success.
2. Dhirubhai Ambani, Chairman of Reliance Industries, saw the business opportunity in highpriced premium fabrics in India which was unheard at that time. This made roaring success in the market. Later on, he conceived many projects based on this approach. Today, Reliance has become number one in the private sector in India.

3. In early 1980s, when Hero group of Ludhiana considered addition of other products in its personal transport product, it chose to add fourstroke motorcycle which was not considered highly lucrative at that time as compared to scooter. In a personal chit chat, Brijmohan Lall Munjal, the present Chairman of Hero Honda Motors, commented on the choice of motorcycle in comparison to scooter, "future personal transport mode will be dominated by motorcycles and not by scooters. In the age of increasing fuel cost and speedoriented transport, motorcycles would have an edge over scooters." Though many did not agree with him, he proved himself right. Today, Hero Honda's motorcycle sales have crossed 10 lakhs per annum with its Splendor being the World's number one brand in twowheelers.
4. Mansukhbhai Kothari of Kothari Products conceived the idea of introducing Paan Masala when he saw that paanchewers were facing problem during travelling because either paan (betel) was not available, or not available of right quality, or the process of preparing paan was a timeconsuming activity. For such people, he introduced an alternative to paan which was subsequently branded as Paan Parag. The product met with tremendous success.

The above discussion shows only the positive aspects of entrepreneurial approach This approach has one basic limitation that if the strategists do not have intuition and vision required for doing something new and extraordinary, the strategies are likely to fail. There have been several such cases. For example, Sunrise Industries entered the toilet soap market with Yuva and Piyu brands in 1980s. Both the products failed against the massive competition posed by then existing players particularly Hindustan Lever. Similarly, Suraj Automobiles introduced dieselbased motor cycles to provide saving in fuel cost but the product failed. There are numerous such cases of failures. Therefore, entrepreneurial approach is not suitable for all entrepreneurs.

FormalSTructured Approach

Formalstructured (or simply formal) approach involves strategic decision making in anticipation of the future state that the organisation wants to be in. Strategic decisions are based on socioeconomic purposes of the organisation, values of top management, external opportunities and threats, and organisation's strengths and weaknesses. The basic features of this approach are as follows:

1. Strategy making is based on analysis of various factors which affect the I strategy.
2. It involves systematic and structured approach to the solution of problems and also the task of assessing the cost and benefit of various alternatives.
3. It is a comprehensive process which produces a set of integrated decisions and strategies.

In India, most of the multinationals follow this approach in which they have formalised and structured their strategic decisionmaking process.

Suitability and Limitations

Suitability and limitations of formal approach depend on type of organisation, management styles, complexity of environment, complexity of production processes, nature of problems, and purpose of planning system. Table 1.6 presents the situations which determine the degree of formalisation.

Exhibit Factors affecting degree of formalisation in strategic decision making (Table)

Factor	More formalisation	Less formalisation
Organisation	Large companies	Small one-plant companies
Management styles	Policy maker	Democratic-permissive
	Authoritarian	intuitive thinker
Environment	Stable	Turbulent
	Little competition	Severe competition
Production process	Long production lead time	Short lead time
	Integrated processes	Simple processes
	High technology	Low technology
	Long market reaction time,	Short market reaction time
Nature of problems	Tough, long range	Short range
Purpose of planning system	Coordinate division activities	Train managers

A basic advantage of this approach is that it generates enough information which enables decision makers to make decisions in complex situations. However, when decision system becomes too formalised and highly structured, decisionmaking process becomes slow because of emergence of professional bureaucracy which relies on standardisation of skills. Decision making is decentralised and takes place where the expertise exists. With the result, unusual decisions are hard to come by.

Adaptive Approach

Adaptive approach of strategic decision making is basically reactive and tries to assimilate the change in decisionmaking contextvarious factors, particularly environmental ones, affecting strategic decisions. Various features of strategic decision making under adaptive approach are as follows:

1. Decision making is basically meant for problem solving, rather than going for new opportunities. Adaptation process is adopted to meet the threats by changed environment as against the decision making to meet the anticipated changes in environment which entrepreneurial approach suggests.
2. Decisions are made in sequential, incremental steps, one thing at a time necessitated by environmental changes. The basic orientation is to maintain flexibility to adapt the decisions to more pressing needs.
3. Various interest groups and stakeholders put considerable pressure on decision-making process so as to protect their own interests. Thus, the ultimate decision Is a compromised one which may be, sometimes, at the cost of optimising organisational effectiveness.
4. Since decision-making is incremental and fragmented, there is lack of integrative decision-making. With the result, systems approach of decision-making is missing.

In India, most of the public sector organisations follow adaptive approach in their decision making because of the power distribution between organisations' management and controlling ministries of Government. Those organisations in the private sector which cannot anticipate likely future scenarios either based on vision and intuition or through formal and structured approach of environmental analysis, follow this approach in their strategic decisionmaking process.

Suitability and Limitations

Adaptive approach of strategic decision-making is suitable for those organisations, which tend to play the role of followers rather the role of leaders in the industry sector concerned. This approach saves them from high risk since the strategic decisions are based' on the actual environmental factors. If these factors are less dynamic, this approach produces satisfactory results.

However, this approach suffers from one basic limitation. Environmental adaptation as a continuous process works well so long as there is continuity in environmental changes which can be assimilated quickly by the organisations adopting this approach. When the environmental factors change fast, this approach does not work because by the time, the organisations adopt one change which has some lead time, environment changes further making previous adaptation unworkable. In the present context of global competition, perhaps, this approach is not very suitable to achieve meaningful competitive advantage.

Combining Different Approaches

We have seen above that various approaches of strategic decision making have their positive and negative aspects and each of these is suitable for particular type of organisations and the nature of environment. Since there are many variables which affect strategic decision making, many organisations follow a combination of different approaches. The experts on strategic management also hold this view, For example, Sumantra. Ghoshal, Professor of Strategic Leadership, comments that "it may be useful for Reliance (following entrepreneurial approach) to think whether it should follow a bit of Hindustan Lever's structured processes, just as much as it may be productive for Hindustan Lever to consider ways of broadening its systems and culture to the entrepreneurial approach. In fact, Hindustan Lever has restaged the need for infusing entrepreneurial approach in developing businesslevel strategies. According to its former Chairman, Keki Dadiseth, "Hindustan Lever has grown in size. While it has its own obvious benefits, it also brings some drawbacks. What we need to master is the art of creating and preserving the entrepreneurial ability and connectedness of a small company within a large company. There may be different ways in which various approaches may be combined together. More common ways are as follows:

1. Adaptiveentrepreneurial
2. Structuredadaptive
3. Entrepreneurial structured
4. Adoption of different approaches for different businesses, and
5. Adoption of different approaches at different stages of organisational life.

While combining two or more approaches together. the individual organisations can do better if they evaluate their culture, human resources, and leadership styles and the nature of environment in which an organisation or its different businesses operations

Snapshot Of Strategic Management Process

Strategy Formulation

1. Formulation of organisational mission and objectives
    - Formulating mission and mission statement
    - Business definition in terms of customer, product, and technology
    - Formulating longterm broad objectives
2. Environmental analysis
    - Analysis of general environment
    - Industry and competition analysis
    - Preparation of environmental threat and opportunity profile
3. Organisational analysis
    - Analysis of strengths and weaknesses in different areas
    - Preparing organisational capability profile
    - SWOT analysis
    - Defining core competence and distinctive competence
    - Developing competitive advantage through
    - Generic competitive strategies
    - Strategic intent
    - Benchmarking

Synergistic approach

Critical success factors approach

Preparing competitive advantage profile

4. Strategic alternatives

Stability strategy

Retrenchment strategy

Turnaround strategy

Divestment strategy

Liquidation strategy

Growth strategy

Concentric expansion strategy

Vertical integration strategy

Diversification strategy

Merger and acquisition strategy

Joint venture strategy

Strategic alliance

Combination strategy

Business restructuring strategy

5. Choice of strategy

Focusing on strategic alternatives

Evaluating strategic alternatives

Considering decision factors

Strategy choice

Strategy Implementation

1. Activating strategy

Institutionalisation of strategy

Resource mobilisation and allocation

Translating general objectives into specific objectives

2. Procedural implementation

3. Structural implementation

Designing organisation structure

Prescribing organisational systems

4. Functional Implementation

Prescribing policies and strategies in

Production/ operations

Marketing

Finance

Human resources

5. Behavioural implementation

Leadership implementation

Managing organisational culture

Creating values and ethics

Corporate governance

Managing organisational politics

6. Organisational change and innovation

Initiating and implementing organisational change

Managing organisational innovation

Creating learning organisation

Strategy Evaluation and Control

1. Designing evaluation and control system

Setting criteria for evaluation and control

Setting standard in respect of these criteria

2. Exercising control

Strategic control

Financial performance control

Social performance control

This chapter has provided an overview of strategic management. This is an important chapter in the scheme of the lecture plan as it attempts to make you understand the two supporting pillars of Business strategy the concept of strategy and the process of strategic management.

The main points covered in this are as below,

- I have attempted to derive an understanding of some illustrations of strategy in action and note how organisations react to their environment and adopt a course of actionto deal with it. This course of action is strategy. This concept has several benefits of great theoretical and practical value. Yet there are pitfalls in oversimplifying complex realities and committing the organisation to a rigid, predetermined course of action from which it may become difficult to deviate
- I have given an account of several definitions of the term ‘strategy’. While this certainly makes the issue definitional yet it serves the purpose of bringing several lines of thinking to you. We derive the meaning of strategy on the basis of an explanation of seven definitions. The conclusion is that strategy is: (i) a plan or course of action or a set of decisions and rules that make a. pattern or create a common thread (ii) the pattern related to an organisation’s activities, (iii) related to the pursuance of those activities which move an organisation from its current position to a desired future state, (iv) concerned with the resources necessary for implementing a plan, and (v) connected to the strategic positioning of a firm.
- Strategy operates at several levels. Mainly, strategies are formulated at the corporate level, SBU (or business) level, and functional level. Besides these, societal strategies on the top and operational strategies at the bottom are also sometimes specified. While explaining the different levels at which strategies may operate, we have also seen how these strategies can be coordinated.
- I have tried to compare conventional and strategic decisionmaking and illustrated how complex the latter form of decisionmaking is. An attempt has been made to elaborate the nature of strategic decisionmaking through the discussion of six related issues. These issues are: criteria, rationality, creativity, variability, personrelated factors, and the individual versus the group in strategic decisionmaking.
- Ten schools of thought on strategy formation have been reviewed to provide you with a panoramic view of this interesting subject. The schools are divided into three groups. The prescriptive school consists of the design,

planning, and positioning schools. The descriptive school consists of the entrepreneurial, cognitive, learning, power, cultural, and environment process schools. The integrative school includes the configuration school where strategy formation is a process of transformation.

- The process of strategic management is explained by its definitions, phases, elements, and models.
- On the basis of five definitions we derived the essential features of strategic management. It may be seen that strategic management is considered as either decisionmaking and planning, or a set of activities related to the formulation and implementation of strategies to achieve organisational objectives. In strategic management the emphasis is on those general management responsibilities which are essential to relate the organisation to the environment in such a way that its objectives may be achieved.
- There are four phases in strategic management, namely, establishing the hierarchy of strategic intent, formulation of strategies, implementation of strategies, and performance of strategic evaluation and control.
- As many as 20 different elements in the process of strategic management have been identified. In establishing the hierarchy of strategic intent we have the elements of creating and communicating a vision, designing a mission statement, defining the business, and setting objectives. In the formulation of strategies we have: performing environmental appraisal, organisational appraisal, considering corporatelevel strategies; considering businesslevel strategies; undertaking strategic analysis; exercising strategic choice; formulating strategies; and preparing strategic plans. In strategy implementation there are the elements of activating strategies, designing structures and systems, managing behavioural implementation, managing functional implementation, and operationalising strategies. Finally, in strategic evaluation and control the elements involved are: performing strategic evaluation, exercising strategic control, and reformulating strategies.
- To enable an easier grasp of the process of strategic management, two variations of the model are proposed. A comprehensive model shows all the different elements while a working model depicts the outlines of the process. The latter should aid you in remembering the process and model of strategic management as you read further.
- The last section in this plan has been devoted to the description of the role of several strategists in strategic management. We have identified nine strategists: board of directors, chief executives, entrepreneurs, senior management, the SBUlevel executives, corporate planning staff, consultants, middlelevel managers, and executive assistants. We have noted the roles that each of these strategists play in different phases of the strategic management process.

The next lecture plan takes up the first phase of the strategic management process for discussion, that is the hierarchy of intent

Discussion / Application Questions

1. Pickup several business magazines and newspapers. Locate the corporate reports of different types of companies. Identify the strategies that these companies are employing at present. Analyse the matter you have collected to write an explanatory note on the strategies being used by Indian companies.
2. Review the literature in strategic management and read definitions of strategy Derive the essence of the concept of strategy from these definitions and prepare a lucid note explaining the various components of the concept of strategy.
3. Describe the different levels at which strategy operates. How are the strategies which operate at different levels integrated?
4. Discuss the issues that are relevant for strategic decisionmaking.
5. Make a comparative assessment of the different schools of strategy thought. Derive the meaning of the configuration school clearly.
6. Describe the process of strategic management. Draw a neat chart that shows comprehensively the differentelements in the strategic management process.
7. Apply the strategic management model to your own case. Follow the process and identify the different elements such as your vision and mission, career objectives, selfappraisal, the opportunities and threats operating in the job market, the career advancement strategies that you may choose and how you could implement these strategies, and evaluate your performance. Describe your thought process systematically according to the different phases of strate-gic management.
8. Discuss the roles that major strategists play in strategic management.

What role do you foresee for strategic management in the first five years of your career? the next five years? after twenty years?

LESSON 15:
PLANNING PROCESS

Planning as a process involves the determination of future course of action, that is why an action , what action, how to take action, and when to take action. These why, what, how, and when are related with different aspects of planning process. Why of action reveals that action has some objectives or the end result which an organization wants to achieve, what of action specifies the activities to be undertaken, how and when generate various policies, programs, procedures, and other related elements. Thus all these elements speak about futurity of action. Terry has defined Planning as - -

" Planning is the selection and relating of facts and making and using of assumptions regarding the future in the visualization and formalization of proposed activities believed necessary to achieve desired result."

Features of-Planning

On the basis of the definition of planning, its following features can be identified:

1. Planning is a **process** rather than behaviour at a given point of time. This process determines the future course of action.
2. Planning is **future oriented** It is primarily concerned with looking into future. It requires forecasting of future situation in which the organisation has to function. Therefore, correct forecasting of future situation leads to correct decisions about future course of actions.
3. Planning involves **selection of suitable course of action.** This means that there are several alternatives for achieving a particular objective or set of objectives. However, all of them are not equally feasible and suitable for the organisation.
4. Planning is undertaken **at all levels** of the organisation because all levels of management are concerned with the determination of future course of action. However, its role increases at successively higher levels of management. Moreover, planning at different levels may be different in the context that at the top management level, managers are concerned about the totality of the organisation and tries to relate it with the environment white-managers at lower levels may be involved in internal planning.
5. Planning is **flexible** as commitment is based on future conditions which are always dynamic. As such, an adjustment is needed between the various factors and planning
6. Planning is a **pervasive and continuous** managerial function involving complex processes of perception, analysis, conceptual thought, communication, decision, and action. The very pervasiveness of these planning elements makes it difficult to identify and observe them in detail.

Imporance of Planning

1. **Primacy of Planning.** Planning precedes all other managerial functions. Since managerial operations in organizing, staffing, directing, and controlling are designed to support the accomplishment of organizational objectives, planning logically precedes the execution of all other managerial functions. Although all the functions intermesh in practice as a systemof action, planning is unique in that it establishesthe objectives necessary for all group effort.All other functions are performed to achieve the objectives set b the planning process.
2. **To Offset Uncertainty and Change.** There is continuous change in the environ-ment and the organisation has to work in accelerating change. This change is re-flected in both tangible and intangible forms. Tangible changes are in the form of changes in technology, market forces, government regulations, etc. Intangible changes reflect in changes in attitudes, values, cultures, etc. In order to cope up with the requirements of such changes, organisation must look ahead for its future course of action which is basically provided by planning process. Planning does not stop changes in the environment but gears the organisation to take suitable actions so that it is successful in achieving its objectives.
2. **To Focus Attention on Objectives.** Planning focuses on organisational objec-tives and direction of action for achieving these objectives. Sometimes people in the organisation may not be specific about its objectives because of lack of clarity and precise definitions. For example, often we take profit as the objective of a business organisation. It is too abstract to be pursued. In order to enforce managerial actions, 1ihis should be defined more precisely. When planning action is taken, these objec-tives are made more concrete and tangible. The objectives are defined in more mean-ingful terms so that managerial actions are possible. For example, even if the organisational objective is profit earning, planning activity will specify how much profit is to be earned looking into all facilitating and constraining factors.
4. **To Help in Coordination**. Though all managerial functions lead to coordination in the organisation, real beginning is made at the level of planning stage. Well-con-sidered overall plans unify interdepartmental activities and consequently restrict the area of freedom in the development of purely departmental plans. Thus, various departments work in accordance with the overall plan, and harmony is achieved. It is true to say that coordination is essence of management and planning is the base
5. **To Help in Control**. Control involves the measurement of accomplishment of events against plans and the correction of deviations to assure the achievement of objectives as set by the plans. Thus, control is exercised in the context of planning action as standards against which actual results are to be compared are set up through planning. At the control stage, an attempt is made to monitor the perfor-mance on

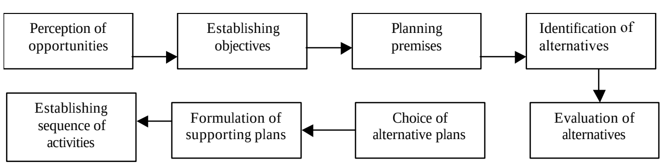
continuous basis so that immediate action is taken if anything goes wrong.

6. **To Increase Organisational Effectiveness.** Planning ensures organisational ef-fectiveness in several ways. The concept of effectiveness is that the organisation is able to achieve its objectives within the given resources. Thus, for effectiveness, it is not only necessary that resources are gut to the best of their efficiency but also that they are put in a way which ensures their maximum contribution to organisational objectives. In fact, this can be done by taking appropriate planning. Planning states the objectives of the organisation in the context of given resources. Therefore, each resource of the organisation has a specific use at a particular time. Thus, planning along with control ensures that resources are put in action in a way in which these have been specified. If this is done, organisation will achieve effectiveness.

Steps in Planning

It is not necessary that a particular planning process is applicable for all or-ganisations and for all types of firms because the various factors that go into plan-ning process may differ from plan to plan or from one organisation to another. For example, planning for a major acting will take more serious evaluation of various elements necessary for planning but this may not be true for a minor one. Similarly in a small organisation, planning process may not be taken in the same ways as in a large organisation. Here is given a process of planning which is applicable for a major programme like opening of a new product line or acquisition of a major plant.

With minor modifications, the process is applicable to all types of plans. Planning process is presented in the Figure



Planning process (Figure)

The Planning Process

The sequences of various steps in planning are in such a way that they lead to the translation of an idea into action by reaching to the state of establishing of sequences of activities. Each stage contributes to plan formulation in the following ways:

1. Perception of Opportunities

Perception of opportunities is not strictly a planning process. However, this awareness is very important for planning process be-cause it leads to formulation of plans by providing clue whether opportunities exist for taking up particular plans. From this point of view, it can be considered are the beginning of planning process. Perception of opportunities includes a preliminary" look at possible opportunities and the ability to see them clearly and completely, a knowledge of where the organisation stands in the light of its strengths and weaknesses, an understanding of why the organisation wants to solve uncertainties, and a vision of what it expects to gain. This provides an opportunity to set the objectives in real sense because the organisation tries to relate itself with the environ-ment. In doing so, it takes the advantages of opportunities and avoids threats. This is a preliminary stage, hence the analysis of environment is not taken in very elaborate form but analysis relates to the determination of opportunities at first instance. Once the opportunities are perceived to be available, the other steps of planning are un-dertaken.

2. Establishing Objectives

At this stage, major organisational and unit objectives are set. Objectives specify the results expected and indicate the end points of what is to be done, where the primary emphasis is to be placed, and what is to. be accom-plished by the various types of plans. The organisational objectives should be speci-fied in all key result areas. Key result areas are those which are impor-tant for organisation in achieving its objectives. These are identified on the basis of or-ganisational objectives. For example, for an organisation, key result areas may be profitabil-ity, sales, research and development, manufacturing, and so on. Once or-ganisational objectives are identified, objectives of lower units and subunits can be identified in that context. Organisational objectives give direction to the nature pf all major plans which, by reflecting these objectives, define the objectives of major de-partments. These, in turn, control the objectives of subordinate departments, and soon down the line. Thus, there will be hierarchy of objectives in the organisation.

3. Planning Premises.

After determination of organisational goals, the next step is establishing planning premises, that is, the conditions under which planning activi-ties will be undertaken. Planning premises are planning assumptions-the expected" environmental and internal conditions. Thus, planning premises are external and internal. External premises include total factors in task environ-ment like political, social, technological, competitors' plans and actions, government policies, etc. Inter-nal factors include organisation's policies, resources of various types, and the ability of the organisation to withstand the environmental pressure. The plans are formu-lated in the light of both external and internal factors. The more individuals charged with planning understand and utilise consistent planning premises, the more coordi-nated planning will be. Forecasting plays a major role in planning premises.The nature of planning premises differs at different levels of planning. At the top level, it is mostly externally focused. As one moves down the organisational hierar-chy, the composition of planning premises changes from external to internal. The major plans, both old and new, will materially affect the future against which the managers at lower units must plan. For example, a superior's plans affecting a sub-ordinate manager's area of authority become premises for the latter's planning.

4. Identification of Alternatives.

Based on the organisational objectives and plan-ning premises, various alternatives can be identified. The concept of various alterna-tives suggests that a particular objective can be achieved through various actions. For example, if an organisation has set its objective to grow further, it can be achieved in several ways like expanding in the same field of business or product line, diversifying in other areas, joining hands with other organisations, or taking over another organisation, and so on. Within each category, there may be several alternatives. For example, diversification itself may point but the possibility of enter-ing into one of the several fields. The most common problem with alternatives is not that of finding of alternatives only but to reduce the number of alternatives so that most promising ones may be taken for detailed analysis. Since all alternatives cannot be considered for further analysis, it is necessary for the planner to reduce in prelimi-nary examination the number of alternatives which do not meet the minimum pre-liminary criteria. Preliminary criteria can be defined in several ways, such as minimum investment required, matching with the present business of the organisation, control by the government, etc. For example, one company has defined prelimi-nary criteria in terms of size of investment in new project and may not consider any project involving investment of less than Rs. 40 crores.

5. Evaluation of Alternatives

Various alternatives which are considered feasible in terms of preliminary criteria" may be taken for detailed evaluation. At this stage, an attempt is made to evaluate how each alternative contributes to the organisatio-nal objectives in the light of its resources and constraints. This presents a problem because each alternative may have certain positive points on one aspect but negative on others. For example, one alternative may be most profitable but requires heavy investment with long gestation period; another may be less profitable but also in-volves less risk. Moreover, there is no certainty about the outcome of any alternative because it is related with future and future is not certain. It is affected by a large number of factors making the evaluation work quite complex. This is the reason why more sophisticated techniques of planning and decision-making have been developed. Such techniques will be described in a later chapter.

6. Choice of Alternative

After the evaluation of various alternative the most fit one is selected. Sometimes evaluation shows that more than one alternative is equally good. In such a case, a planner may choose more than one alternative. There is another reason for choosing more than one alternative. Alternative course of ac-tion is to be undertaken in future which is not constant. A course of action chosen keeping in view the various planning premises may not be the best one if there is change in planning premises. Therefore, planner must be ready with alternative, normally known as contingency plan, which can be implemented in changed situa-tions.

7. Formulation of Supporting Plans.

After formulating the basic plan, various plans are derived so as to support the mall1 plan. In an organisation there can be various derivative plans like planning for buying equipments, buying raw materials, recruiting and training personnel, developing new product, etc. These derivative plans are formulated out of the main plan and, therefore, they support it.

8. Establishing Sequence of Activities.

After formulating basic and derivative plans, the sequence of activities is determined so that plans are put into action. Based on plans at various levels, it can be decided who will do what and at what time. Budgets for various periods can be prepared to give plans more concrete meaning or implementation.

LESSON 16:
STRATEGIC PLANNING PROCESS

Learning Objectives

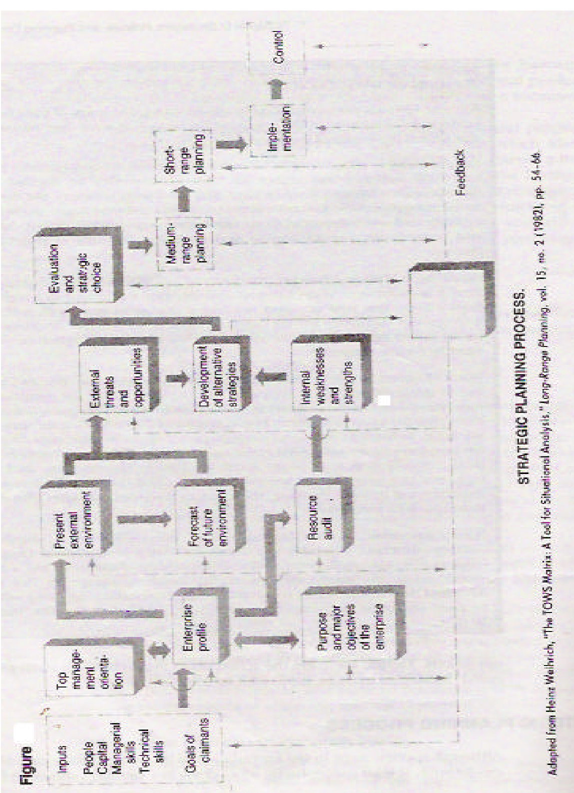
On Completion Of This Chapter You Should Be Able To:

- You will be able to understand the conept of strategic planning .
- You will have a clearity of thought on the strategic planning process of any organization.

You will be able to understand clearly the implications of the company's strategic planning process.

Planning involves selecting missions and objectives and the actions to achieve them, it requires decision making, that is choosing future courses of action from among alternatives. There are various types of plans ranging from overall purposes and objectives to the most detailed actions to be taken ,such as ordering a special stainless steel bolt for an instrument or hiring and training workers for an assembly line. No real plan exists until a decision – a commitment of human or material resources or reputation – has been made. Before a decision is made, all that exists is a planning study, an analysis , or a proposal : there is no real plan.

Although specific steps in the formulation of the strategy may vary, the process can be built, at least conceptually, around the key elements shown in Figure



Inputs

The inputs from the external environment may include people, capital, and managerial skills, as well a technical knowledge and skills. In addition, various groups of people will make demands on the enterprise .For example employees want higher pay, more benefits, and job security. On the other hand, consumer demands safe and reliable products at reasonable prices. Suppliers want assurance that their products will be bought. Stockholders want not only a high return on their investment but also security for their money. Federal, state and local governments depend on taxes paid by the enterprise, but they also expect the enterprise to comply with their laws. Similarly, the community demands that the enterprise be 'good citizens' providing the maximum number of jobs with a minimum of pollution. Other claimants to the enterprise may include financial institutions and labour unions,even competitors have a legitimate claim for fair play.

Enterprise Profile

The enterprise profile is ua1ly the starting point for determining where the company is and where it should go. Thus, top managers determine the basic purpose of the enterprise and clarify the firm's geographic orientation, such as whether it should operate in selected region in all states in the United States, or even in different countries. In addition managers assess the competitive situation of their firm.

Orientation of Top Managers

The enterprise profile is shaped by people, especially top managers, and their -orientation is important for formu1ating the strategy. They set the organizational climate, and they determine the direction of the firm. Consequently, their values, their preferences, and their attitudes toward risks have to be carefully examined because they have an impact on the strategy.

Purpose and objectives

The purpose and the major objectives are the end points toward which the activi-ties of the enterprise are directed. Since the previous chapter dealt with these topics at length, addition discussion here is unnecessary.

External Environment

The present and future; external environment must be assessed in terms of threats and opportunities. The evaluation focuses on economic, social, politi-cal, legal, demographic, and geographic factors. In addition, the environment is scanned for technological development, for products and services on the market, and for other factors necessary in determining the competitive situation of the enterprise.

Internal Environment

Similarly, the firm's internal environment should be audited and evaluated in respect to its resources and its weaknesses and strengths in research and development, production, operations, procurement, marketing, and products and services. Other internal factors important for formulating a strategy include the assessment of human resources, financial resources, and other factors such as the company image, the organization structure and climate, the planning and control system, and relations with customers.

These are just a few examples of possible strategies. In practice, compa-nies, especially large ones, pursue a combination of strategies.

Evaluation and Choice of Strategies

The various strategies have to be carefully evaluated before the choice is made. Strategic choices must be considered in light of the risks involved in a particular decision. Some profitable opportunities may not be pursued because a fail-ure in a risky venture could result in bankruptcy of the firm. Another critical element in choosing a strategy is timing. Even the best product may fail if it is introduced to the market at an inappropriate time. Moreover, the reaction of competitors must be taken into consideration. When IBM reduced its price of the PC computer in reaction to the sales success of Apple's Macintosh computer, firms producing IBM-compatible computers had little choice but to reduce their prices as well. This illustrates the interconnec-tion of the strategies of several firms in the same industry.

Medium- and Short-Range Planning, Implementation and Control

Although not a part of the strategic planning process (and therefore shown by broken lines in Figure), medium- and short-range planning as well as the implementation of the plans must be considered during all phases of the pro-cess. Control must also be provided for monitoring performance against plan.The importance of feedback is shown by the loops in the model.

Perspective

Top-management Choices

Top managers get paid for making tough decisions, and many of their decisions are strategic for the future of the company. Let us look at some examples of decisions that altered the course of the company.

General Motors. Roger Smith of general Motors saw the opportunities in the high-tech field and their importance for GM. Consequently, he decided to acquire Electronic Data Systems Corp., a large data procession company. But the resistance to the merger of these two companies (with very different organizational cultures) by GM's staff was substantial. Long-established organizations do not change easily, and Roger Smith learned a great deal about the difficulty of making dramatic changes.

Gould Inc. William Ylvisaker, the former CEO at Gould Inc., changed the firm from a manufacturer of car batteries and electrical equipment to a high-tech electronic firm. This new direction required a change in personnel; half of Gould's management committee left the company. Making such drastic decisions requires a strong-willed person; Ylvisaker was named one of the ten toughest corporate managers by Fortune magazine.

Warner-Lambert. When Ward Hagan wanted to restructure Warner-Lambert, he had to streamline the drug company. This required selling the eyeglass manufacturer American Optical (a loser) as well as Entenmann, a profitable bakery firm. To give a new direction to the firm, Hagan employed the consulting services of McKinsey & Co. to teach its managers strategic planning. To be sure, nobody can predict the long-term future with great accuracy, but strategic planning forces managers to think critically and analytically about the future. The company sent 500 of its managers to a program that trained them in critical thinking. To demonstrate the importance of strategic thinking, the company rewarded managers who utilized the technique with promotions.

Rolm Corporation. Rolm Corporation was concerned about its dependence on military customers, which led to a search for related product lines. Despite a thorough search, the results were at first disappointing. Persistence and a continuing search led to the development of digital switching equipment that was more advanced than that of Rolm's competitors. Some risk-taking decisions turned out to be right and made the company a giant in its field before the firm was acquired by IBM.

LESSON 17:
STRATEGIC PLANNING IN THE NEXT MILLENNIUM

Learning objectives

On completion of this chapter you should be able to:

- You should be able to understand how companies meet the challenges of strategic management.
- You should be able to understand that global economy has resulted in a number of challenges and opportunities.
- You should be able to understand how companies can hope to achieve any measure of success in global markets, it must strategically become competitive in its domestic markets.
- You should be able to understand the need for strategic management.
- You will come to know that strategic management is a sequential activity and therefore can be readily organized by employing formal procedures.

So, we can now discuss about various challenges faced by strategic management:

All firmsand managersare challenged to achieve strategic competitiveness and earn aboveaverage returns. This challenge can be formidable. A primary challenge facing managers today is the need to recognize by such companies as Infosys and Reliancethat the strategic management process and the striving for strategic competitiveness takes place in a dynamic global economy. As a result of this ongoing struggle, success today does not necessarily equate with success tomorrow.

An inspection of Table points out that not all companies will be able to successfully meet the challenges of strategic management as measured by market value added (defined as market value minus capital invested).

Look at the table given below and tell me your interpretations:

Wealth Creators in India between 1996 -97 and 1999 - 2000

In four years: 1996-97 to 1999-2000				
Company	Increase in MVA (Rs Cr.)	Capital Growth	Efficiency Improvement	Current ROCE
Wipro	61,971	104%	14%	29%
Infosys Technologies	43,999	881%	4%	30%
Hindustan Lever	29,666	230%	8%	36%
Reliance Industries	27,999	72%	2%	13%
HCL Technologies	16,205	N.A.	17%	17%
ITC	14,014	84%	5%	22%
HFCL	9,645	168%	-2%	8%
Satyam Computer	9,487	631%	7%	24%
Services				
Zee Telefilms	8,475	3726%	-17%	7%
Ranbaxy Laboratories	6,198	41%	-1%	13%

Lets Discuss

As shown in Table above, Wipro and Infosys lead the list of wealth creators for several consecutive years as they have created more wealth (measured by market value added) than other Indian firms.

The transient nature of strategic competitiveness is pointed out even more clearly when one realises that only 16 of the 100 largest industrial companies in the world in 1900 remain competitive in the 1990s and that six members of 2000s top ten wealth creators above were not among the top ten in 1992.

This transient nature of strategic competitiveness means that companies in both traditional and new industries (including Infosys, Wipro, Zee Telefilms, Reliance Industries, Hindustan Lever and ITC) must be prepared to compete flexibly and anticipate the unexpected if they hope to achieve longterm strategic competitiveness. One key to success will be which firms' strategies will represent the best fit between the demands of the external environment and the resources and capabilities in their respective internal environments.

The competitive environment of today implies that traditional sources of competitive advantage economies of scale and large advertising budgetsmay not be as important in the future as they were in the past. The rapid and unpredictable technological change that characterises this new competitive landscape implies that managers must adopt new ways of thinking. The new competitive mindset must value flexibility, speed, innovation and integration.

A term often used to describe the new realities of competition is hypercompetition, a condition that results from the dynamics of strategic moves and countermoves among innovative, global firms: a condition of rapidly escalating competition that is based on pricequality positioning, battles to achieve firstmover advantage and battles to protect or to invade established product or geographic markets.

Similarly if you look at the next table:

The World Competitiveness Scoreboard 1999

S. No.	COUNTRY	1998 RANK	1999 RANK
1	USA	1	1
2	SINGAPORE	2	2
3	FINLAND	5	3
4	LUXEMBOURG	9	4
5	NETHERLANDS	4	5
6	SWITZERLAND	7	6
7	CHINA - HONG KONG	3	7
8	DENMARK	8	8
9	GERMANY	14	9
10	CANADA	10	10
11	IRELAND	11	11
12	AUSTRALIA	15	12
13	NORWAY	6	13
14	SWEDEN	17	14
15	UNITED KINGDOM	12	15
16	JAPAN	18	16
29	CHINA MAINLAND	24	29
34	THAILAND	39	34
38	KOREA	35	38
39	INDIA	41	39

The emergence of this global economy has resulted in a number of challenges and opportunities. For instance, Europe is now the world's largest single market (despite the difficulties of adapting to multiple national cultures). Including the nations that make up the former Soviet Union and the rest of the Eastern bloc, the European economy has a gross domestic product (GDP) of $ 8 trillion, comparable to the US, with 700 million potential customers. In addition, China is seen as an emerging giant that is expected to have a higher GDP (but a lower per capita output) than Japan by 2015 or sooner. Table 1.3 shows the recent competitiveness rankings for 20 nations (top 15 and 5 others including India).

Improving a nation's competitiveness involves several factors and outcomes. It creates a higher standard of living for a country's citizens. It requires companies to view the world as its marketplace. It involves both additional benefits and risks.

Internationalisation or globalisation of markets and industries has added another dimension of challenge, which makes it quite difficult to classify many companies as purely domestic.

You take an example: Honda, a major player in the global automobile industry, builds over 70% of cars for the US market in the US. Another automaker, Toyota continues to reduce its Japanese employment while expanding its global workforce and builds its Avalon sedan, Camry coupe and station wagon, and Sienna minivan exclusively in us.

Thus, these automobile companies are more properly thought of as global companies striving for strategic competitiveness in today's competitive landscape. Because of the economic benefits, it is likely that the trend toward further globalisation of industries will be unstoppable.

For example, using the EuropeUSJapan Triad as an example, free trade is expected to positively impact the Triad with a 5 to 10% increase in annual economic outputs of manufactured goods and a 15 to 20% additional increase in economic outputs from free trade in services.

This potential for continued economic growth means that all industrialised nations must continue to seek the expansion of agreementssuch as the European Union, NAFTA and GATTthat will eliminate national laws that impede free trade among all nations.

As a result of this emerging competitive landscape, companies must rethink how they can achieve strategic competitiveness by positioning themselves to ask questions from a more global perspective. This would enable them to (at least) meet or exceed global standards. The questions could include questions like:

- Where should value adding activities be performed?
- Where are the most costeffective markets for new capital?
- Can products designed in one market be successfully adapted for sale in other markets?
- How can we develop cooperative relationships or joint ventures with other companies that will enable us to capitalise on international growth opportunities?

As a result of globalisation and the spread of information technology, competition will become more intense. As a result of this:

- Customerseven domestic customerswill continue to expect high levels of product quality at competitive prices;
- Global competition will continue to pressure companies to shorten product developmentintroduction time frames;
- Strategically competitive companies successfully leverage insights learned both in domestic and global markets, modifying them as necessary.

However, before a company can hope to achieve any measure of success in global markets, it must be strategically competitive in its domestic market.

Now something important for you to understand is the need for strategies and their management?

Those in favour of setting strategies argue that strategies are needed to give companies direction. Without strategies, incorporating objectives, companies would be adrift. If companies do not decide where they want to go, any direction and any activity is fine. People in companies would not know what they were working towards and, therefore, 'would not be able to judge what constitutes effective managerial behaviour.

However, those not in favour argue that direction setting strategies can also block out peripheral vision, keeping companies sharply, yet myopically, focused on one course of action. Thus, strategies may limit the company's ability to open to new opportunities and threats as these unfold and to deviate from a set course as the company interacts with its environment and learns.

Lets get down to discuss who is in favour of strategic mangement and put down five reasons:

Strategists hit back arguing that early commitment to a course of action is highly beneficial. By setting objectives and drawing up a strategy to accomplish these, companies can invest resources, train people, build up production capacity and take a clear position within their environment. Strategies allow companies to mobilise themselves and to dare to take actions that are difficult to reverse and have a long payback period. We need to point out that commitment has a flip side, inflexibility, especially when mechanisms to change course midway are not in place. The absence of strategies does give the company flexibility to easily change course.

Strategic plan also has the benefit of coordinating all strategic initiatives within a company into a single cohesive pattern. A companywide master strategy can ensure that differences of opinion are ironed out and one consistent course of action is followed throughout the entire company, avoiding overlapping, conflicting and contradictory behaviour. But the flip side is that developing a master strategy may lead to the squashing of initiative, either purposely or inadvertently.

Strategists also point out that strategies also facilitate optimal resource allocation. Drawing up a strategy disciplines strategists to explicitly consider all available information and consciously evaluate all available options before committing to a course of action. Documented strategies also permit corporatelevel strategists to compare the courses of action proposed by their various business units and to allocate scarce resources to the most promising initiatives. However, strategies sometimes place a disproportionate emphasis on thinking over action.

Enormous amount of time and effort are put into analyses, paperwork, meetings and presentations, trying to arrive at the optimal strategy. Often the result is that producing a strategy becomes an end in itself. Action is seen merely as operationalising the strategy, instead of as the primary input into further strategy formation. The absence of explicit strategies, therefore, gives strategists the opportunity to merge thinking and acting, and to form strategies through learning.

Last, but not least, strategies are a means for programming all organisational activities in advance. Having detailed strategies allows companies to be run with the clockwork precision, reliability and efficiency of a machine. Activities that might otherwise be plagued by poor company, inconsistencies, redundant routines, random behaviour, helterskelter firefighting and chaos, can be programmed and controlled if strategies are drawn up. However, using strategies to preprogram all activities within a company grossly overestimates the extent to which a company can be run like a machine. For adaptation, experimentation and learning to take place and for new ideas to emerge from within the company, a certain measure of chaos might actually be beneficial. The absence of detailed topdown strategies encourages employees to be responsible, entrepreneurial and combine thinking and action. In this way, new strategic initiatives are not organised and controlled topdown, but emerge spontaneously through bottomup processes of selfcompany

So after this Discussion

What clearly comes out of these conflicting views is that strategies are required but should not be walled ironclad into the one fixed set and not be changed, for that is the major objection against the requirement of strategies. They should be adaptable as the circumstances warrant and under the light of new developments as they keep on happening in the dynamic and hyper competitive world of business today. Having established the need of strategies (whether explicitly written down or not) you now turn your attention to the formal strategic management process.

After we have seen the need for strategies we need to see the need for its management:

You can argue that strategy formation by means of strategic management lends itself well to formalisation. By its very nature, strategic management is a very structured and sequential activity and therefore can be readily organised by employing formal procedures. Extensive formalisation can culminate in the establishment of a strategic management system. In such a system, strategy formation steps can be scheduled,tasks specified, responsibilities assigned, decisionmaking authority clarified, budgets allocated and control mechanisms installed.

Formal vs. Informal Process: The advantage of formalisation, according to advocates of the strategic management perspective, is that it structures and disciplines the strategy formation process. Formalisation facilitates tighter company, unambiguous responsibilities, clearer accountability and stricter review of performance.

A formal strategic management system forces managers to comply with a planning approach to strategy formation. It also gives top management more control over the company, as all major activities must be in approved strategies and the implementation of strategies is checked.

Formal strategic management systems could use bureaucratic means to make strategy. Formalisation strongly over emphasises those aspects which can be neatly organised such as meetings, writing reports, giving presentations, making decisions, allocating resources and reviewing progress, while marginalising essential strategymaking activities that are difficult to capture in procedures. Important aspects such as creating new insights, learning, innovation, building political support and entrepreneurship are sidelined or crushed by the bureaucratic mechanisms used to produce strategy. Moreover, strategic management bureaucracies, once established, come to live a life of their own, creating rules, regulations, procedures, checks, paperwork, schedules, deadlines, and doublechecks, making the system inflexible, unresponsive, ineffective and demotivating

Differentiated vs. Integrated Tasks : Many advocates of the strategic management perspective also believe that a division of labour within strategy formation processes is an important advantage of formal strategic management systems. The most important split facilitated by strategic management systems is between those who formulate the strategies and those who implement them. Formulation can also be divided into the task of developing strategies and the task of deciding which strategies should be implemented. Of course, other specialised functions can also be created such as strategic planner, competitive intelligence analyst, new business developer and controller. A major benefit of task differentiation is that the best managers are liberated from timeconsuming operational matters, so that they can focus on strategic issues. Furthermore, a certain measure of isolation from daytoday operations gives the manager formulating strategy the necessary distance to judge a business more objectively. Separating formulation and implementation tasks can seriously inhibit the formation of novel strategies. if strategists need to be explorers, inventors and organisational developers, they cannot afford to view formulation and implementation as distinct activities, but must approach them as tasks that should be integrated.

Formal strategic management can be used when some conditions are present and is difficult to use when the opposite is true. In his book 'Strategic Planning: What Every Manager Must Know', George A. Steiner (New York: Free Press, 1979) develops a table differentiating between the positions where formal strategic planning would be more successful and where it would not be.

Exhibit Forces Influencing Design of Strategic-Planning Systems (Table)

Towards more formality and more details	Nature of the Force	Towards less formality and fewer details
	Company	
	Small one-plant companies	→
←	Large companies	
	Management styles	
←	Policy maker	
	Democratic-permissive	→
←	Authoritarian	
	Day-to-day operational thinker	→
	Intuitive thinker	→
←	Experienced in planning	
	Inexperienced in planning	→
	Complexity of environment	
←	Stable environment	
	Turbulent environment	→
←	Little competition	
	Many markets and customers	→
←	Single market and customers	
	Competition severe	→
	Complexity of production processes	
←	Long production lead times	
	Short production lead times	→
←	Capital intensive	
	Labour intensive	→
←	Integrated manufacturing processes	
	Simple manufacturing processes	→
←	High technology	
	Low technology	→
←	**Market reaction time for new production is short**	
	Market reaction time is long	→
	Nature of problems	
←	Facing new, complex, tough problems having long-range aspects	
	Facing tough short-range problems	→
	Purpose of planning system	
←	Coordinate division activities	
	Train managers	→

Last but not the least, what is the face of strategic management in the next millennium?

Strategic management faces' many challenges in the coming decades of the next century. The complexity and dynamics of the environment makes predictions about the future highly cumbersome. Such unpredictability makes it difficult for the management to be proactive. However, management must be prepared to utilise all resources at its disposal to adopt an aggressive reactive approach to meet such changes and challenges of the future. Some of the issues, strategic management & strategic managers must be prepared to deal with, are discussed as follows.

Ethics and Social Responsibility over the centuries, businessmen have been perceived as profit oriented people, whose primary purpose has been to make money with little respect for the welfare of the people whom these businesses served. This is specially true in the developing countries where big businesses wield tremendous power over government and society. In India and Pakistan, for example, there are millions of people working as "bonded labour", where workers have absolutely no freedom. They cannot leave or change their jobs where they are paid minimum wages and are exploited fully. Because of monopolised industries in some of the developing countries, materials of substandard quality are deliberately produced without proper regard for the interests of the community around. The hoarding of grain, cement and other consumer needed commodities and then inflating their prices are well known tactics of businesses in India.

However, the value system in the business world is changing. Ethical behaviour on the part of all organisational members is expected and encouraged and it has become an integral part of the organisational manifesto. Organisational ethics are being widely adopted by organisations worldwide.

Corporate social responsibility involves a set of obligations on the part of management to protect and enhance the society in which it functions. This means, first, that social responsibility is an "obligation" for which the business should be held accountable. Second, it is the responsibility of business to protect the welfare of society in terms of not polluting the environment, producing safe and quality products, not discriminating in hiring practices, not advertising' deceptively and so on. Finally, it must enhance the society's welfare by creating positive benefits for society such as supporting charitable causes, culture and arts, educational institutions and other community projects which improve the quality of life in general.

Global Perspectives

The map of the world today is very different than the map of the world only two or three decades ago. In the last decade alone, the political and geographical boundaries have changed tremendously. The geographical boundaries are no longer rigid. Communism as a political system has fallen. Eastern Europe, once behind the Iron Curtain and inaccessible to the outside world is now joining hands with Western Europe for common economic growth. The world's largest McDonald's restaurants are in Russia and China. China is becoming a market economy, thus opening doors for foreign companies. India, bound by the socialistic economic philosophy for four decades is now openly inviting American, European and Japanese companies for joint ventures with Indian companies.

Our daily lives are strongly influenced by businesses around the world. We probably drive a Japanese car, wear Italian shoes, wear suits made in Romania, wear shirts made in Korea, drink coffee imported from Brazil or Colombia or use a Toshiba laptop computer for our business activities. Our major industries have indeed become international and according to Stephen Kobrin, "even the biggest companies in the biggest countries cannot survive in their domestic markets if they are in global industries. They have to be in all major markets". This impact is seen by the fact that people in Germany drive Fords, use IBM mainframe computers in Japan, eat McDonald's hamburgers in France and drink Pepsicola in China. Air India buys its jets from Boeing in America and most Middle East countries use Indian construction companies to build their roads and buildings and so on.

Going global has become necessary not only for growth but also for survival and strategic managers must not fail to consider the global perspective when formulating strategies.

Transition from an Industrial to a Knowledge Based Society

Knowledge is the most powerful strategic tool of successful organisations. Knowledge of changing technology assists in creating new products, processes or services. Knowledge about changing preferences of customers can give an organisation a competitive edge. Industrial economies will be more and more dominated by computers in terms of web sites and networks containing information about various aspects of the external environment and this information will become very crucial for survival and growth of the company, The labour will have to be more skilled and knowledge based in order to be innovative to meet the challenges of the competition and innovation would be a critical factor in strategic success.

Technological Changes

Changes in technology in practically all industries have been dynamic and strategic managers must be prepared to adapt to these changes and be innovative to maintain their strategic advantage. New technological developments such as cellular phones, laptop computers, satellite communications, electronic networks for online communication, fax machines, robotics, computer aided designs (CAD) and computer aided manufacturing (CAM) have been instrumental in improvements in product technology, process technology and information technology.

Managers must not only embrace change and learn how to manage it, but they must also ensure that all organisation members become a willing part of the changed internal environment. These fast and dynamic changes pose a tremendous challenge to strategic management and it must learn to adapt to these changes successfully and must be able to "thrive on chaos".

Diversity in the Workforce

As the international economy increases competitive pressures, the organisations must draw on the skills of the workers, irrespective of their race, culture, creed or sex. The demography of the workforce is changing and will continue to change. A high percentage of the workforce of the future in America will consist of women and ethnic minorities. It is expected that by the year 2005, half of all labour force entrants will be women and more than onethird will be Hispanics and African-Americans. Strategic management will have to face the challenge of bringing the people of different backgrounds, cultures and values into cohesive work teams.

India is also becoming a country of mobility where workers from Punjab are employed in textile mills of Gujarat and Bengalis are employed in the power plants of Madhya Pradesh. More and more women are joining the workforce. Management is learning to cope with different cultural values of workers from various provinces within the country.

The workforce of the next millennium will be highly heterogeneous and the management will face the challenge of enabling such heterogeneous workforce to perform to its potential in an equitable work environment where no one group or individual has an unfair advantage or disadvantage.

Complexity of the Strategic Management Environment

Rapid changes in the business environment are increasing its overall complexity. Accelerating rate of change, increasing competition at a global level, unstable economic conditions, resource shortages, knowledge expansion, demographic mobility and increased expectations of all constituencies in terms of higher quality in products and services are all elements that are going to add to the complexity of business environment. Strategic management will need to formulate and reformulate strategies and policies to deal with more and more variables and fast changes occurring in the values of these variable.

LESSON 18:
ENVIRONMENTAL ANALYSIS

Learning Objectives

On completion of this chapter you should be able to:

- To understand the nature of environment in which an organisation operates and the role of its analysis in strategy formulation.
- To understand the changing nature of Indian business environment and its implications for strategy formulation.
- Concept of environmental analysis and the Role of environmental analysis
- Concept of environment
  * Nature of environment
  * Impact of environment

The student will have a complete understanding of Environmental factors

Environmental Analysis

Environmental analysis is a part of SWOT analysis. SWOT is' acronym of strengths, weaknesses, opportunities, and threats. While opportunities and threats are external to an organisation, strengths and weaknesses are internal to the organisation. Though the analysis of these has spread in five d1apters because of their vital role in strategy formulation, here, these are merely described as follows:

1. **Opportunity**. An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
2. **Threat.** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.
3. **Strength**. A strength is an inherent capability of the organisation which it can use to gain strategic advantage over its competitors.
4. **Weakness**. A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

Though SWOT analysis should be taken as an integrated process in strategic management, here, it has been broken into two parts because the types of information required and techniques adopted in both these parts are quite different. These parts are environmental analysis for identifying opportunities and threats and organisational analysis for identifying strengths and weaknesses. Further, environmental analysis has been divided into three chapters, each of them dealing with general environmental factors, more specific factors in the form of industry and competition analysis, and techniques of environmental analysis respectively.

Concept of Environmental Analysis

Environmental analysis, also known as environmental scanning or appraisal, is the process through which an organisation monitors and comprehends various environmental factors and determines the opportunities and threats that are provided by these factors. Thus, there are I two aspects involved in environmental analysis:

1. Monitoring the environment, i.e. environmental search and
2. Identifying opportunities and threats based on environmental monitoring, i.e. environmental diagnosis.

On the basis of the above concept, following features of environmental analysis may be identified:

1. Environmental analysis is a **holistic exercise** in which total view of environment is taken rather than viewing trends piecemeal. Though for environmental analysis, the environment is divided into different components to find out their nature, function, and relationship for searching opportunities and threats and determining where they come from, ultimately the analysis of these components is aggregated to have a total view of the environment. This is necessary because some elements of the environment may indicate opportunities while others may indicate threats.
2. Environmental analysis is a heuristic or **exploratory process.** While the monitoring aspect of the environment is concerned with present developments, a large ,part of the process seeks to explore the unknown terrain, the dimensions of possible futures. Since futures are unknown, the analysis emphasises on 'what could happen and not necessarily what will happen.' The emphasis must be on alternative futures, seeking clarification of the assumptions about the future, speculating I systematically about alternative outcomes, assessing probabilities, and drawing more rational conclusions.
3. Environmental analysis must be a **continuous process** rather than being an intermittent scanning system. In this process, there is continuous scanning of the environment to pick up the new signals or triggers in the overall pattern of developing trends. Detailed studies are undertaken to focus closely on the track of previously identified trends which have been analysed and assessed and found to be of particular importance to the organisation.

Role of Environmental Analysis

Role of environmental analysis in strategic management is quite crucial. Ian Wilson' has compared the role of environmental analysis with function of a radar. If a ship is sailing on a sea of uncertainty, there are two essential requirements for a successful voyage. There has to be a star to steer the ship. Secondly, there must be a radar to signal the existence of rock, reefs, and clear water in the uncharted sea. Similarly, a business firm operating in an uncertain environment, must have a vision of the business (a guiding star) and a system of environmental analysis (the radar).

Many of the research studies also suggest that those organisations which undertake systematic environmental analysis perform better than those which do not take such an exercise. For example, Danny and Friesen's research study shows high relationship between environmental analysis and success of the firms.2 Even in our country, Reliance Industries Limited gives very' high priority to environmental analysis and the result is that the company has achieved highest growth rate in Indian corporate sector. The role of environmental analysis in strategic management can be seen in the following ways.

1. The environment changes so fast that new opportunities and threats are created which may result disequilibrium into organisation's existing equilibrium. Therefore, the strategists have to analyze the environment to determine what factors in the environment present opportunities for greater accomplishment of organisational objectives and what factors in the environment present threats to the organisation's objective accomplishment so that suitable adjustment in strategies can be made to derive maximum benefits.

2. Environmental analysis allows strategists time to anticipate opportunities and plan to take optional responses to these opportunities. Similarly, it helps to develop an early warning system to prevent the .threats or to develop strategies which can turn the threats to the organisation's advantage.

3. Environmental analysis helps strategists to narrow the range of available alternatives and eliminate options that are clearly inconsistent with forecast opportunities of threats. The analysis helps in eliminating unsuitable alternatives and to process most promising alternatives.

Thus, it helps strategists to reduce time pressure and to concentrate on those which are more import.

Concept of Environment

Before we go through the mechanism of environmental analysis, it is desirable to understand the nature of environment, its impact on the organisation, and various factors which constitute environment. An organisation, being a system, operates in some contexts which lie outside it and is called as external environment or simply environment. Thus, environment consists of all the conditions, circumstances, and influences surrounding and affecting art organisation in its totality or any of its subsystems. The environmental factors are quite broad. For example, Barnard has defined environment as follows:

"Environment consists of .atoms and molecules, agglomeration of things in motion, alive, of men and emotions, or forces and resistances. Their number is infinite and. they are always present; they are always changing...3

This is quite a broad description of the environment. In order to be more precise, an organisation has to find out the relevant environment which directly affects it. However, the concept of relevance is a matter of perception which may differ from organisation to organisation and from strategist to strategist in the same organisation. In order to define and identify the relevant environment, let us go through the exogenous nature of environment which has been presented in the Figure

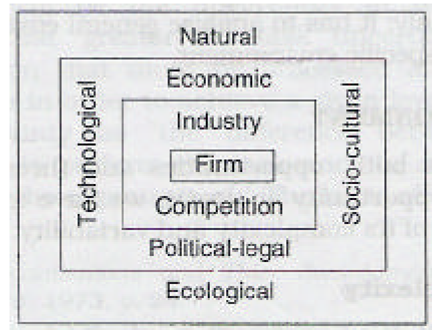


Figure: Exogenous nature of environment

The basic implication of the figure is that farther away an environmental variable exists from the firm, less impact it has over the firm's operations.

Based on the nature of this impact, various enviromental factors are grouped into two categories: general and specific.

General Environment General environment, also known as societal, remote, macro or indirect-action environment, consists of those factors which affect the business of a country and, therefore, they have homogenizing effect. In the general environment, we can include natural and ecological factors at the first level. Natural factors are important to the economic activities of a country because' either they provide opportunities or threats to the economic system. For example, agriculture depends on nature (rainfall, climatic conditions, etc.); manufacturing depends on physical inputs; mining and drilling depend on natural deposits; transportation and communication depend on geographical factors; and so on. In the same way, ecological factors like environmental pollution, wild-life, greenery, and other factors are matters of concern for all organisations.

At the second level, comparatively, more influencial factors come in the form of economic, political-legal, technological, and social-cultural factors. Taken together, they set forth the framework for organisations' operations and determine the inputs which organisations can take from the environment, process these inputs in the form of outputs, and export these outputs back to the environment. Various characteristics of such factors may be favourable or unfavourable to the growth of organisations. Besides these factors, which exist within a country, international factors also become important because of globalisation of economy of a country.

Specific Environment Specific environment, also known as task, operating, micro or direct-action environment, affects individual organisations differently. Since a particular organisation operates in an industry or limited number of industries, it is directly affected by the nature of industry concerned and the type of competition prevailing therein. Thus, the specific environment includes those forces lying outside the organisation directly relevant to decision making about input acquisition, transformation process, and export of output. However, it does not mean that an organisation should take the analysis of its specific environment only; it has to analyse general environment too because it ultimately shapes the specific environment.

Nature of Environment

Environment provides both, opportunities and threats. In order to know whether there is-an opportunity or threat, we have to look at the nature of environment in terms of its complexity and variability.

Environmental Complexity

Environmental, complexity is referred to the heterogeneity and range of activities which are relevant to an organisation's operations. Thus, more diverse the relevant environmental activities and more these are, the higher is the complexity. The heterogeneity relates to the variety of activities in the environment affecting the organisation. Complexity or non-complexity of environment is a matter of perception. Starbuck states that 'the same environment one organisation perceives as unpredictable, complex, and evanescent, another organisation might see as static and easily understood'

Organisations dealing with non-complex environment have one advantage in the sense that there are fewer critically important information categories necessary for decision-making. When the environmental sectors are same and limited, the organisations are not required to process complex information for their actions. Moreover, the volume of information processed is low though there might be large sector of environment. As against this, organisations working in complex environment have to process a large variety of information.

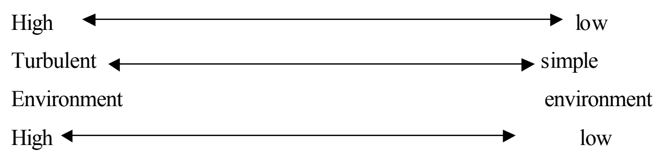
Environmental Variability

The degree of environmental variability is an important determinant of organisational functioning. In fact, the environment, being dynamic, changes over the period of time, but it is the rate of change which is a matter of concern. There can be low or high change rate, though again it is matter of perception. Both low and high change rates can be dichotomised further into stable and unstable rates. Stable rates occur in a situation where most of the important factors influencing a situation are changing predictably in value and where set of critical factors remains constant. Unstable rates take place when a situation is loose and erratic. Here, both the value of important variables-independent and intervening-and the kinds of relevant variables in the set are changing unpredictably. Child refers to environmental variability as "the degree of change that may be seen as a function of three variables: (i) the frequency of change in relevant activities; (ii) the degree of difference involved at each, and (iii) the degree of irregularity in the overall patters of change. There are four types of environmental movement: low-stable change, high-stable change, low-unstable change, and high-unstable change-all having different effects on an organisation.

The degree of variability in the environment affects the organisational functioning by affecting the task performance. More is the variability in the environment, more will be the uncertainty in the task performance. Galbraith, observes that 'greater the task uncertainty, the greater the amount of information that must be processed among decision-makers during task execution in order to achieve a given level of performance'. 6 He has defined uncertainty as 'the difference between the amount of information required to perform the task and the amount of information already possessed by the organisation'. The basic effect of uncertainty is to limit the ability of the organisation to preplan or to make decisions about activities in advance of their execution.

Taking both dimensions of the nature of environment-complexity and variability, environment may be seen in terms of a continuum ranging from turbulent to simple with varying degree of complexity and variability as shown in the figure.

Degree of complexity



Degree of variability

Figure: Continuum of environmental complexity and variability

A turbulent environment has following characteristics:

1. Growth does not extrapolate.
2. Historical strategies are suspect.
3. Profitability does not follow growth.
4. The future is highly uncertain.
5. The environment is full of surprises.

The above characteristics of environment may be because of high rate of change which may not be predictable, e.g. sudden change in Government policies, technological breakthroughs, threats for, or actual, war, change in prices of any product at international level (like the substantial increase in crude oil prices by OPEC in 1973), etc.

A simple environment has the following characteristics:

1. The rate of change is quite slow and, therefore, predictable.
2. Historical strategies work though some minor modification may be required.
3. The rate of growth for the industry may be extrapolated.
4. Profitability is linked with growth.

Impact of Environment

As pointed out earlier, every organisation has to work within a framework of certain environmental forces and there is a continuous interaction between the organisation and its environment. The interaction suggests a relationship between the two. This relationship can be analysed in three ways. First, the organisation can be thought of as an input-output system. It takes various inputs-human, capital, technical-from the environment. These inputs are transformed to produce outputs-goods, services, profits-which are given back to the environment. Thus, the organisation merely performs the function of input-output mediator. In this process, what kind of inputs should be taken or outputs given will be determined by the environment in its interaction with the internal factors of the organisation. Second, the organisation can be taken as the central focus for realising the contributions of many groups, both within and outside the organisation. When these groups contribute to the well-being of the organisation, they must have a legitimate share in organisational outputs. These groups may be employees, consumers, suppliers, shareholders, govemment, and the society in general. Thus, the organisational functioning will be affected by the expectations of these groups and the organisation has to take these factors into account. Third, the organisation can be treated as operating in environment presenting opportunities and threats to it. Thus, how an organisation can make the best use of the oppm.1unities provided or threats imposed is a matter of prime concern for it.

Any single approach by itself is insufficient to explain the complex relationship between the organisation and its environment-Moreover, these approaches are not inconsistent to each other; they are complementary. Thus, an organisation will be affected by the environment in which it works Such effect will be on the various aspects of, strategic management, as presented in figure

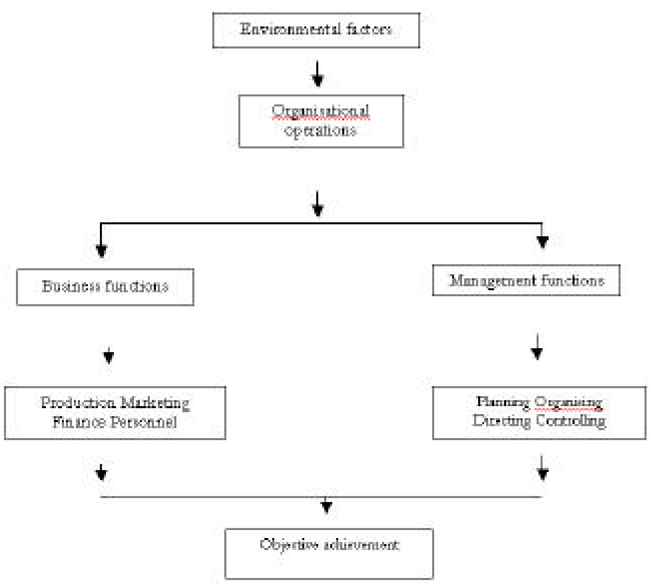


Figure: Environment-Organisation Interaction

The environment-organisation interaction has a number of implications from strategic management point of view.

1. The environmental forces may affect different parts of the organisation in different ways because different parts interact with their relevant external environment. For example, the technological environment may affect the organisaiton's R & D department. Further, these forces of the environment may have direct effect on some parts but indirect effect on others. For example, any change in the fiscal policy of government may affect the finance department directly but it may affect production and marketing indirectly because their programmes may be recasted in the light of new situation, though not necessarily.
2. The environmental influence process is quite complex because most things influence all other things. For example, many of the environmental forces may be interacting among themselves and making the impact on the organisation quite complex. Moreover, the impact of these forces on the organisation may not be quite deterministic because of interaction of several forces. For example, the organisation structure will be determined on the basis of management philosophy and employee attitudes. But the organisation structure becomes the source for determining the employee attitudes. Thus, there cannot be direct and simple cause-effect relationship rather much complexity is expected.
3. The organisational response to the environmental forces may not be quite obvious and identical for different organisations but these are subject to different internal forces. Thus, there is not only the different perception of the environmental forces but also their impact on the organisation. Key factors determining responses to environmental impact may be managerial philosophy, life cycle of the organisation, profitability, etc.
4. The impact of environmental forces on the organisations is not unilateral but the organisations may also affect the environment. However, since the individual organisations may not be able to put pressure on the environment, they often put the pressure collectively. Various associations of the organisations are generally formed to protect the interest of their members. The protection of interest certainly signifies the way to overcome unilateral impact of the environment on the organisations. The nature of organisation-environment interaction is such that organisations, like human species or animals, must either adjust to the environment or perish.

LESSON 19:
PESTLE ANALYSIS

(Political / Economic / Social / Technological / Legal / Legal Environment)

Environmental Factors

As pointed our earlier, the managers should identify their relevant environment so that they can analyse the various elements in order to relate their organisations with the environment. However, there may be a number of such factors and can be classified in various ways. Since the orientation towards relevant environmental factors differs for organisations because of the reasons noted earlier, there may be back of unanimity on such factors. Similar is the case with management literature. For example, Duncan has classified the relevant components of environment for an organisation into five categories: consumer component, supplier component competitor component, socio-political component and technological component.9 On the other hand, Glueck has grouped the environmental factors in six broad categories: economic, government-legal, market competitive, supplier -technological, geographic, and social. 10 D .R. Singh, while analyzing environmental issues taken up by multinationals in the host country, has emphasised the following factors: economic situation, political situation, and financial situation. He has further classified the political situation into industrial development policy, foreign investment policy, corporate taxation policy, import-export policy, industrial licensing, foreign exchange control, and capital issue control. 11 These classifications suggest that the environmental factors may be classified in various ways. However, the classification of these factors must be in such a way that it presents some framework by which to view the total situation with which the managers confront. This provides managers a sharp focus on the relevant factors of the environment. They make decisions in the light of the various environmental forces as perceived by them. This requires the classification of environmental forces which distinguishes each element from others so that managers can pinpoint the impact of each on their organisations. However, it can be emphasised here that environmental factors are intertwined; they affect each other and are affected by others. For example, the economic factors of a country are likely to be affected by the political and legal aspect of the country. In the same way, economic aspect may determine technological factor but is affected by the latter. This international feature makes the classificatory scheme even more flexible. However, an analytical classification of various environmental factors may be:

1. Economic environment,
2. Political-legal environment,
3. Technological environment,
4. Socio-cultural environment, and
5. International environment.

These environmental factors would ultimately determine- the nature of an industry and its competitive environment which is more relevant to an organisation.

Economic Environment

Economic environment is by far the most important environmental factor which the business organisations take into account. In fact, a business organisation is an economic unit of operation. Since the measurement of organisational performance is mostly in the form of financial terms, often managers concentrate more on economic factors. The economic environment is also important for non-business organisations too because such organisations depend on the environment for their resource procurement which is greatly determined by the economic factors. As such, the understanding of economic environment is of crucial importance to strategic management.

Economic environment covers those factors, which give shape and form to the development of economic activities and may include factors like nature of economic system, general economic conditions, various economic policies, and various production factors.

From analytical point of view, various economic factors can be divided into two broad categories: general economic conditions and factor market. The discussion of these factors will bring out the nature of total economic environment.

General Economic Conditions

General economic conditions of a country determine the extent to which various organisations find the economic forces. favorable or unfavorable. General economic conditions are shaped by many forces such as economic system monetary policy fiscal policy and industrial policy of the country. However, the general economic conditions are also affected by the political and social factors too. These economic conditions affect national income, distribution of income, level of employment, factor market and product market. In turn, all these factors affect the business organisations. An analysis of these will give a picture of the conditions in which the organisations have to operate.

1. Economic System. The economic system of a country determines the extent to which the organisations have to face different constraints and controls by the economic factors. In three alternative economic systems- capitalistic, mixed, and socialistic-organisations have to face different types of control ranging from total freedom to total control. An economic system puts certain restrictors over the functioning of the organisation. Second, it provides lot of protection to an organisation depending on its nature. For example, public sector organisations are protected from private organisations, local organisations from foreign organisations, small organisations from large organisations, and so on.
2. National Income and its Distribution. National income is defined as the money value of economic activities of a

country during a particular / period, normally one year. National income determines the purchasing power of people and consequently the demand for products. Distribution of national income determines the types of products that may be demanded by the people.

3. Monetary Policy. Monetary policy regulates the economic growth through the expansion or contraction of money supply. There are three basic objectives of Indian monetary policy: (i) to provide necessary finance to the industries, particularly in private sector; (ii) to control the inflationary pressure in the economy; and (iii) to generate and maintain high employment.

4. Fiscal Policy. Fiscal policy deals with the tax structure and governmental expenditure. Generally the fiscal policy is adopted for: (i) mobilising maximum possible resources; (ii) optimal allocation of resources so as to attain rapid growth; (iii) attainment of greater equality in the distribution of income; and (iv) maintenance of reasonably possible stability of prices. There are two aspects of fiscal policy' relevant to strategic management. First, how tax structure is affecting the growth of individual organisations and the industry as a whole. Second, how 'government's spending affects economic activities.

Factor Market or Supplier Component

Organisations employ many factors of production-land, labour, capital, managerial personnel, etc. The management should appraise the availability of these factors so that suitable strategies can be adopted for their procurement and utilization. The easy availability of these resources facilitates the organisational functioning. While analysing the factor market aspect of economic environment, following considerations should be taken into account.

1. Natural Resources. The availability of natural resources-land, minerals, fuel, etc.-becomes a strategic planning factor for organisations requiring such resources in the production process. Normally location pattern is decided on the basis of availability of these factors. In our country, there are plenty of natural resources-land, water: and minerals of various types. However, in the absence of their proper exploitation and uses, these resources are not able to give adequate benefits. Moreover, there is lack of certain critical factors, for example, electricity, fuel, etc. which affect the organisational efficiency adversely.

2. Infrastructural Facilities. Infrastructure provides the various supporting elements for the efficient functioning of the organisations. These may include transportation, communication, banking services, financial services, insurance, and so on. In our country, while these facilities are available in plenty and at satisfactory level at some places, there is total absence or inadequacy at other places. For example, in urban areas, these facilities are available to a reasonably satisfactory level but these are lacking in rural areas where the scope for opening more business operations is quite high. The government is emphasizing the development of backward areas by giving various concessions to the organisations and through creating the provisions for infrastructure.

3. Raw Materials and Supplies. An organization requires continuous flow of raw materials and other things to maintain its operations. The price of materials, frequency and regularity of supply:, and other terms and conditions are important considerations in this respect. All these factors, in turn depend on the availability of natural resources" infrastructure facilities and general economic development of the country.

4. Plant and Equipment. An organisation invests money in plant and equipment because it expects a positive rate of return over cost in future. The revenue from the use of the plant and equipment should be sufficient so as to cover the invested money, operating costs, and generate enough profit to satisfy the organisation. Greater uncertainty in these would make the cost of plant and equipment a more important strategic factor. The availability of plant and equipment is dependent on the technical development of the country and the government's approach towards foreign technical collaboration.

5. Financial Facilities. Financial facilities are required to start and operate the organisation. The external sources of finance are share capital, banking and other financial institutions, and unorganised capital markets. The recent changes in the Indian capital market indicate the availability of plenty of finance both from the financial institutions as well as from general public. In fact the organisation and working of Indian capital market can be compared favourably with many industrially advanced countries. The availability of finance coupled with various incentives attached is a facilitating factor. However, such facilities have been utilized by" the few large scale and medium scale organisations.

6. Manpower and Productivity. While the availability of factors of production affects the development of the country as well as individual organisations, the level of productivity affects the organisational efficiency and profitability. The productivity of both human and physical factors is dependent on many factors, for example, the type of technology used, the production process applied, the organisational processes, and the use of managerial techniques.

"While analysing the economic environment, the organization intending to enter a particular business sector may ask the following questions:

1. Does the economic system allow to enter the business sector sought? Communist countries' economic systems have lot of such barrier.
2. What is the stage of economic growth and what is the rate of growth? "Is it maturing, declining, or at take-off stage?
3. What is the level of income-national and per capita? Does it offer market of large size?
4. What are the incidents of taxes, both direct and indirect, in general and on specific products?
5. What are the infrastructure facilities available and what are bottlenecks therein?
6. Are critical raw materials and components available and at what costs?

7. What are the sources of financial resources and what are their costs?
8. Is adequate manpower-managerial, technical and workers-available and what are their salary and wage structures? What is the level of their productivity?

Political – Legal Environment

Political-legal environment is an important factor particularly in a mixed economy like ours, and affects the working of business organisations significantly. Political-legal environment of a country includes the following elements:

1. Political system such as political processes, political organisations-political parties and their ideologies, political stability, and extent of bureaucratic delays and red-tapism;
2. Defence and foreign policies like defence expenditure, maintenance of external relationships with other countries, defining most favoured countries from business point of view, etc.; and
3. Legal rules of the game of business-their formulation, implementation, efficiency, and effectiveness.

Political-legal environment of a country can be bifurcated into two parts depending on the nature of their impact on business organisations:

1. Promoting environment and
2. Regulatory environment.

Promoting Environment

Promoting environment of political-legal aspect of business includes the stimulation of business through the provisions of' various facilities and incentives, protecting home markets from the invasion of foreign competitors, taking direct role of promoting business organisations, and purchasing from business organisations. Government has provided all these in Indian economic system. It has involved itself in providing various facilities in the form of infrastructure-transport, electricity, banking and finance, postal and telecommunication, etc.; helping to promote Indian business abroad; promotion of business organisations in public and joint sectors; provisions of concessions and benefits of various types for industries located in specified areas; and so on. Though many features of these have changed over the period of time, they have contributed a lot to the development of industries in India.

Regulatory Environment

Regulatory environment is just opposite to promoting environment; it puts certain restrictions on the operations of business organisations. However, these restrictions are not of arbitrary nature but are based on the nature of a social system. In a social system, there is no freedom without clearly defined area of freedom. In fact, this is a very old story reaching down through the history of mankind: there is no freedom without laws. In Indian context, regulatory environment consists of the factors related to the regulation of business operations of organisations by prescribing their freedom to operate in certain areas of business and the practices that they are required to follow in conducting their business. These have been prescribed by legislative measures in the form of various laws and policy formulation from time to time. Though many changes have taken place in India's regulatory environment, discussed later in this chapter, major regulations in force are as follows: -

1. Control through industrial policies and licensing,
2. Control of monopolies and restrictive trade practices,
3. Control through Foreign Exchange Management Act,
4. Control on import and export,
5. Control over foreign operations, collaboration, and joint ventures,
6. Control over distribution and pricing of certain -goods,
7. Control to protect consumer interest,
8. Control over environmental pollution, and
9. Control of procedural matters through the Companies Act.

All these controls are exercised within the framework of the Constitution of India which has provisions to put control over the arbitrary actions of the government.

In analysing political-legal environment, an organisation may put the following questions:

1. How does the political system influence the business?
2. What are the approaches of the government towards business? Are they restrictive or facilitating?
3. What are facilities and incentives offered by the government?
4. What are the legal restrictions in entering a particular industry segment either because of licensing requirement or it being reserved to a specific sector such as public sector or small-scale sector?
5. What are the restrictions in importing technology, capital goods, and raw materials?
6. What are the restrictions in ,exporting products and services? What are the export obligations?
7. What are the restrictions on pricing and distribution of goods?
8. What are the procedural formalities required in setting a business?

Technological Environment

Technological environment is important for business as it affects the type of conversion process that it may adopt for its purpose. The technological environment refers to the sum total of knowledge providing ways to do things. It may include inventions and techniques, which affect the ways of doing things, that is designing, producing, and distributing products. A given technology affects an organisation in the way it is organised and faces competition. From strategic management point of view, technology has following implications:

1. Technology is a major source of productivity increase. Though human beings are primarily responsible for handling technology, their efficiency is determined by the type of technology being used.
2. Various jobs in an organisation being performed by individuals are determined by the technology being used. If there is a change in technology, the jobs are changed because technology determines the level of skills required.

3. Technology influences the social situation, that is, the size of groups, membership of group, patterns of interpersonal interactions, opportunity to control activities are influenced in a variety of ways by technology.
4. Organisations become more secured by developing efficiency through the adoption of efficient technology. However, as 'the technology becomes more complex, it becomes relatively more difficult for new organisations to enter the field.
5. There is a time gap in employing new technologies both within an organisation and among organisations in a field. Time gap within the organisation means that adjustment to technological innovation will be spread over a number of years and is not amenable to a direct, one-change solution. with the industry, it means that if a new technology is adopted by an organisation, others in the same industry will follow soon, however, because of time gap, the first organisation will have some sort of monopolistic advantages.

Petrov has analysed the strategic implication of technological environment as follows:

1. It can change relative competitive cost position within a business;
2. It can create new markets and new business segments; and
3. It can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.

The technological environment of the country is fast changing because of import of technology from foreign countries or because of technology generated out of research and development within the country. The Government is quite liberal in regard to the import of appropriate technology from foreign. It is also encouraging the development of internal technology though various incentives to the business organisations concerned as well as through other institutions and laboratories of Council of Scientific and Industrial Research and other technical institutions. Thus, the managers have to work in an environment where technological change - is the order of day. Its result is that they have to be more conscious to take the advantages of such changes.

In analysing technological environment, the organisation may ask the following questions:

1. What is the level of technological development in the country as a whole and specific business sectors?
2. What is the pace of technological changes and technological obsolescence?
3. What are the sources from which technology can be acquired?
4. What are the restrictions and facilities for technology transfer and time taken for absorption of technology?

Socio Cultural Environment

Social and cultural environment is quite comprehensive because it may include the total social factors within which an organisation operates. In fact, the political and legal environment is closely intertwined with social and cultural environment because laws are passed as a result of social pressures and problems. The socio-cultural environment of business can be defined as follows:

Social and cultural environment consists of attitudes, beliefs, desires, expectations; education and customs of the society at a given point of time.

Thus, social and cultural environment, in its broad sense, includes many - aspects of society and its various -constituents. From business organisation's point of view, it may include: (i) expectations .of the society from the business; (ii) attitudes of society towards business and its management; (iii) views towards achievement of work; (iv) views towards authority structure, responsibility and organizational positions, (v) views towards customs, traditions, and conventions; (vi) class structure and labour mobility; and (vii) level of education.

The various elements of social and cultural environment affect the working of the organisations mainly in three ways: organizational objective setting, organisational processes and the products to be offered by the organisation. Through these, they affect the total functioning of the organisation. The social and cultural factors affect the basic objectives of the organisation by prescribing the norms within which the organisational objectives are formulated. For example, to what extent, social responsibility will be an organisational objective is determined by the various social factors in which organisation functions. Similarly organisational processes are also designed keeping in view the various social and cultural factors otherwise they will not work. For example, the various control and decision processes in our social organisations are based on the basic values of joint family system and caste system. Similar is the case with other organisational processes. Social and cultural factors also affect the goods and services that can be offered by the organisation. Since the organisation works as mediator for converting inputs into outputs, and these outputs are given to the society, it can produce only those things, which are accepted by the society.

Often the social and cultural factors are not considered adequately by the managers in formulating or implementing their strategies. The result is that their sound strategies in all other aspects may fail. Many products, even by well-established manufacturers, have failed because these could not match the social values. Similarly many products which may not seem to be economically well may succeed because of their social and cultural values. Further the organisations have to follow social expectations in their objective setting and working, as discussed in the previous chapter. However, the social and cultural factors are also subject to change, though the change is gradual and steady which can be forecast with comparative ease once the managers get an insight of these factors.

In analysing social and cultural factors, the organisation can ask the following questions:

1. What are approaches of the society towards business in general and in specific areas?
2. How do social, cultural and religious factors affect acceptability or otherwise, of product?
3. What is the life style of people and what products fit that life style?
4. What is the level of acceptance of, or resistance to, change?

5. What are .the values attached to a particular product? Do people: see possessive value or functional value in the product?
6. Do people buy specific products for specific occasions necessitated by social and religious requirements?
7. What is the propensity to consume and to save?

International Environment

Today's economy has globalised in which geographical boundaries of a country have only political relevance; the economic relevance has extended beyond these. Today, market classification does not take into account only national parameters but global parameters. In this globalisation, many multinationals like Exxon, Mobil Oil, Coca-Cola, Avon, Unisys, etc. derive more than half of their revenues from their overseas operations. This is true for many Indian companies particularly in information technology sector such as Infosys Technologies, Wipro, Satyam Computer, Penta Media Graphics; Hughes Software, etc. These companies drive more than 70 per cent of their revenues from overseas operations. Therefore, there is a need for scanning international environment. From strategic management point of view, the analysis is required from two angles: to open operations abroad and to understand the implications of entry of multinational corporations in the country and the freedom of importing products and services from abroad. For operation abroad, the analysis of the following factors is important:

Economic Factors

1. Rate of economic growth.
2. Income distribution pattern
3. Size of market for company's products.
4. Infrastructure and physical facilities.
5. Sources of funds and their cost.
6. Availability of foreign exchange for remittances.

Tax Factors

1. Tax rate trends on various types of taxes-corporate, indirect taxes such as custom, excise, sales, local, etc.
2. Joint tax treaties with home country and other countries.
3. Duty and tax drawbacks on exports.
4. Availability of tariff protection.

Political-legal Factors

1. Political system and stability of political process.
2. Government's approach towards foreign investment.
3. Restrictions imposed on foreign investment.
4. Incentives provided on foreign investment.

Human Resource Factors

1. Local availability of human resources of various types.
2. Degree of skills and competence of different types of personnel.
3. Attitudes towards work and productivity.
4. Status of unionization and its approach towards management.
5. Availability of amenities for expatriate personnel and their families.

Geographic and Competitive Factors

1. Efficiency of transport system.
2. Proximity of site to export markets.
3. State of marketing and distribution system.
4. Profit margin on operations.
5. Competitive situation in the industry.

Socio-cultural Factors

1. Attitudes of local population towards foreign companies and products.
2. Degree of acceptability of innovative products.
3. Life style of people and consumption pattern.
4. Peculiar socio-cultural differences affecting business prospects adversely.

In the case of analysing international environment in the context of threats through import and operations of MNCs in the country, the important factors are:

1. Comparative cost advantages through technological advancement, high volume of production, or both.
2. Tariff structure affecting, favourably or unfavorably, imports.
3. Attitudes of exporting nations and companies in the form of dumping and other means to take advantages over local companies.
4. Degree of subsidies and incentives, both financial and non-financial, available to exporting companies.

Later type of factors have become more crucial in the liberalised Indian economy because it has opened its markets to MNCs almost in every sector and that too in unrestricted form. Therefore, Indian companies have to be more cautious than what they used to be.

Changing Indian Business Environment

We have seen that environment is dynamic and changes take place in it continuously. In the Indian business scene, many changes have taken place in the liberalization process which was introduced in 1990s and the process still continues. On the one hand, these changes have provided opportunities to Indian corporate sector; on the other hand, these have thrown many challenges to it because of unrestricted imports and entry of MNCs. Some of the major changes are as follows:

Macro And Monetary Policy Changes

Fiscal and Monetary Policy Changes,

1. Rationalisation of corporate and income tax
2. Rationalisation of excise duties
3. Rationalisation and reduction in custom duties
4. Lowering of interest rates

Banking Sector Changes

1. Entry of private sector banks
2. Equity dilution in public sector banks
3. Phasing out of priority lending

4. Operational freedom in lending rates
5. Operational freedom in deposit rates
6. Adherence to capital adequacy norms and income recognition

Capital Market Changes

1. Abolition of Controller of Capital Issues
2. Creation of Securities Exchange Board of India (SEB!)
3. Free pricing of new equity issues
4. Opening of capital markets to foreign institutional investors
5. Entry of foreign broking houses
6. Freedom for Indian companies to raise funds through ADRs / GDRs
7. Index and scrip-based future and option trading

Structural Changes

Market driven Pricing

1. Phasing out of subsidies
2. Phasing out of administered price mechanism
3. Abolition of control on distribution system

Public Sector Policy Changes

1. Disinvestments in and divestment of public sector undertakings
2. Reduced role of public sector
3. Abolition of price preference to public sector
4. No new establishment in public sector

Exit Policy Changes

1. More freedom for closing industrial undertakings
2. Voluntary retirement scheme
3. Creation of National Renewal Fund
4. Abolition of Bureau of Industrial and Financial Reconstruction

Industrial Policy Changes

IDR and MRPT Changes

1. Abolition of licensing system except for few industries
2. Concept of asset limit under MRI'P Act abolished
3. Industries reserved from small-scale sector reduced
4. Capital and investment limits for small-scale sector raised'
5. Joint venture norms eased

Direct Foreign Investment Policy Changes

1. Replacement of FERA by FEMA
2. Convertibility of Rupee on current account
3. Hundred percent equity participation by overseas companies in selected sectors
4. Freedom for buying shares to increase the holding of MNCs in their subsidiaries in India
5. Counter guarantee by Central Government for certain sectors

Export-import Policy Changes

Export Policy Changes

1. Emphasis on export but without financial subsidies
2. Export income tax free except in certain cases
3. Norms eased for opening offices/establishments abroad

Import Policy Changes

1. More and more items on open general license
2. De-emphasis on quota restrictions
3. De-channelisation of imports
4. Import tariffs as per stipulation of WTO

Implications Of Changes

It is not possible to discuss the details of the above changes owing to space limitations. However, we can analyse their implications from strategic management point of view. Post liberalisation, most of the Indian companies have started feeling the heat of new competitive environment.Even two most prominent industrial groups of the country- Tata and Birla-have evoked similar views on these threats. However, at the same time, these changes have provided opportunities to Indian companies.

Therefore, let us see what opportunities and threats have been provided by these changes.

Opportunities

Economic liberalisation has thrown a number of opportunities to Indian companies. In general, these opportunities are in the following forms:

1. Entry into business has become easier than what it used to be in pre-liberalised era which was marked by industrial licensing and several types of clearances from various government agencies. On the situation prevailing earlier, T. Thomas, former Chairman of Hindustan Lever, has commented that "trying to set up a new industrial unit in India is like running an obstacle race with one difference. In setting industrial unit obstacles incre91se both in number and complexity without prior warning. 'We have estimated that it takes about seven years from the conceptual stage to the production stage for any significant investment to take place in india. Out of this at least fifty per cent of the time is spent to satisfy government regulations. This situation has changed completely. Today, companies can implement projects in much lesser time because of lack of government regulations. For example, Reliance Group has taken less than four years in implementing its petroleum refinery, biggest in Asia, and paying dividend.
2. Liberalisation has eased the process of business restructuring either by way of divesting some businesses by an organisation or acquiring other businesses. Business restructuring has become a common phenomenon in Indian business scene because of lesser entry and exit barriers. Non-core and weaker businesses have been passing to those organisations which have substantial strengths in these businesses. For example, much of the growth in Hindustan Lever has generated because of mergers and takeovers. Most of these 'have taken place post-liberalisation.

3. Liberalisation has opened the path to private-sector organisations for the participation in management of public-sector companies through acquisition of majority or controlling shareholding as the government has adopted the policy of disinvestments and divestment. This phenomenon provides lot of strategic advantages to acquiring companies. For example, Sterlite Industries which is in the business of cables has substantial cost advantages over its competitors by acquiring. Controlling interest in Bharat Aluminium Company (BALCO) as it supplies critical raw materials to cable industry.
4. Liberalisation has paved the way for acquiring businesses abroad, which adds to competitive advantages to the acquiring companies. Such takeovers have become common in information technology sector, which add value to the acquiring companies by way of addition of IT professionals and business portfolio. In non-IT sector, takeover of Tetley by Tata Tea has provided it a plate form to become global player in tea bags.
5. Post-liberalisation raising of funds has become much easier because of fewer restrictions on this process. With free pricing, companies can charge price of their shares based on intrinsic worth rather than the price to be flexed by the government agency (earlier, it was Controller of Capital Issues). Besides, Indian companies can raise funds overseas by way of Global Depository Receipts (GDRs), American Depository Receipts (ADRs) or long-term loans. Many Indian companies have raised funds through GDRs and ADRs. Similarly, many companies have raised funds through long-term loans at much cheaper cost. For example, Reliance Industries has raised funds through bonds with a maturity period of 99 years, a phenomenon unheard, or even unconceived, in Indian context.

Threats

Every action has a mixture of both positive and negative aspects. This is true with liberalisation too. Though it is not possible to evaluate whether liberalisation as a policy is good or bad because it has ideological contention and many persons have taken this exercise at the academic level, it is sufficient to say, here, that liberalisation has thrown many challenges. Though these challenges may affect all Indian companies but those companies would be badly affected which do not cope up with reality. Given below is the list of challenges that liberalisation has posed in the form of threats to Indian companies:

1. Liberalisation has posed a kind of competition with which Indian companies have not confronted in the past. The competition has emerged in three forms. First, because of delicensing of industries, many new companies have entered the business fields which Were considered to be safe. Second, many foreign companies have entered Indian business scene and they have tilted the competition in their favour. Third, because of -lesser restrictions on import, the Indian market is flooded with lot of imported goods. All these three factors taken together have changed the earlier seller market into the buyer market ‘in which many companies find it extremely difficult to compete which has eroded their profitability and, in- many cases, their basic survival.
2. Entry of many new players in business field has posed acute pressure on productive resources, both human and non-human. Since resources are scarce by nature, this scarcity has raised the cost of procuring these resources. Just to take an example of human resources; most of these place their PGP students in management on the very first day of campus recruitment programmes and most of these students are grabbed by subsidiaries of MNCs. The cost of acquiring these students is increasing on an average of 20-25 per cent. Similar is the case with other critical resources.
3. Foreign Institutional Investors (FIls), sometimes, interfere with the management process of companies in which these FIls have substantial shareholdings through stock market operations. Many times, they insist on the adoption of foreign management practices which may not be applicable in Indian context in the same way.
4. With the increased limit of FIls holding up to 49 per cent, there may be threat of takeover of companies because promoters will not have controlling stake in shareholding. Though such a case has not happened, the possible threat exists.

In the light of these threats, the question that is. raised is: what should the Indian companies do In order to overcome these threats. A possible answer to his question may be that they should analyse the industry they operate in and evaluate the nature of competition therein. Based on this analysis, they can devise suitable courses of strategic action.

LESSON 20:
PORTER'S 5 FORCE ANALYSIS

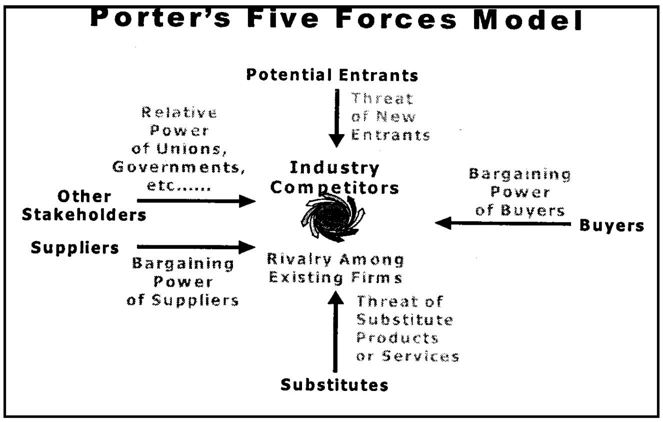
Learning Objectives

On completion of this chapter you should be able to:

You should be able to understand that the final external influence upon the organization is the competitive enviroment.

You should be able to understand that the competitive strategy of an organization and the need to secure particular competitive advantage over competitors are important .

You will find that an appraisal of the competitive enviroment is vital before plans laid down



Industry Environment Analysis

An industry is a group of companies producing products that are close substitutes for each other. As they compete for market share, the strategies implemented by these companies influence each other and include a broad mix of competitive strategies as each company pursues strategic competitiveness and aboveaverage returns.

It should be noted that, unlike the general environment, which has an indirect effect on strategic competitiveness and company profitability the effect of the industry environment is direct. Industry, and individual company, profitability and the intensity of competition in an industry are a function of five competitive forces as presented in Michael Porter's Five Forces Model of Competition indicates that these five forces interact to determine the intensity or strength of competition, which ultimately determines the profitability of the industry. Assessing the relative strength of the five competitive forces is important to a company's ability to achieve strategic competitiveness and earn aboveaverage returns.

Viewed differently, competition should be viewed as groupings of alternative ways that customers can obtain desired results. Thus, any analysis of an industry must expand beyond the traditional practice of concentrating on direct competitors to include potential competitors.

For example

- Suppliers can become competitors by integrating forward.
- Buyers or customers can become competitors by integrating backward.
- Companies, who are not competitors today, could produce products that serve as substitutes for existing products offered by companies in an industry, transforming themselves into competitors.

Threat of New Entrants

New entrants to an industry are important because, with new competitors, the intensity of competitive rivalry in an industry generally increases. This is because new competitors may bring substantial resources into the industry and may be interested in capturing a significant market share. If a new competitor brings additional capacity to the industry when product demand is not increasing, prices that can be charged to consumers generally will fall. One result may be a decline in sales revenues and lower returns for many companies in the industry.

The seriousness or extent of the threat of new entrants is affected by two factors: 1) barriers to entry and 2) expected reactions from, or the potential for retaliation by, incumbent companies in the industry.

Barriers to Entry

Barriers to entering an industry are present when entry is difficult or when it is too costly and places potential entrants at a competitive disadvantage (relative to companies already competing in the industry). There are seven factors that represent potentially significant entry barriers that can emerge as an industry evolves or might be explicitly "erected" by current participants in the industry to protect profitability by deterring new competitors from entry.

i **Economies of Scale**: refer to the relationship between quantity produced and unit cost. As the quantity of a product produced during a given time period increases, the cost of manufacturing each unit declines.

Economies of scale can serve as an entry barrier when existing companies in the industry have achieved these scale economies and a potential new entrant is only able to enter the industry on a small scale (and produce at a higher cost per unit). For example, entry for a new company in the FMCG sector at a big scale is difficult because of presence of the multiple players who have already achieved the economies of scale.

Companies that produce multiple customised products or that enter an industry on a largeenough scale can sometimes overcome economies of scale as a potential entry barrier. However, because largescale entry may greatly increase industry capacity it may risk a strong reaction from established companies.

ii. **Product Differentiation:** Customers may perceive that products offered by existing companies in the industry are unique as a result of service offered, effective advertising campaigns, or being first to offer a product or service to the market. If customers perceive a product or service as unique, they generally are loyal to that brand. Thus, new entrants may be required to spend a great deal of money over a long period of time to overcome customer loyalty to existing products. For example, Titan's offering of quartz watches in a market, which was dominated by NMI, enabled it to become the dominant player in a short span of time.

   While new entrants may be able to overcome perceived uniqueness and brand loyalty, the costs generally will be high because the new entrants will need to offer lower prices, add additional features, or allocate significant funds to a major advertising and promotion campaign. In the short run, new entrants that try to overcome uniqueness and brand loyalty may suffer lower profits or may be forced to operate at a loss.

iii. **Capital Requirements**: Companies choosing to enter any industry must commit resources for facilities, to purchase inventory, to pay salaries and benefits, etc. While entry may seem attractive (because there are no apparent barriers to entry), a potential new entrant may not have sufficient capital to enter the industry. For example, entry into the 'petrochemical industry is characterised by huge capital investments.

iv. **Switching Costs**: are the onetime costs customers will incur when buying from a different supplier. These can include such explicit costs as retraining of employees or retooling of equipment as well as the psychological cost of changing relationships. Incumbent companies in the industry generally try to establish switching costs to offset new entrants that try to win customers with substantially lower prices or an improved (or, to some extent, different) product. For example, switching costs have to be borne by companies for switching from Microsoft's Windows to other operating systems creating entry barriers in the market for operating systems.

v. **Access to Distribution Channels**: As existing companies in an industry generally have developed effective channels for distributing products, these same channels may not be available to new companies entering an industry. Thus, access (or lack thereof) may serve as an effective barrier to entry.

This may be particularly true for consumer nondurable goods because of the limited amount of shelf (or selling) space available in retail stores. In the case of some durable goods or industrial products, to overcome the barrier, new entrants must again incur costs in excess of those paid by existing companies, either through lower prices or price breaks, costly promotion campaigns, or advertising allowances. New entrants may have to incur significant costs to establish a proprietary distribution channel. As in the case of product differentiation or uniqueness barriers, new entrants may suffer lower profits or operate at a loss as they battle to gain access to distribution channels.

vi. **Cost Disadvantages Independent of Scale:** Existing companies in an industry often are able to achieve cost advantages that cannot be costlessly duplicated by new entrants (other than those related to economies of scale and access to distribution channels). These can include proprietary process (or product) technology, more favourable access to or control of raw materials, the best locations, or favourable government subsidies. For example, Vesuvius Industries has a unique refractory product finding application in steel industry, that cannot be made by other companies because the product technology is proprietary. Another example could be of pharmaceuticals where new products discovered are under patent protection for a period of time.

   Potential entrants must finds ways to overcome these disadvantages to be able to effectively compete in the industry. This may mean successfully adapting technologies from other industries and/or noncompeting products for use in the target industry, developing new sources of raw materials, making product (or service) enhancements to overcome locationrelated disadvantages, or selling at a lower price to attract customers.

vii. **Government Policy**: Governments (at all levels) are able to control entry into an industry through licensing and permit requirements. For example, at the company level, entry into the banking industry is regulated at the central levels, while liquor sales are regulated at the state and local levels.

On the other end is the monopolistic nature (on a marketbymarket basis) of the public utility industry including local telephone service, water, electric power, etc.

Even if a company concludes that it can successfully overcome all of the entry barriers, it still must take into account or anticipate reactions that might be expected from existing companies.

Strong retaliation is likely when existing companies have a heavy investment in fixed assets (especially when there are few alternative uses for those assets) or when industry growth is slow or declining. Retaliation could take the form of announcements of anticipated future investments to increase capacity, new product plans, pricecutting, etc.

Several strategies can be based on this understanding of the barriers to entry to create a situation where others may not like to enter the industry. Some of them are given below.

1. **Branding:** Making your product or service synonymous with superior and consistent quality, whether or not a 'brand' in the conventional sense is used.
2. **Service**: Providing such a high level of service that customers will be naturally loyal and not want to switch to competitors.
3. **Building in 'cost to switch**: Locking customers in, for example, by promotional schemes such as 'Air Miles' where customers are saving up for incentives and will not want to switch to another supplier, or by giving over riding discounts once a level of sales has been triggered, or even by supplying equipment (such as freezer cabinets for new agents selling soft drinks) which can be withdrawn if a competitor's product is bought.
4. **Investment scale**: Building a bigger or better plant, service network or retail outlet can discourage competitors from trying to compete with you, especially if your installed

customer base means it would take longer for them to get the scale of business to cover the cost of the initial investment, or if your investment gives you a lower cost base than existing competitors.

5. **Locking up distribution channels**: Buying or having a special relationship with distributors that makes it difficult or impossible for a new supplier to get his product to the ultimate consumer; a policy followed for many years with great success, for example, in petrol retailing, where the superior siting of major oil companies' service stations helped them sell their oil.
6. **Locking up sources of raw material supply**: Obtaining the best (or all) product from its source either by owning the raw material (as with many large dairy companies) or by having a special relationship with suppliers, or by paying them more.
7. **Property location:** Obtaining the best sites can be crucial in businesses as diverse as oil production and retailing. It is worth asking from time to time whether the desired location might change in the future and then moving to lock up suitable new sites, as for example, in edge of town/out of town superstores.
8. **Expertise / hiring the best people:** Knowing how best to do something that is important to customers is an underrated barrier. The key thing is to locate the functional expertise that is most important and then make sure that your firm has more of this than anyone else has. Hiring in the best people available to an industry can be a winning tactic, although only if the people can fit into the culture or the culture can be adapted to make best use of the newcomers.
9. **Proprietary expertise / patents:** The logical extension to 8 above in many businesses is a patent, and in some businesses such as pharmaceuticals, patents are hugely important in leading to much higher margins than would otherwise apply. Intellectual property can apply to a surprising range of businesses and it is worth checking whether anything your firm possesses can be patented.
10. **Lower cost producer:** One of the very best barriers is to be able to produce a product or service for a particular market at a lower cost than competitors, usually by having larger scale in that SEGMENT than competitors and defending that relative advantage ferociously. To be most effective the cost advantage should be passed through in the form of lower prices, although spending more than competitors in terms of advertising, sales force or research can also be an effective way of using a cost (and margin) advantage to build barriers.
11. **Competitive response**: Making it clear to competitors that you will defend 'your patch', if necessary by 'crazy' actions, is a very effective barrier to entry. If a competitor ignores the warnings and enters, the response must be immediate and crushing, for example, by dropping prices to its potential customers.
12. **Secrecy:** Sometimes a profitable market is relatively small and its existence or profitability may not be known by competitors. Keeping these segments well hidden from competitors can be very important, if necessary by obscuring or playing down their importance to your firm. Conversely, someone seeking to enter a new market should invest properly in information about all potential customers.

Bargaining Power of Suppliers

The bargaining power of suppliers depends on suppliers' economic bargaining power relative to companies competing in the industry. Suppliers are powerful when company profitability is reduced by suppliers' actions. Suppliers can exert their power by raising prices or by restricting the quantity and/or quality of goods available for sale.

Suppliers are powerful relative to companies competing in the industry when:

- the supplier segment of the industry is dominated by a few large companies and is more concentrated than the industry to which it sells;
- satisfactory substitute products are not available to buyers;
- buyers are not a significant customer group for the supplier group;
- suppliers' goods are critical to buyers' marketplace success;
- effectiveness of suppliers' products has created high switching costs for buyers;
- suppliers represent a credible threat to integrate forward into the buyers' industry, especially when suppliers have substantial resources and provide highly differentiated products.

Bargaining Power of Buyers

While companies competing in an industry seek to maximise their return on invested capital (and earn aboveaverage returns), buyers are interested in purchasing products at the lowest possible price (the price at which sellers will earn the lowest acceptable return). To reduce cost or maximise value, customers bargain for higher quality or greater levels of service at the lowest possible price by encouraging competition among companies in the industry.

Buyer groups are powerful relative to companies competing in the industry when:

- buyers are important to sellers because they purchase a large portion of the supplier industry's total sales
- supplier industry's products represent a significant portion of the buyers' costs
- buyers are able to switch to another supplier's product at little, if any, cost
- suppliers' products are undifferentiated and standardized
- buyers represent a credible threat to integrate backwards into the suppliers' industry because of resources or expertise.

Threat of Substitute Products

All companies must recognise that they compete against companies producing substitute products, those products that are capable of satisfying similar customer needs but come from outside the industry and thus have different characteristics. In effect, prices charged for substitute products represent the upper limit on the prices that suppliers can charge for their products.

The threat of substitute products is greatest when

- Buyers or customers face few, if any switching costs;
- Prices of the substitute products are lower;
- Quality and performance capabilities of substitutes are equal to or greater than those of the industry's products.

Companies can offset the attractiveness of substitute products by differentiating their products in ways that are perceived by customers as relevant. Viable strategies might include price, product quality, product features, location, or service level.

Intensity of Rivalry among Competitors

The intensity of rivalry in an industry depends upon the extent to which companies in an industry compete with one another to achieve strategic competitiveness and earn aboveaverage returns because success is measured relative to other companies in the industry Competition can be based on price, quality, or innovation.

Because of the interrelated nature of companies actions, action taken by one company generally will result in retaliation by competitors (also known as competitive actions and reactions). For example, consider the speed with which some companies have expanded into Internet activities to counter similar strategies of competitors. In addition to actions and reactions that result as companies attempt to offset other competitive forces in the industry, threat of new entry, power of suppliers and buyers' and threat of substitute products, the intensity of competitive rivalry is also a function of the following factors:

1. **Numerous or Equally Balanced Competitors**: Industries with a high number of companies can be characterised by intense rivalry when companies feel that they can make competitive moves that will go unnoticed by other companies in the industry. However, other companies will generally notice these moves and offer countermoves of their own in response. Patterns of frequent actions and reactions often result in intense rivalry, such as in local restaurant, retailing, or drycleaning industries.

   Rivalry also will be intense in an industry that has only a few companies of equivalent resources and power. The companies' resource bases enable each to take frequent action to improve their competitive positions which, in turn, produces a reaction or countermove by competitors. Battles for market share in beverages between CocaCola and Pepsi is just one of the examples of intense rivalry between relatively equivalent competitors.

2. **Slow Industry Growth:** When a market is growing at a level where there seem to be "enough customers for everyone," competition generally centres around effective use of resources so that a company can effectively serve a larger, growing customer base. Because of sufficient growth in the market, companies do not concentrate on taking customers away from other companies, which was the case in the personal computer industry in the 1980s. During this stage of the industry cycle, companies are more concerned with establishing a position and achieving economies of scale than with taking share away from competitors because of the level of growth in the market.

   However, when market growth slows or begins to decline, an increase in market share by one company must come at the expense of a competitor. At this point, companies engage in intense battles to gain and maintain their market shares. The intensity of competition often results in a reduction in industry profitability

3. **High Fixed Costs or High Storage Costs**: When an industry is characterised by high fixed costs relative to total costs, companies produce in quantities that are sufficient to use a large percentage, if not all of their production capacity so that fixed costs can be spread over the maximum volume of output. While this may lower per unit costs, it also can result in excess supply if market growth is not sufficient to absorb the excess inventory. The intensity of competitive rivalry increases as companies utilise price reductions, rebates, and other discounts or special terms to reduce inventory.

   High storage costs, especially those related to perishable or timesensitive products (such as fruits and vegetables) also can result in high levels of competitive intensity as such products rapidly lose their value if not sold within a given time period. Pricing strategies often are used to sell such products.

4. **Lack of Differentiation or Low Switching Costs**: Products that are not characterised by brand loyalty or perceived uniqueness are generally viewed by buyers as commodities. For such products, industry rivalry is more intense and competition is based primarily on price, service to the customers, and other features of interest to consumers.

   Switching costs (due to relearning, lower quality, or less than full compatibility) can be used to decrease the likelihood that customers will switch to competitors' products. Products for which customers incur no or few switching costs are subject to intense price and/ or servicebased competition, similar to undifferentiated products.

5. **Capacity Augmented in Large Increments**: In industries where scale economies dictate that additions to production capacity must be made in large increments (such as in steel and automobile manufacturing), adding capacity may result in excess production capacity in an industry Competitive rivalry will increase (and industry profitability will decrease) as companies engage in pricecutting to increase demand to match the new production level.

6. **Diverse Competitors**: Industries also may be characterised by companies having dissimilar goals and cultures, making it difficult to determine any pattern of industry competition. Often, companies may engage in competitive actions merely to determine how their competitors might react. Given the uncertainty and unpredictability of competitive rules, industry profitability might be reduced.

7. **High Strategic Stakes**: The intensity of competitive rivalry increases when success in an industry is important to a large number of companies (such as the domestic airline industry following deregulation). For example, the success of a diversified company may be important to its effectiveness in other industries, especially when the company is

interdependent or related industries. Geographic stakes may also be high.

8. **High Exit Barriers**: Exit barriers, created by economic, strategic, and emotional factors that cause companies to remain in an industry, even though the profitability of doing so is in question, also can increase the intensity, of competition in an industry. The higher the barriers to exit, the greater the probability that competitive actions and reactions will include pricecuts and extensive promotions.

Some sources of exit barriers are

1. **Redundancy Costs:** The cost of paying off employees may be very heavy and much larger than the annual loss in a business. If a company is strapped for cash, it may find it easier to carry on in the short term and hope that others in the business will remove capacity first, thus postponing and perhaps removing the need to spend cash in laying off the workforce.
2. **Investment WriteOffs**: Exiting from a business may cause a writeoff of expensive plant and machinery that can only be used in that business. This leads to a feeling that the investment is being wasted and to a large one time loss going through the profit and loss statement and a reduction of net assets in the balance sheet. The stock market understands this, and often large losses and writeoffs from exiting a business lead to an increase in share price, as investors are relieved by management's realism and look forward to the elimination of losses in the business.
3. **Real Disengagement Costs**: Leaving a business may sometimes lead to real, oneoff costs other than labour ones. For example, a quarry may have to pay to restore the countryside to its previous glory, or a shop may have to carry out improvements before leaving. One of the most serious disengagement costs has been long leases on property which cannot be relet at rates as high as the business is paying, and which would still need to be paid once the business has closed.
4. **Shared Costs**: Often leaving one lossmaking business is difficult because it would leave another profitmaking business with higher costs, where these are shared between the two. For example, a factory may make two products and have shared overhead (and sometimes labour) costs, or a sales force may sell two products to the same customers. Very often, however, shared costs are an excuse for inaction. The proper answer, wherever possible (and however painful), is to slim down the overheads for the profitable business to what is necessary for that business after exiting the unprofitable one.
5. **Customers Require a Package**: Customers sometimes value the provision of multiple products by the same supplier and would be reluctant or unwilling to buy from one that merely supplied the profitable products. Very often, however, this claim is a spurious excuse, and customers would continue to buy a narrower product range provided this had a real advantage to them.
6. **Noneconomic Reasons**: Barriers to exit are very often openly noneconomic, as when a government or trade union requires the business to be kept open and has the power to enforce this. More covert noneconomic reasons include management ego or emotional attachment to a business, fear (normally unfounded or exaggerated) that it 'Will affect a business's image and relationships in the trade, or simply opting for the line of least resistance. Noneconomic reasons are increasingly becoming discredited, although they can work to your advantage when you are less sentimental than your competitors or when they face less economically numerate governments.

LESSON 21: UNDERSTANDING BUSINESS

Business Definition

Understanding business is vital to defining it and answering the question 'What is our business?' It could also be a pointer to the answers to the questions: 'What will it be?' and 'What should it be?' Mission statements can use the ideas generated through the process of understanding and defining business

Defining Business

A watch manufacturing company may call itself the 'timekeepers to the nation'. Exhibit illustrates the many options available to a company in the timekeeping business.

Exhibit

Understanding the Business of Timekeeping

An illustrative diagram, like the one shown here, can be helpful in understanding business. In this diagram, we have attempted to relate societal needs to the business of timekeeping.

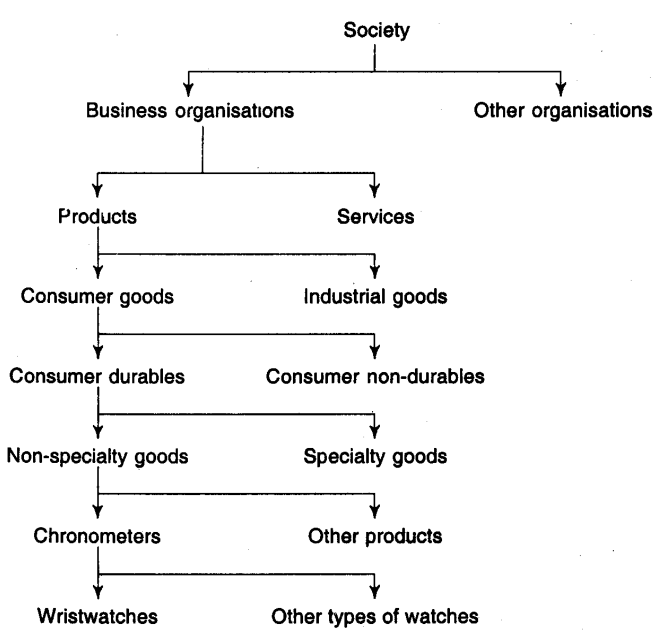
Each successive step provides alternative ways through which the timekeeping needs of the society could be satisfied. Consider the following illustrative examples.

Wristwatches could be of different types, for example, ladies', men's, children's, and sports watches. Ladies' wristwatches could be either utility or ornamental watches.

Other types of watches could be timepieces, wall clocks, and pocket watches.

Other products could be an hourglass or a sundial

Specialty watches could be videotimers, calculator watches, and car clocks.



Consumer nondurables could be timepunching machines and stop watches.

Services could be telephone or teletext time services.

Other organisations which roughly meet the timekeeping needs could be, for instance, a churchbell chiming at appointed hours, or a call to the faithful from mosques.

All the above options, or their combinations, lead to the satisfaction of the timekeeping needs of a society. Four other variables are useful in understanding the business of timekeeping.

These are

Functions which watches can perform, such as, providing the time, day, date, and direction.

Customer needs satisfied by actions like finding time, recording time, using watches as fashionable accessories, and presenting them as gift items.

End usages, like, direct use by customers, and indirect use, as subassemblies in the form of watch and clock movements, by industry.The technology used, based on mechanical, quartz digital or quartz analog manufacturing.

All the above options and variables are, however, relevant to the current 'state of the art'. The timekeeping business could change radically if a breakthrough occurs any time in the future, For instance, if it could somehow be possible to embed sensors in the human brain that would enable a person to just know and feel the time rather than finding time by looking at a watch, timekeeping could become just another neurological function. The Implications of such a breakthrough for society and business are exciting. Naming just two of these, we could say that visuallychallenged persons could benefit a lot by such a technological advancement, and the business of timekeeping would never be the same: all timekeeping equipment that we use today could face the riskof becoming redundant. The business of timekeeping, is therefore, certainly not making more, better, sophisticated and a variety of watches but providing the meanswhatever they might beto simply know the time.

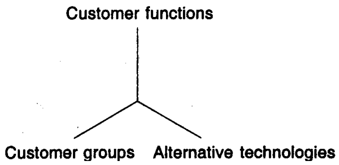
Drawing an example from Exhibit it can be said that a particular company providing only ladies wristwatches of utility and ornamental types using the quartz analog technology could define its business in one way. Another company, a government supplier, may choose to make mechanical wall clocks. Both the companies are in the timekeeping business but they cater to different customer groups, provide different customer functions, and use alternative technologies.

Dimensions of Business

In a path breaking analysis, Derek Abell suggests defining business along the three dimensions of customer groups, customer functions, and alternative technologies. Customer groups relate to 'who' is being satisfied, customer needs describe 'what' is being satisfied, and alternative technologies means 'how' the need is. being satisfied. Exhibit 2.5 presents a diagrammatic view of these three dimensions.

Exhibit

Three Dimensions for Defining a Business



Customer groups are created according to the identity of the customers. Customer functions are basedon what the products or services provide to the customers. Alternative technologies describe the manner in which a particular function can be performed for a customer.

Applying Abell's threedimensional model to the illustration of timekeeping business, we could identify the three dimensions as follows:

Customers groups are individual customers and industrial users.Customer functions are of finding time, recording time, using watches as a fashionable accessory, and as a gift item..Alternative technologies are of the mechanical, quartz digital, and quartz analog types.

Such a clarification helps in defining a business explicitly. A clear business definition is helpful for strategic management in many ways. For instance, a business definition can indicate the choice of objectives, help in exercising a choice among different strategic alternatives, facilitate functional policy implementation, and suggest appropriate organisational structure. A watch manufacturer who makes ladies watches of the utility type could extend its business definition along the customer dimension and make ornamental watches also. It could also diversify further by moving into the manufacture of wall clocks. Having decided to manufacture ornamental ladies watches it would have to effect changes in marketing and other functional policies. If utility watches were being made on a productiontostock basis, ornamental watches may require a productiontoorder system of manufacturing. Technological choice will vary from making mechanical hand wound watches to making batteryoperated quartz digital watches, which are two entirely different processes. We could, of course, go on pointing out various other implications of defining a business along these three dimensions. In sum, we can observe that the model provides powerful insights into understanding and defining business.

The Product / Service Concept

Like the business definition, an explicit product/service concept could have far-reaching implications of strategic management. A product/service concept is the manner in which a company perceives its product or service. Such a perception is based on how the product or service provides functions that satisfy customer needs. Consider the examples given below where companies define their product/service concepts and what implications such definitions have.

Modi Xerox viewed its product concept as providing neat reproduction facilities at a reasonable cost per copy.

Bhadrachalam Paperboards Ltd recognised paper as a product and not as a commodity. As a result of this, it has been able to consider the productivity of its customers and make tailor-made products for them. In the process, it comes in direct contact with customers rather than the wholesale agents, thus defying the traditional way in which the paper business operates.

HCL Ltd perceived the computer not as a sophisticated aweinspiring machine but as an everyday commodity. Such a product concept prompted it to advertise the computer as a consumer durable available through an innovative hire-purchase scheme.

NIIT saw itself not as a computer training institution but as a serviceproviding organisation seeking to understand and implement the concept of knowledge transfer across the gamut of informationtechnologyled human activity

A product/service concept, when defined carefully and innovatively, can prove to be of significant worth to strategists in different phases of strategic management. An explicit business definition and product/service concept are powerful tools for strategic management.

The vision, mission, business definition, and product/service concept serve to determine the basic philosophy that is adopted by an organisation in the longrun. To realise its mission and to achieve its intent organisation will have to set goals and objectives to be pursued in the short run. he next section deals with objectives and goals.

This lesson has been devoted to the discussion of the hierarchy of strategic intent. Organisations lay down objectives at different levels, starting from the enunciation of their strategic intent down to the practical level of timebound, specific objectives. The chapter deals with a whole range of issues related to the hierarchy that extends from the level of objectives right up to the level of strategic intent.

The main points covered in this lesson are as below.

Strategic intent refers to the purposes the organisation strives for. These may be expressed in terms of a hierarchy of strategic intent. The framework, within which firms operate, adopt a predetermined direction, and attempt to achieve their goal, is provided by an overarching strategic intent.

The hierarchy of strategic intent it covers the vision and mission, business definition, and the goals and objectives.

Associated with the idea of strategic intent are the concepts of stretch, leverage, and fit. Stretch is a misfit between resources and aspirations. Leverage refers to concentrating, accumulating, complementing, conserving, and recovering resources in such a manner that a meagre resource base is stretched to meet the aspirations that an organisation dares to have. The idea of stretch is diametrically opposite to the idea of fit, which means positioning the firm by matching its organisational resources to its environment.

Vision constitutes future aspirations that lead to an inspiration to be the best in one's field activity. This has several benefits. The process of envisioning involves dealing with the two components of core ideology and envisioned future. The core ideology defines the enduring character of an organisation that remains unchangeable. The envisioned future has a timebound, longterm goal and a vivid description of what it will be like to achieve that goal.

Mission is a statement which defines the role that an organisation plays in soci-ety has gradually expanded to re present a concept The definition of mission that embodies an organisation's purpose of existence.

Organisations derive their mission statements from the particular set of tasks that they are called upon to perform. Entrepreneurs may envision the type of organisation they wish to build. Major strategists may contribute to the building up of a mission statement formally or informally. Specialised assis-tance from consultants could also be used as a means for the formulation of a mission statement .

There are several characteristics of a mission statement. in order to be effective, a mission statement should be feasible, precise, clear, motivating, distinctive, indicate the major components of the strategy, and indicate how the objectives are to be accom-plished.

Business definition involves defining a business along the three dimensions of customer groups, customer functions, and alternative technologies. Customer groups relate to 'who' is being satisfied, customer needs describe 'what' is being satisfied, and alternative technologies mean. 'how' the need is being satisfied.

Business definition could be defined at several levels. At the corporate level, the business definition will concern itself with the wider meaning of customer groups, customer functions, and alternative technologies. The divisions of an organisation could have more accurate business definitions covering all the three dimensions. Each division could again have more accurate business defi-nitions at the SBUlevel.

Product / service concept is the manner in which a company perceives its products or services. Such a perception is based on how the products or services provide functions that satisfy customer needs.

Go denote what an organisation hopes to accomplish in a period of time. They represent the future state or the outcome of an effort put in now. Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals which are generalised.

Objectives play an important role in strategic management. They define an organisation's relationship with its environment, help an organisation pursue its vision and mission, provide the basis for strategic decision making, and provide the standards for performance appraisal.

The characteristics of objectives should be such that they are understandable, concrete and specific, relate to a time frame, are measurable and controllable, challenging, correlate with other objectives, and are set within constraints. The issues in objectivesetting are those of specificity, multiplicity, periodicity, verifiability, reality, and quality.

Objectives need to be set in all those performance areas, which are of strategic importance to an organisation.

The factors that are taken into account for the formulation of objectives are the forces in the environment, realities of an enterprise's resources and internal power relationships, the value system of the top executives, and awareness by management.

Critical success factors (CSFs) are crucial for organisational success. When strategists consciously look for such factors and take them into consideration for strategic management, they are likely to be more successful, while putting in relatively less efforts.

An explicit structuring of a hierarchy of strategic intent has important implications for strategic management. It serves as a charter of aims the organisation plans to achieve, is helpful in laying down the aims of different subsystems within an organisation, is a powerful means of communicating the organisational intent down the line, and ensures the creation of a resultoriented organisational system.

Discussion / Application Questions

Give a lucid description of these concepts (a) strategic intent (b) stretch (c) leverage (d) fit. Discuss the manner in which these concepts aid our understanding of strategic management.

Vision is too abstract to be of any practical value'. Do you agree with this statement? Why?

Describe the essential characteristics of a mission statement. In what different ways can a mission statement be formulated?

Thomas Cook, an MNC subsidiary in the tourism service sector has its mission as 'exceptional service through exceptional people'. Analyse the mission statement from the viewpoint of characteristics of mission statements.

Here are five mission statements of pharmaceutical companies in India. Which is the best statement in your opinion? Why?

Cipla Ltd: 'To provide excellent quality health care facilities at a reasonable cost'.

Dr. Reddy's Labs: 'To become a global pharmaceutical company and produce quality drugs at competitive prices'.

Glaxo India Ltd: 'To augment the parent company's efforts to be a global player based on research and development'.

Lupin Labs: 'To develop the welfare of mankind through the development of relevant technology in chemistryrelated science'.

Wockhardt Ltd: 'Pursuit of growth with excellence in the field of pharmaceuticals.

Consider any organisation of your choice. Attempt to define its business along with the dimensions of customer groups, customers functions, and alternative technologies. What insight does such a definition offer to you for the strategic management of your chosen organisation?

At what different levels can a business be defined? Explain these different levels and indicate the manner in which they can be integrated with each other.

At are the various desirable characteristics that objectives should possess in order to be effective?

Exmaine the various issues involved in objectivesetting. How can each of these issues be resolved?

Assuming yourself to be the chief executive of an organisation, relate the difficulties you would face in choosing and setting the objectives for your organisation.

LESSON 22:
COMPETITOR ANALYSIS

Learning Objectiive

On completion of this chapter you should be able to:

You should be able to determine each competitor's probable reaction to the industry and environmental changes.

You should be able to understand how to develop a profile of the nature and success of the possible strategic changes each competitor might undertake.

You should be able to understand the future goals of competitors, its current strategy, the key assumptions that the competitor makes about itself and about the industry and its capabilities in term of strengths and weaknesses.

Interpreting Industry Analyses

Effective industry analyses are products of careful study and interpretation of data. Because of globalisation, international markets and rivalry must be included in the company's analyses; in fact, research shows international variables may have more impact on strategic competitiveness than domestic ones, in some cases. Some examples of strategic importance of an industry's key economic characteristics are given below

Factor / Characteristic	Strategic Importance
Market size	Small markets don't tend to attract big/new competitors; large markets often draw the interest of companies looking to acquire competitors with established positions in attractive industries.
Market growth rate	Fast growth breeds new entry; growth slowdowns spawn increased rivalry and a shake out of weak competitors.
Capacity surpluses or shortages	Surpluses push prices and profit margins down; shortages pull them up.
Industry profitability	High-profit industries attract new entrants; depressed conditions encourage exit.
Entry/exit barriers	High barriers protect positions and profits of existing companies; low barriers make existing companies vulnerable to entry.
Product is a bigticket item for buyers	More buyers will shop for lowest price,
Standardised products	Buyers have more power because if is easier to switch from seller to seller.
Rapid technological change	Raises risk factor; investments in technology facilities/ equipment may become obsolete before they wear out.
Capital requirements	Big requirements make investment decisions critical; timing becomes important; creates a barrier to entry and exit,
Vertical integration	Raises capitol requirements; often creates competitive differences and cost differences among fully versus partially versus non-integrated

Following the study of the five industry forces, the company has the insights required to determine an industry's attractiveness in terms of the potential to earn adequate or superior returns on its invested capital. In general, the stronger the competitive forces; the lower is the profit potential for an industry's companies. An unattractive industry has low entry barriers, suppliers and buyers with strong bargaining positions, strong competitive threats from product substitutes, and intense rivalry among competitors, which makes it difficult for companies to achieve strategic competitiveness and earn above average returns.

An attractive industry has the mirror image of these features and offers potential for favourable performance. Some **indicators of an attractive industry** are given below:

- High returns on capital for players accounting for most of the market;
- Astable or rising average industry return on capital;
- Clear barriers to entry, keeping out many new entrants;
- Capacity at or below the level of demand, and low exit barriers;
- Reasonable or high market growth;
- Little or no threat from substitutes (competing industries);
- Low bargaining power of suppliers relative to the industry;

- Low bargaining power of customers relative to the industry.

Characteristics of attractive and unattractive industries are summarised in the Table below

Industry Characteristic	Attractive	Unattractive
Threat of New Entry	**High**	**Low**
Bargaining Power of Suppliers	**Low**	**High**
Bargaining Power of Buyers	**Low**	**High**
Threat of Substitute Products	**Low**	**High**
Intensity of Competitive Rivalry	**Low**	**High**

Competitor Analysis

Competitor analysis represents a necessary adjunct to performing an industry analysis. An industry analysis provides information regarding potential sources of competition (including the possible strategic actions and reactions and effects on profitability for all companies competing in an industry). However, a structured competitor analysis enables a company to focus its attention on those companies with which it will directly compete, and is especially important when a company faces a few powerful competitors.

Competitor analysis is interested ultimately in developing a profile on how competitors might be expected to react in response to a company's strategic moves.

As illustrated in the process involves developing answers to a series of questions regarding the company's and its competitors' future objectives, current strategy, assumptions, capabilities, and response. Table 2.10 gives you a summary of objectives and strategies of competitors

Competitive Scope	Strategic Intent	Market Share Objective	Competitive Position/ Situation	Strategic Posture	Competitive Strategy
Local	Be the dominant leader	Aggressive expansion via both acquisition and internal growth	Getting stronger on the move	Mostly offensive	Striving for low cost leadership
Regional	Overtake the present industry leader	Expansion via internal growth (boost market share at the expense of rival companies)	Well entrenched; able to maintain its present position	Mostly defensive	Mostly focusing on a market niche -High end -Low end -Geographic -Buyers with special needs -Other
National	Be among the industry leaders (top 5)	Expansion via acquisition	Stuck in the middle of the pock	A combination of offence and defence	Pursuing differentiation based on -Quality -Service -Technological superiority -Breadth of product line -Image and reputation -More value for the money -Other attributes
Multicountry	Move into the top 10	Hold on to present share (by growing at a rate equal to the industry average)	Going after a different market position (trying to move from a weaker to a stronger position)	Aggressive risk-taker	
Global	Move up a notch or two in the industry rankings Overtake a particular rival (not necessarily the leader)	Give up share if necessary to achieve short-term profit objectives (stress profitability, not volume)	Struggling; losing ground Retrenching to a position that can be defended	Conservative follower	

A major concern to many managers is the methods that are used to gather data on competitors; a process generally referred to as competitor intelligence. The managerial challenge is to ensure that all data and information related to competitors is gathered both legally and ethically This is important because many employees may feel pressure to rely on techniques that are questionable from an ethical perspective to gather information that may be valuable to their company, especially if they perceive value to their own careers from successfully obtaining such information.

It seems obvious that information that is either publicly available (annual reports, regulatory filings, brochures, advertising and promotional materials) or is obtained by attending trade shows and conventions can be used without ethical or legal implications. However, information obtained illegally (as a result of activities such as theft, blackmail, or eavesdropping) cannot, or, at least, should not, be used as its use is unethical as well as illegal.

Most companies now have websites which provide a lot of information for the benefit of its customers, but One information is available for everyone, including the competitors.

Making available to rivals information that previously would have been inaccessible is a disadvantage of comprehensive Websites. From such Web sites, competing companies can find information that may aid them in hiring away talent and anticipating strategic decisions and management biasesFive years ago, in November, 1995, when Sanjay Bhatla joined Samsung Electronics as manager of the Jaipur branch, little did the Korean consumer electronics major suspect that it may have been hiring a potential time bomb. In fact, there was no reason to believe that at all. Bhatla was a good manager, who quickly moved up the ladder at Samsung. Till, last March, when Samsung decided to promote him as Assistant General Manager, based at Samsung's Delhi headquarters. That's when the time bomb starting ticking.

Within weeks, it exploded. According to Samsung, here's what happened. As manager of the Jaipur branch, Bhatla had limited access to the company's sensitive information on its SAP, enterprise resource planning (ERP) system. Sometime around midMarch, Samsung says, Bhatla began accessing data that he was not authorised to: details of allIndia sales figures broken up across dealers, regions and products.

On All Fool's Day this year, Bhatla joined the Delhi office of Samsung for his new assignment. But barely ten days later, he put in his papers and signed up with Samsung's rival LG Electronics.

That was when the bomb went off. On 19 April, Samsung discovered that from mid March till the time he was relieved, Bhatla had amassed marketsensitive data. And, yes, you guessed it, that data was now with his new employers, LG, which Bhatla joined in May.

Bhatla's new employers, however, refused to comment on the matter when contacted by BT. And what of Bhatla? Ensconced in his new job, he seems unaffected. Well, almost. The Jaipur city police has registered a complaint of cheating and breach of trust against him.

What this latest piece of corporate espionage shows is that there are indeed no holds barred in the battle for market shares.

Another indication of the importance of competitive intelligence is the emergence of "Webspying service" companies, also known as corporate intelligence companies. Dow Chemical hired one such company to determine (through studying competitor Websites) whether competitors had developed, or were in the process of developing, a particular clay/plastic composite product.

Companies need to be careful when posting information on their Websites and treat each item as carefully as though they were preparing to publish it in their annual reports. Companies should also verify information posted about their company on other companies' Websites.

Still some estimate that only 1015 percent of all businesses have formal competitor intelligence gathering processes in place. And some of the companies that assess competitors' current assumptions and capabilities fail to analyse their future objectives, yielding incomplete insights.

Some Questions to Ask in Assessing the Technological Environment

- What ore the technologies (both manufacturing and information technologies) used by the company?
- Which technologies are utilised in the company's business? Products? Components and ports?
- How critical is each technology to each of these products and businesses?
- Which of these external technologies might become critical and why? Will they remain available outside the company?
- What has been the investment in the product and in the process side of these technologies? For the company and for its competitors? Design? Production? Implementation and service?
- What are the other applications of the company's technologies? In which applications does the company currently participate and why? In which does the company does not participate and why?
- How attractive is each of these applications as an investment opportunity in terms of its market growth, its potential for profit improvement, and/or its potential for increasing technological leadership? Underlying growth characteristics? Evolution of customer needs and requirements? Current and emerging market segments; segment growth rates? Competitive positioning and likely strategies of key competitors?
- How critical are the company's technologies to each of these applications?
- What other technologies are critical to the external applications?
- Which technological investments should be curtailed or eliminated?
- What additional technologies will be required in order to achieve the current corporate business objectives?
- What are the implications of the technology and business portfolios for corporate strategy?

1. What are the major competitors' strengths?
2. What are the major competitors' weaknesses?
3. What are the major competitors' objectives and strategies?
4. How will the major competitors most likely respond to current economic, social, cultural, demographic, geographic, political, governmental, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful. counterattack by our major competitors?
7. How are our products or services positioned relative to major competitors?
8. To what extent are new companies entering and old companies leaving this industry?
9. What key factors have resulted in our present competitive position in this industry?
10. How have the sales and profit rankings of major competitors in the industry changed over recent years? Why have these rankings changed that way?
11. What is the nature of supplier and distributor relationships in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

Concern for the Environment at Toyota UK

Background

When the Toyota Motor Corporation took the decision in 1989 to build its first European motor vehicle assembly plant in the UK, it chose a large 'greenfield' site in Derbyshire, England - Burnaston. Reasons for choosing Burnaston included:

- The availability of a large site capable of allowing further expansion if needed
- A supportive approach to inward investors by both the national and local government authorities
- Excellent transport links both within the UK and to the Continent of Europe
- A local workforce experienced in vehicle manufacturing and engineering
- Presence of an effective labour market with relatively cheap labour costs
- Availability of potential local suppliers of parts and raw materials
- A large domestic market for motor vehicles
- The huge potential of the European Union (estimated to be the world's largest market for motor vehicles with annual sales in the year 2000 estimated at 15 million).

Burnaston development represented a major investment into the UK economy of some £700m, supplemented by the construction of an engine plant in Deeside, North Wales, at a further cost of some £140m. At the time this total inward investment of £840 million was the largest such investment in the UK, and has rarely been exceeded since. Construction of both plants began in 1990, and was completed for the start of production in 1992 - September for engines at the Deeside plant and December for cars at Burnaston. Hiring and training began as early as 1990 with the recruitment of about 1000 staff for the start of production. A second wave of recruitment took place subsequently to provide for a second shift, which began in February 1994. Further recruitment brought the total number recruited and trained to more than 2000 over a period of five years.

Production of a new model - the Carina E - began in earnest in late 1992, working towards an initial target of 100,000 vehicles per annum. By 1995 production reached 90,000 units despite the weak demand in many European economies. The success of the Carina line encouraged the company to commence construction of a second assembly plant at Burnaston, where the smaller Corolla vehicles will be produced. Recruitment for this Phase II development commenced in mid-1997, absorbing up to 1000 additional employees. An advantage of the 'greenfield' conditions meant that the company was able to site the new production line in an optimum location adjacent to the existing Carina line.

The company's combined investment at Deeside and Burnaston will have exceeded £1 billion by the time the Corolla line is completed. Such an investment has a great impact on the local environment where the manufacturing units are located. For example, during the construction or development of a site there are major groundworks that have to be carried out to level or landscape the area and provide for all the necessary services such as electricity, gas and water. These usually involve a high level of noise and dirt in the form of dust or mud, as the contractors go about their work. Then there is the sheer size and appearance of the main factory buildings in what was once a semi-rural locality. All such developments have a major effect on local road and transport systems. New feeder roads have to be constructed, parking areas have to be laid out for employees and visitors, and delivery areas have to be designed for a range of heavy goods vehicles and other commercial traffic. For safety and security reasons the whole vicinity of the manufacturing area has to be well-lit and signposted. Thus, a large factory can be as obvious at night as it is during the day. Bearing these points in mind, Toyota have developed a global policy on environmental issues as an integral part of their aim of being 'good corporate citizens' wherever they are located. Such is the reasoning behind Toyota's 'Earth Charter'.

The 'Earth Charter' : Toyota and the environment

In 1992 Toyota Motor Corporation, parent company of Toyota Motor Manufacturing UK, issued a global policy on the environment founded on three core features:

1. A comprehensive approach to environmental issues - by developing technologies that minimise the environmental impact of vehicles and their manufacture, and by implementing environmental programmes throughout Toyota's production and marketing operations world-wide, including, significantly, the involvement of suppliers and distributors.
2. Preventative measures - evaluating and minimising at source the environmental impact of every stage of the development, design, production, marketing and distribution of the company's products.
3. Social contribution to environmental issues - for example, by supporting and participating in wider environmental activities in the external community.

At the UK sites this environmental policy is being implemented through the following:

- The control of waste
- The careful selection of materials
- Site landscaping
- Sound insulation of the manufacturing areas
- Nature protection on the site.

The policy towards waste in the production process is led by a so-called 5Rs philosophy:

1. **Refine** (e.g. build in environmental considerations in selecting and labelling mate-rials)
2. **Reduce** (minimise waste at source)
3. **Re-use** (e.g. re-use packaging materials, use recycled materials in bumpers)
4. **Recycle** (e.g. materials that cannot be re-used in the same process)
5. **Retrieve energy** (e.g. process exhaust gases are used to pre-heat other processes)

Site targets for environmental performance are set and monitored by an Environmental Steering Committee set up by the company to supervise this aspect of company business.

In respect of external emissions, the company's UK factories operate boilers using natural gas, which reduces harmful sulphur dioxide fumes to almost nil. In the paint -department emissions are well within UK limits, and the company avoids the use of -chlorinated solvents and CFCs in the production process. There is constant monitoring of site emissions. All trade effluent and water used during the production process is treated in a separate waste water plant before being released into the main sewers. There is no disposal of waste on site at any of the UK factories.

Noise levels at the factories are contained by various insulation measures incorporated during the design and construction of each plant. The overall colour of the factory at Burnaston, for example, was made to fit in with the natural surroundings before the whole area was landscaped, using over a quarter of a million trees and shrubs. As part its policy on community relations, the company has established a Community Liaison - Committee which meets regularly with local parish council representatives to discuss environmental issues, among other topics raised by either party.

Finally, in terms of its products, the company's vehicles are designed to be more envi-ronmentally-friendly by the use of efficient lean-bum engines and the development of more effective catalyst systems to reduce harmful exhaust emissions.

Questions

1. What are the possible benefits to Toyota UK of pursuing its present environmental policy? On what grounds would you justify the extra costs involved in implementing such a policy?
2. Draw up a list of the benefits and disadvantages to a local community arising from the creation of a large manufacturing unit in a hitherto rural area. At what stage might the benefits outweigh the disadvantages?
3. What do you see as the principal benefits of a 'greenfield site' to a manufacturing organisation? What are the disadvantages of such a site?

LESSON 23:
COMPETITOR ANALYSIS

Internal Analysis

Understand what really makes a company “tick”.

- Charles R. Scott

The secret of success is to be ready for opportunity when it comes.

- Benjamin Disraeli

If a company is not “best in world” at a critical activity, it is sacrificing competitive advantage by performing that activity with its existing technique.

- James Brian Quinn

It is the ability of a company to move information and ideas from the bottom to the top and back again in continuous dialogue that the Japanese value above all things. As this dialogue is pursued, strategy evolves.

- Rosenberg and Schewe

A company should approach all tasks with the idea that they can be accomplished in a superior fashion.

- Thomas Watson, Jr.

There is no substitute for quality and no greater threat than failing to be cost competitive on a global basis. These are complementary concepts, not mutually exclusive ones.

- Bill Saporito

While many companies may concentrate their efforts on tangible assets or develop strategies that focus purely on external factors such as competitive moves and countermoves, there are some companies who recognise the potential competitive advantage of their brands and use them to create a competitive advantage.

A brand has the potential to become one of the most valuable and sustainable sources of competitive advantage. Brands are intangible assets and as such are difficult to imitate by competitors. Cash flow streams can be assigned to brands so that a net present value of the brand may be calculated. For example, the Coca Cola company owns some of the world’s most valuable brands, including the following: Fruitopia, Barg’s, Fanta, Fresca, Sprite, Surge, Mello Yello, and Coca Cola.

In the early 1990s, some analysts claimed that given only the brand as collateral, CocaCola would be able to borrow $100 billion. After some imagetainting quality problems in 1999, this value has fallen, but it still remains well above numbertwo Microsoft ($57 billion).

However, to date, young Internet shoppers are not brand loyal, they prefer site/product utility features to simple branding. In the future, however, the Internet should be able to generate value through brands.

Rank	**Company**	**Brand Equity US$ Bn.**
1.	Coca Colo	83.8
2.	Microsoft	56.7
3.	IBM	43.8
4.	GE	33.5
5.	Ford	33.2
6.	Disney	32.3
7.	Intel	30.0
B.	McDonald	26.2
9.	AT&T	24.2
10.	Marlboro	21.0

As Table above points out, brands can be an extremely valuable asset to a company and its global competitiveness. This table lists the top 10 global brands by value, reporting the brand name and its ranking, and the value of the brand.

Companies such as CocaCola, Goldman Sachs, Sony Corporation, Nike, and McDonald’s have implemented valuecreating strategies using their unique resources, capabilities, and core competencies. In particular, they have developed unique capabilities related to the management of their brands.

The ultimate goal of such strategies is for the companies to achieve a sustainable competitive advantage that will enable them to earn aboveaverage returns. To achieve strategic competitiveness and earn aboveaverage returns, companies must leverage their core competencies to take advantage of emerging opportunities in the external environment.

Several features of the global economy, such as technological changes, can result in the erosion of the competitive advantage of established competitors. The Internet is undermining the competitive advantage of pure brickandmortar rivals. Scanners at the checkout provide retailers with information regarding the effects of price promotions on sales. Global players undermine the local players in their home turf.

The Sustainability of a Competitive Advantage is a Function of three Factors

1. The obsolescence of a core competence, the basis of the valuecreating strategy, as a result of environmental changes.
2. The availability of substitutes for the core competence, or the extent to which competitors can use different core

competencies to overcome value created by the original core competence.

3. The imitability of the core competence, or the abilities of competitors to successfully develop the same core competence.

To sustain a competitive advantage, companies must be able to manage current core competencies while simultaneously developing new competencies. In other words, strategists must continuously make investments that will both enhance the value of current competencies while striving to develop new ones. Failure to develop or sustain a competitive advantage, or at least to maintain competitive parity, means that a company is likely to go out of business.

The sustainability of any competitive advantage achieved will be determined by how successfully other companies imitate a company's strategies. Thus, a major challenge is that companies must continuously search for additional sources of competitive advantage and continuously implement them to stay ahead of competitors.

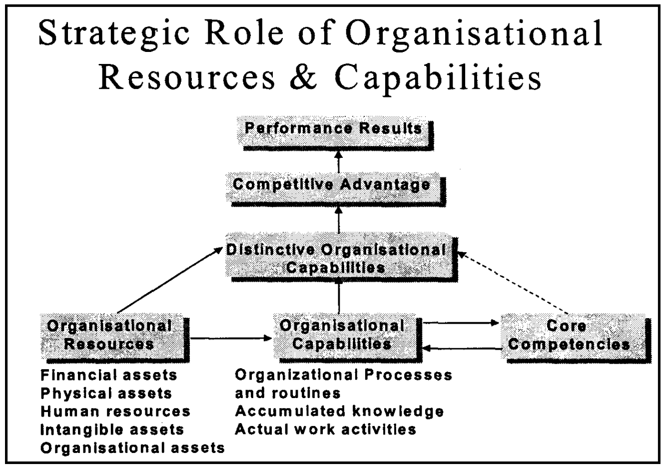
Analysing the external environment enables a company to identify what it might do by identifying what opportunities exist. Analysing the internal environment enables a company to identify what it can do or is capable of doing. The challenge is for companies to achieve a match between what the company might do and what it can do. This match allows the development of a company's strategic intent and strategic mission, as well as the subsequent implementation of valuecreating strategies that will result in strategic competitiveness and aboveaverage returns.

Thus, the outcomes of the external and internal analyses of a company's environment must be linked and not treated as separate and distinct. Analysing the external environment enables strategists to identify opportunities that the company can choose to pursue if it is capable of doing so successfully. This capability is determined by a careful analysis of the company's internal environment, or by determining whether or not it has the resources, capabilities, and core competencies that will enable it to successfully implement valuecreating strategies that fit with its strategic mission and strategic intent

Internal Analysis

Today's competitive landscape makes it more difficult for companies to expect that they can sustain a level of strategic competitiveness strictly by managing the costs of labour, capital, and raw materials (because, in a global environment, all companies potentially can do this).

Internal analysis adopts the position that the ResourceBased model of competitive advantage may be the key to a company's ability to achieve strategic competitiveness, by treating each company as a bundle or set of heterogeneous resources and capabilities. In other words, resources and capabilities are not equally distributed among companies as is assumed by the 1/0 model of strategic competitiveness.



By using or exploiting their core competencies, companies are in a position to develop and perform valuecreating strategies better than their competitors or to create and perform valuecreating strategies those competitors either are unable or unwilling to imitate.

As stated in figure above, A company's tangible and intangible resources (for example, its facilities and corporate culture, respectively) represent sources of capabilities. These capabilities (teams or bundles of resources) represent sources of core competencies, which when exploited and nurtured (and valuable, imperfectly imitable, rare, and nonsubstitutable), are potential sources of competitive advantage, If a company is able to use its core competencies to achieve a competitive advantage, it will achieve strategic competitiveness and earn aboveaverage returns so long as competitors are unable or unwilling to imitate them successfully.

The importance of a company's internal characteristics, represented by its resources and capabilities, highlights a shift in the priorities and prescriptions of strategic management research. The field has evolved or developed from a position that understanding industry characteristics and then positioning the company to take advantage of these characteristics relative to competitors is of primary importance. It also recognises that if is company's resources and capabilities (which represent sources of core competencies) that should serve as the foundation for company strategy

This shift recognises that industry attractiveness is not dependent only on industry characteristics. Industry attractiveness is ultimately determined by both industry characteristics (which can be translated into opportunities and threats) or what a company might do and its internal strengths (its resources, capabilities, and core competencies) which determine what a company is capable of doing to take advantage of (or exploit) external opportunities.

Internal Analysis Framework

Correctly identifying, developing, deploying, and exploiting company resources, capabilities, and core competencies requires managers to make difficult decisions. In part, these challenges are a result of characteristics of both the internal and external environments of the company This challenge is multiplied because of three conditions that characterise important, strategic decisions.

The conditions or decision characteristics affecting managerial decisions about Resources, Capabilities, and Core Competencies basically fall under three heads:

1. Uncertainty regarding the assessment of the general and industry environments, assessment and predictability of competitive actions and customer preferences. Uncertainty is present because of the inherent difficulty in identifying, assessing, and predicting changes and trends in characteristics of the external environment. Among these characteristics are correctly predicting the extent, direction, and timing of changes in the general environment, such as societal values, political and economic conditions, customer preferences, and emerging technologies fromother industries (and how they might ultimately affect the company).
2. Complexity regarding the nature of any interrelatedness of the causes of change in the environment and how the environments are perceived, especially regarding decisions as to which of the company's resources and capabilities might serve as the foundation for competitive advantage. Complexity is increased because of the uncertain nature of interrelationships among the characteristics of the external environment and the related challenge regarding how to assess the effects of changes in them. The issue becomes more complex when managers must relate the complex external environment to their assessment of the company's internal environment. The assessment affects the decisions regarding the company's resources, capabilities, and core competencies, and their relationship to opportunities in the external environment that can be exploited successfully to achieve competitive advantage.
3. Intra-organisational conflicts among managers making decisions about which core competencies are to be nurtured and about how the nurturing should take place. Intra-organisational conflicts often develop as a result of uncertainty and complexity. When managers make decisions regarding the identification of the company's capabilities and choose to nurture them (with resources) to develop core competencies that can be exploited to achieve a competitive advantage, they must make these important decisions with absolute certainty that the decision is correct. And, such decisions may result in changes or shifts in power and interrelationships among individuals and groups within the company. When this occurs, there may be conflict as those who are affected adversely, or perceive that they will be so affected, may resist these changes. In some cases, managers faced with decisions that may have unpleasant consequences or are uncomfortable often experience denial, an unconscious coping mechanism used to block out and not initiate major changes that may have some pain associated with them.

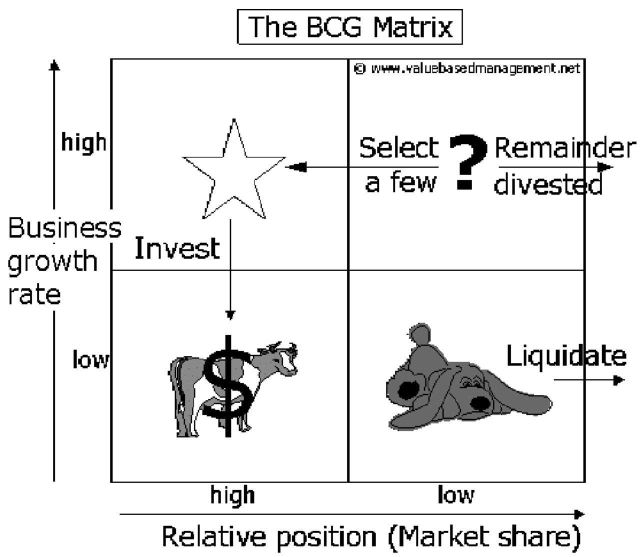
Thus, managers that must make decisions under conditions of uncertainty, complexity, and intra-organisational conflict must exercise judgement, a capacity for making a successful decision in a timely manner when no correct model is available or when relevant data are unreliable or incomplete.

LESSON 24:
BOSTON MATRIX

The BCG matrix

Description of the BCG matrix

To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. The BCG matrix is a tool that can be used to determine what priorities should be given in the product portfolio of a business unit. It has 2 dimensions: market share and market growth. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company.



Product Portfolio Method

Placing Products in the Bcg Matrix Results in 4 Categories in a Portfolio of a Company:

1. Stars

(=high growth, high market share)
- use large amounts of cash and are leaders in the business so they should also generate large amounts of cash.
- frequently roughly in balance on net cash flow. However if needed any attempt should be made to hold share, because the rewards will be a cash cow if market share is kept.

2. Cash Cows

(=low growth, high market share)
- profits and cash generation should be high , and because of the low growth, investments needed should be low. Keep profits high
- Foundation of a company

3. Dogs

(=low growth, low market share)
- avoid and minimize the number of dogs in a company.
- beware of expensive 'turn around plans'.
- deliver cash, otherwise liquidate

4. Question Marks

(= high growth, low market share)
- have the worst cash characteristics of all, because high demands and low returns due to low market share
- if nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.
- either invest heavily or sell off or invest nothing and generate

whatever cash it can. Increase market share or deliver cash

Using the **BCG Matrix can help understand a frequently made strategy mistake: having a one-size-fits-all-approach to strategy**, such as a generic growth target (9 percent per year) or a generic return on capital of say 9,5% for an entire corporation.

In such a scenario:

A. Cash Cows Business Units will beat their profit target easily; their management have an easy job and are often praised anyhow. Even worse, they are often allowed to reinvest substantial cash amounts in their businesses which are mature and not growing anymore.

B. Dogs Business Units fight an impossible battle and, even worse, investments are made now and then in hopeless attempts to 'turn the business around.

C. As a result (all) Question Marks and Stars Business Units get mediocre size investment funds. In this way they are unable to ever become cash cows. These inadequate invested sums of money are a waste of money. Either these SBUs should receive enough investment funds to enable them to achieve a real market dominance and become a cash cow (or star), or otherwise companies are advised to disinvest and try to get whatever possible cash out of the question marks that were not selected

LESSON 25:
THE INTERNATIONAL DIMENSIONS OF STRATEGY

Introduction

1. In a major trading nation such as the United Kingdom, few companies can afford to ignore the international dimensions of their marketplace. For several decades now large multinational corporations, mostly from North America and Europe such as Ford, Shell, BP, Texaco, Unilever and Coca Cola, have established operations on a worldwide basis, often taking with them their own management styles and business attitudes. In recent years these have been joined by a number of major Japanese companies, mostly in elec-tronics and motor vehicle manufacture, such as Nissan, Sony, Honda, JVC and Toyota. The Japanese have established production facilities as well as marketing and distribution operations overseas, both in the USA and in Europe.
2. Other international influences, especially on British companies, include the changing and developing nature of the European Union (EU), which, with its movement towards free trade, is slowly but surely increasing the competition in UK domestic markets as well as in the EU itself. On the other hand the EU is also increasing opportunities for combinations of European companies to work together in joint ventures, such as aircraft development (such as Airbus Industrie, Panavia). Nowadays, the costs of many indus-trial developments are so high that individual businesses cannot undertake them on their own. Aircraft development and production is one such industry, and in addition to mainly European joint ventures, such as the European Airbus (civil airliners) and Eurofighter (military), there are growing collaborative ventures with other nations. For example, McDonnell Douglas in the United States collaborates with British Aerospace in the design and manufacture of military aircraft such as the British Harrier jump-jet. British Aerospace has also sought joint ventures in its regional jet-liner business, and reached agreement with Taiwan Aerospace Corporation for the joint manufacture and marketing of its BAe 146 series of regional jets.
3. Such agreements not only enable development and manufacturing costs to be shared, but also provide market entry opportunities for the leading partner. The pay-off for the receiving company (or nation) includes:

(1) the creation of jobs in high technology areas

(2) an influx of valuable technical and systems know-how

(3) the prospect of either earning foreign currency, or engaging in barter-type deals (especially where the business or state corporation concerned has something valu-able to bargain with, e.g. oil, minerals and fresh foodstuffs)

(4) the prospect of building on the experience of operating large-scale collaborative projects to developing a national industry.

Even a company as large and powerful as BP (British Petroleum plc), which is the third largest oil producer in the world, cannot undertake safely on its own all the development projects that it perceives as contributing to its global competitive advantage. Thus it looks for joint ventures, perhaps through part-ownership, perhaps by means of a collaborative project, to further its work in various parts of the world. For example, BP Exploration, one of its three core businesses, obtained such agreements in nations as diverse as the USA, Colombia, Vietnam and Papua New Guinea.

4. Another important development in the world economy is taking place in the so called Pacific Basin, where relatively undeveloped nations such as South Korea, Taiwan and Malaysia are joining their smaller but experienced rivals from Hong Kong and Singapore to supply high quality goods at very competitive prices to the Western nations. Such goods range from ships and motor cars to electrical goods and clothing. Together with Japan, such a grouping provides a major challenge to the UK and its European neighbours, as well as to the other major world economic grouping – the North Americas (the United States, Canada and Mexico). The nations of the Pacific Basin -have shown themselves capable of manufacturing goods to the highest of standards and at a lower level of costs than their counterparts in Europe and North America. They have thus become an attractive prospect for Western firms wanting to share production costs -and development risks, whilst gaining possible new markets. Since most of the goods manufactured in that area are exported to developed nations, there is considerable benefit to the host nation in terms of overseas earnings and/ or preferential trade deals.
5. Finally, there are the activities of businesses, which, while not international conglomer-ates, are major international companies in their own right, such as British Airways, Singapore Airlines, Cunard and TWA. The activities of such companies are as much -constrained by national politics as they are by competitive pressures. However, due to the enormous increase in demand for air travel, airline businesses, in particular, are beginning to benefit from a reduction in controls by national governments all over the world. Deregulation, or the so-called ‘open skies’ policy, is gradually being extended from the USA and UK domestic markets to Europe as a whole (via the EU). It is likely that this process will continue apace, enabling airlines to compete freely on routes, both regional and international. Because of the costs and sheer scale of global air transport -operations, there is a growing trend towards mergers and joint agreements between -existing carriers. British Airways, for example, already has global alliances with US Air, Qantas, TAT European Airlines and Deutsche BA, which are intended to provide a ‘network fit’ in which route structures

complement each other. Such alliances enable the participants to gain access to routes and/ or markets which are at present denied to them -because of current restrictions imposed by the nations concerned. Other benefits include access to development finance and a share in a larger market. Deutsche BA, formed by British Airways and a consortium of German banks, purchased Delta Air, a niche carrier, principally serving a local business market until linking up with British Airways, the world's leading international air passenger carrier. Following the purchase, Delta's fleet expanded significantly, staff numbers doubled in 12 months and passenger numbers rose from under 700,000 to over one million in less than two years.

International Competition

6. One effect of the international dimension of business is that the concept of the *domestic* market becomes less significant. For many companies the *world* is their marketplace. Such companies have to think globally, even if they have to act locally in their markets for the purpose of delivering their corporate strategy. Another effect lies in the cost differences between producing nations. Most of the countries in the Pacific Basin, for example, can produce highly competitive products for sale in the West, because they currently have the twin advantages of (a) access to new microelectronic-based tech-nology, and (b) far lower labour costs than Western companies. Thus shoes, clothing, ships and motor-cars can be produced at relatively low cost, but at a very acceptable standard for Western markets. If goods can be produced more cost-effectively in Malaysia, for example, why should a large international company need to continue to produce them in high-cost areas, such as Europe? The truth is that whereas in the past century people bought their finished goods from the factories of Europe and the United States, now they are increasingly likely to buy them from factories in the Far East. The developed economies are moving steadily away from manufacturing into services, and into what some have called the 'information economy.

7. The resulting competition from both old-established and new rivals in manufacturing affects British companies in several ways:

- Firstly, it forces them to compete fiercely at home on differentiation, where a distinct competitive advantage can be gained due to close contact with customers and a better understanding of their specific value requirements.
- Secondly, it forces them to compete as closely as possible on price, where the main aim is to minimise the cost disadvantages through increased efficiency.
- Thirdly, it forces them to consider how they themselves might find competitive advantage overseas by taking advantage of the lower labour costs in competitor nations.

Thus, opportunities for investment overseas have to be considered, as well as joint ventures or other collaborative efforts with existing indigenous companies. Given that entry barriers to competitor nations are generally very high, such steps are not always available, but there is a growing world movement to facilitate the expansion of world trade by removing trade and other restrictions on international operations, for example by means of GATT - the General Agreement on Trade and Tariffs. UK companies, and their counterparts in the world's trading nations, have opportunities to lobby diplomats and govern-ments to this end.

International Business and the Impact of Technology

8. A crucial factor in the development of world trade is ease of communications. In recent years enormous strides have been made in the development of global satellite communi-cations, electronic mail, facsimile transmissions (fax) and other products of microelec-tronic technology. Today, telephone, fax, computer and video links are possible between large numbers of nations. Markets, and information about them, have never been so accessible in communications terms. Thus, bids can be scrutinised, contracts agreed, orders made, and payments confirmed all at very short notice. Such technological devel-opments have also helped international commodity trading and money markets to improve the speed and efficiency of their services to the international trading commu-nity, all of which helps to facilitate the growth of world trade. Companies that wish not only to survive, but also to thrive in world markets ensure that they take every possible advantage of the increasingly sophisticated and ever-cheaper forms of electronic technology that are available to poorer and richer nations alike.

9. Strategic management on a global basis calls for microelectronically-based communica-tions systems, and the skills to establish and apply them. Companies not only have to invest in the new technology as it becomes available, but also have to search constantly for the most appropriate software systems and organisational forms for their decision-making requirements. As multi-media forms of communication become increasingly possible, it will soon be feasible for individual directors and their lawyers to conduct negotiations across the globe using video links, computerised graphics and excellent sound facilities. The business world at least will indeed become a smaller place!

The Single European Market

10. The greatest influence on UK management policies over the next few years will be the opening up of the Single European Market, which was inaugurated in January 1993. This has considerable implications for the British economy, particularly for the management of business and public sector organisations. Britain's participation in the European Union (EU) means that its own laws (and customs) can, and will be, affected by EU laws, guidance, codes of practice and administrative decisions. Although individual countries will be permitted to retain, or develop, certain local practices (the notion of 'subsidiarity'), the overall intention of the underlying legislation (the Treaty of Rome) is to work towards the harmonisation of business and economic practices between all the EU nations. In this situation, the key issue for all concerned is how to balance local (i.e. national) wishes with acceptance of EU-wide policies and

practices, at a time when there will be increased competition in home markets as a direct result of the lifting of trade barriers within the Union.

11. Whereas in other parts of the world, regional co-operation is by means of trade agree-ments, the European model, as evidenced in the EU, is intended to achieve close political union internally, as well as to develop trade both internally and with the world-wide community. Already, in Europe, the laws of the EU take precedence over those of its members on certain issues affecting the management of enterprises (such as equal opportunities legislation). Under EU law, an Article is directly binding on member states, and a Directive requires a member to introduce its own legislation, whilst not being directly binding.

12. An example of an Article is Article 117 of the main Treaty, which aims to promote the harmonisation of improved living and working conditions for workers. Within the context of this binding legislation, discussions have particularly centred on the EU's so -called 'Social Charter', which many UK business organisations object to on the grounds that it is too prescriptive and inflexible, and will lead to increased labour costs at a time when international competitors are reducing theirs. The fact is that, whilst there are several common *problems* faced by managers in the EU (e.g. encouraging greater job flex-ibility in production, managing employee relations in times of economic and technolog-ical change, achieving greater efficiency with smaller workforce and so on), the *solution* to them are quite varied, as each country follows its own preferred pattern of handing competitiveness, productivity, and employee relations.

13. The emphasis in the UK's enterprise economy has been to break down large organisa-tional structures in favour of smaller units with delegated powers, and to encourage individual as opposed to state initiatives and responsibility. Whilst some decentralisa-tion of business and state enterprises has also taken place in many EU countries, there is nevertheless a greater emphasis on community affairs and a more regulated partnership between governments, employers and trade unions than in the United Kingdom. Thus there are several issues on which British and other EU opinions are likely to vary, and the so-called 'social' aspects of business and economic activities provide a case-in-point.

Japanese management practices

14. There has been great interest worldwide in the phenomenal success of Japanese enterp-rises in securing such a significant proportion of world trade. In Britain, also an island nation, this interest has more than been awakened by the considerable investment in the British economy by major Japanese firms. The latter have introduced a number of Japanese management practices into their UK-based organisations, some of which have led directly to efficiency savings over earlier practices (e.g. development of core workers supported by part-time/ casual (non-core) workers; insistence on non-specialised career paths and job flexibility for core workers; team-working seen as essential; single status working conditions; a respect for the company culture; and meticulous attention paid to production planning and quality). Other practices, such as the employment of a central core of workers with guarantees of secure employment, and the attention paid to employee selection and training, are seen as less effective in that they can *reduce* flexi-bility and/ or raise labour costs.

15. Some of the above practices have been incorporated into the personnel policies of Japanese companies in Britain, and they appear to have worked successfully. No employment guarantees were given, but unions were recognised, single status applied, and thorough training provided, including key worker visits to Japan to the parent company. A particularly significant advantage for employers in the British context was the acceptance of job flexibility after training.

16. Japanese firms investing in Britain have undoubtedly been able to take competitive advantage of a situation in which entry barriers have been reduced due to:

1. Government policy of attracting foreign investment in the UK economy
2. High unemployment in the areas selected for investment
3. Availability of enterprise grants from the government
4. Diminished trade union power due to changes in the law and high unemployment. The investing firms have nevertheless won the support of the British workforce, who have demonstrated their ability to collaborate positively with the Japanese styles of management to produce quality products efficiently.

17. The pay-off for the Japanese companies who have invested in Britain is that they have been able to provide themselves with regional manufacturing bases from which to launch their products into Europe at a time when that continent is steadily becoming one vast market. Part of the price of that advantage has to be paid for in accepting a gradu-ally higher proportion of British and/or EU supplied parts in finished manufactured goods. Toyota, for example, not only produces body shells and assembles cars at its Derbyshire factory (an investment of over £800m), but also supplies engines for one of its major models from another factory in Deesside. Increasingly, other parts are also being supplied from a UK or European source. Manufacturers who can claim that '80% of our leading models are built with UK/ European-made engines and parts' are clearly heading for a competitive advantage over those whose finished products still rely heavily on parts made in Japan. Ultimately, car manufacturers, such as Honda, Nissan and Toyota hope to be thought of as British as Fords or Vauxhalls (both American-owned companies).

Multinational enterprises

18. The Japanese investment in Britain has been undertaken by large business corporations rather than small companies, and this is typical of internationalisation in business. There -are three principal strategies that a national firm can adopt in relation to overseas -markets:

1. It can export its goods or services from the home base, as in the cases of a supplier of Scotch whisky, or Irish peat, or

architectural services. This approach works best where there is no real substitute product (or service) available locally.

2. It can establish franchise arrangements, where the local franchisee takes responsi-bility for sales and specific (local) aspects of marketing, leaving the parent company to provide the business framework and the brand name, and thus achieve significant investment without excessive capital outlay and minimising local/ national bureau cracy. Examples of this approach include the McDonald's fast food chain, the Pizza Hut chain and Hertz Car Rentals. This kind of approach favours *service* industries rather than manufacturing, although the latter can produce goods under licence from a parent company. Industrial examples include aircraft, tractors and so forth.
3. It can set up manufacturing plants or business centres in the overseas countries making the same, or similar, goods (or services) as in the home country. For example as in Toyota's motorcar manufacturing operations in the UK, and the Coca Cola Company's bottling plants in India. Service examples include major accountancy firms with overseas offices, and management consultancies with bases overseas. The advantage of this approach, which gives multi-national status, is that the organisation concerned is able to make use of local labour and local businesses/suppliers in -making the goods or supplying the services. This is often welcomed by nations who -(a) have insufficient employment opportunities for their own nationals, and (b) are keen to support investment in their national economy by overseas companies.

19.One American writer (Korth, 1985) sees four stages, or degrees, of internationalisation ranging from domestically-based reactive trading with foreign countries to full-blooded multinational operations on a global scale. Only in the later stages of international trading do companies actually invest in foreign countries. Such investment plays an important part in the shaping of company business strategy, even though headquarters is still in the home country. Full multinational status is likely to confine the influence of headquarters to that of a holding company, since it is the international divisions that are responsible for the success of the company's overall product-market strategies.

20.The sheer size (and wealth) of multinationals means that they can have a significant effect on their host nations. Many such companies have total sales well in excess of the -Gross National Product of many of the world's nations. For example, the large oil firms, Exxon and Shell, are larger in economic terms than nations such as South Africa, Austria -and Argentina. Most of their effects on their hosts are likely to be beneficial, for they include:

- Provision of capital investment in major economic activities that would be beyond the scope of the nation concerned
- Contribution to the creation of jobs, usually in the context of high unemployment
- Making available a wider range of products to customers
- Introduction of new technology
- Supply of scarce skills and passing them on to nationals
- usually a contribution to social needs (e.g. road building, water supply plants, power generation)
- improvement to the nation's *balance* of payments *following* the *export* of goods and services.

21.Nevertheless, the power of multinationals to influence national economies due to the extent of their investment in host nation cannot be denied, and it is always open to such large enterprises to threaten to remove their operations to another country at relatively short notice, which is a powerful sanction on the host. However, the evidence seems to be that most hosts at government level are willing to take the risks since they perceive the benefits as outweighing the costs. Others may feel some reservations. Local suppliers, for example, who have come to depend on the multinational's business for their very existence know that any decision to move out would be disastrous for them. A clear strategic option for such businesses is to aim to widen their customer base, so as not to be reliant on just the multinational's custom.

Questions for Reflection/Discussion

1. What advantages would a manufacturing company expect to gain from an investment in production facilities overseas?
2. To what extent can governments (a) encourage, and (b) hinder the development of world trade? Give examples from your reading.
3. Why is it important for firms pursuing a strategy of international expansion to under-stand the implications of micro-electronic technology for communications and decision--making?
4. What benefits may be experienced by a nation that encourages overseas investment in its economy?

LESSON 26:
CORE COMPETENCE

Learning Objectiive

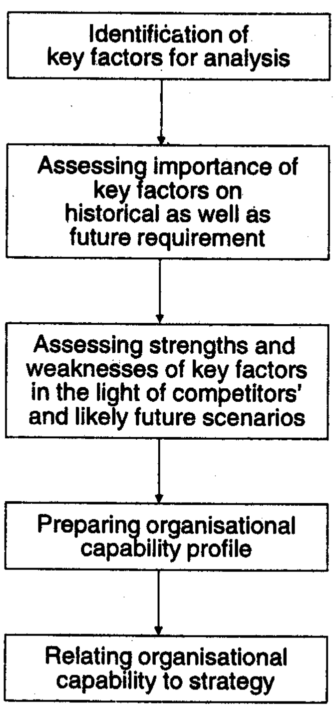
On completion of this chapter you should be able to:

- *You will understand that the idea of core competences on the thinking that strategy depends on learning, and depends on the capabilities of an organization*
- *You will understand about the organization work and delivery of value,its communication, involvement and a deep commitment to working across organizational boundaries.*
- *You will understand that it involves many levels of people and all functions.*

Process of Organisational Analysis

The process of organisational analysis goes through certain sequence of activities. This process is undertaken so that the organisation reaches at a point at which It can undertake strategic actions in the light of its strengths and weaknesses. For this purpose, the relevant information is collected both from internal as well as external sources. Generally, the organisation's strengths and weaknesses are measured in terms of its environment; otherwise, it Is very difficult to suggest the degree to which a factor can be considered as strength or weakness. For adopting criteria in respect of these, the external information is quite helpful. For example, an organisation cannot say that its financial position is strong unless it is aware about its direct or other competitors' financial position.

Thus, process of organisational a analysis will proceed through a sequence of activities as shown in figure below



1. Identification of Key Factors. Organisational analysis process starts with the identification of key factors that can be evaluated for determining strengths and weaknesses. The analysis should cover all aspects of the organisation. However, what factors should be taken for consideration is a question, the answer of which may not be rigid and static. The answer will vary among organisations, and although a generalised list can be given, a real situation I would call for critical selection. These factors may be in the area of organisation structure and management pattern, personnel, finance and accounting, marketing, manufacturing, research and development, etc. A detailed description of all these factors will be presented later in the chapter.

2. Identification of Importance of Factors. All the factors identified for the purpose of analysis may not have equal strategic importance; some are more important, some are less important. The relative importance of the factors depends on the nature of organisation and its environment. Their relative importance can be determined by finding out the contributions of each factor in the achievement of certain key results. The key result areas for the organisation can be defined on the basis of organisational objectives towards which total efforts are directed. Another method through which the relative importance of factors can be measured is to relate them with critical success factors (CSFs). CSFs, as discussed in the next chapter, are those factors which are crucial for organisational success. The various factors can be compared with the requirements of CSFs.

3. Assessing Strengths and Weaknesses on Key Factors. Identification of key strategic factors may lead to the assessment of organisational strengths and weaknesses in respect of these factors. Organisational strength on any factor canbe defined as the contribution made by the factor towards the achievement of the organisational objectives. Since objectives have hierarchya lower level objective contributes to higher level objective, a factor may notnecessarily contribute directly to the achievement of overall objectives but may contribute indirectly by achieving a lower level objective. An organisational weakness on a factor can be defined as the negative contribution of the factor in achieving the organisational objectives. Another way for assessing strengths and weaknesses is to make a comparative analysis of these factors with those of the competitors. For the assessment of organisational strengths and weaknesses, some techniquesfinancial analysis, key factor rating, and functional area profile and resourcedevelopment matrix have been developed: the details of these are presented later in this chapter.

4. Preparing organisational Capability Profile. On the basis of the assessment of organisational strengths and weaknesses, organisational capability profile is prepared which shows the various strong areas of the organisation. This profile can show the strengths or weaknesses in terms of degree, either in quantity like 1 to 5 for various factors or definition like very strong to average. However, when both strengths and weaknesses are taken in the same profile, the positive numbers can be used for strength and negative numbers can be used for weakness if quantitative measurement is used.

5. **Relating Organisational Capability to Strategy.** Technically speaking, this is not the part of the organisational analysis, however, organisational analysis is meaningless unless it provides a way to relating strengths to its strategy. In relating organisational strengths to strategy, the managers can proceed in two ways. First, they undertake activities which are consistent with their strategic strengths. Thus, rather than taking the various activities, they can concentrate on the limited number of activities. In fact, that organisation is more effective whose strategy fits its environment considering its strategic strengths than those who do otherwise. Second, managers can undertake activities which convert their weakness into strength. Such an action may provide synergistic advantages reducing thereby many disadvantages. Thus, many strategic actions can be taken to increase organisational strengths. The result is that over the long run. the strategy of the organisation fits its environment taking into account the strategic strengths

Capabilities

A company's capabilities represent its capacity to integrate individual company resources to achieve a desired objective. However, this ability does not emerge overnight. Capabilities develop over time as a result of complex interactions that take advantage of the interrelationships between a company's tangible and intangible resources that are based on the development, transmission, and exchange or sharing of information and knowledge as carried out by the company's employees (its human capital).

A company's ability to achieve a competitive advantage is thus reflected in its knowledge base and the ability of its human capital to successfully exploit company capabilities. Thus, human capital is of significant value in the company's ability to develop capabilities and core competencies to achieve strategic competitiveness.

The knowledge possessed by the company's human capital may be one of the most significant sources of a company's competitive advantage. This is because it represents everything that the company has learned, and thus everything that it knows about successfully linking or bundling sets of individual resources to develop capabilities as a foundation for developing core competencies and, ultimately, to achieve a competitive advantage.

Establishing and nurturing the skills and abilities of the workforce is of critical importance to a company's ability. Important not only to establish, but to sustain a competitive advantage by acquiring new knowledge and developing new skills that will both enhance existing capabilities and core competencies, as well as aid in the development of new ones.

Companies are using a variety of methods to nurture the value of their human capital. Infosys and Microsoft believe that their best asset is the "intellectual horsepower" of their employees. To continue the trend, the companies are striving continuously to hire people who are more talented than the current set of employees in hopes of defending and extending the domain of their intellectual property.

Many companies are hiring Chief Learning Officers (CLO) to find ways for the company to acquire, internalise, and share knowledge in competitively relevant ways. Managing knowledge is critical since enterprises view this as their primary source of competitive advantage and believe it should be used in ways that will create value for customers. Before we talk more about knowledge, it would be useful to differentiate between data, information and knowledge. Data are simple facts without interpretation, Information is data that have been processed, manipulated, categorised, or classified in some manner and Knowledge is information interpreted with experience, values, judgement, or intuition.

Knowledge management is the process of cataloguing and distributing the knowledge that resides in the organisational intellect so that its full value is leveraged

across multiple activities. Siemens tries to infuse its store of customer knowledge into its manufacturing, development, logistics, and sales systems / processes.

Current research suggests four methods by which knowledge is transferred within a company:

- **Socialisation** common with apprentice and mentors, this occurs by observation and practice.
- **Externalisation** this is the process used to convert tacit knowledge into explicit terms, a type of metaphorical modelbuilding.
- **Combination** this considers knowledge stores in different groups within the company to try to meld the knowledge and distribute it to other groups.
- **Internalisation** the process by which knowledge generated by the other three methods gets embedded into the employees of the company Newly internalised knowledge becomes a base upon which the cycle of knowledge creation, transfer, and embedding repeats itself.

Apart from knowledge, companies also have functional area capabilities that have been nurtured and are now considered as core competencies. As a result, these core competencies provide the foundation for the company's competitive advantage.

Capabilities

Capabilities represent: the firm's capacity or ability to integrate individual firm resources to achieve a desired objective.

Capabilities develop over time as a result of complex interactions that take advantage of the interrelationships between a firm's tangible and intangible resources that are based on the development, transmission and exchange or sharing of information and knowledge as carried out by the firm's employees.

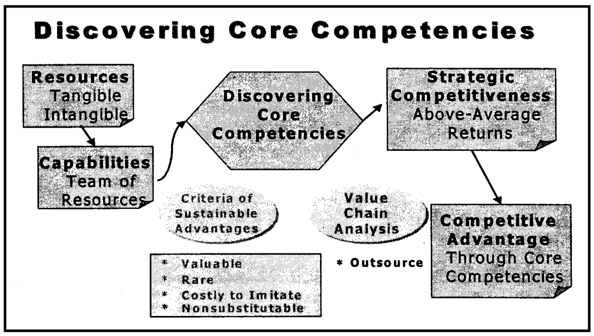
Capabilities become important when they are combined in unique combinations which create core competencies which have strategic value and can lead to competitive advantage.

Employee skills and knowledge in such areas as manufacturing, marketing, advertising, R&D, and others provide the foundation upon which a company can leverage its tangible and intangible resources.

The challenge for companies in the private sector is to maintain the secrets behind capabilities that are core competencies. As described earlier, companies such as Infosys, GE, and Microsoft are recognised for their abilities to develop and leverage the power of the human resources.

Core Competencies

Resources and capabilities serve as the foundation upon which companies formulate and implement valuecreating strategies so that the company can achieve strategic competitiveness and earn aboveaverage returns.



However, not all of a company's resources and capabilities represent strategic assets, assets that have competitive value and the potential to serve as a source of competitive advantage. If the company has a deficiency in some of its resources, it may not be able to achieve strategic competitiveness. For example, insufficient financial resources may prevent the company from implementing the processes or integrating the activities required to add superior value by limiting the company's ability to hire workers with the necessary skills or to invest in the capital assets (facilities and equipment) that are needed.

Thus, companies not only are challenged to scan the external environment to identify opportunities that can be exploited, but also to have an indepth understanding of company resources and capabilities. This will enable the company not only to develop strategies that enable it to exploit external opportunities but also to avoid competing in areas where the company's resources and capabilities are inadequate. Some indicators of competitive strengths and weaknesses are shown below in Table below

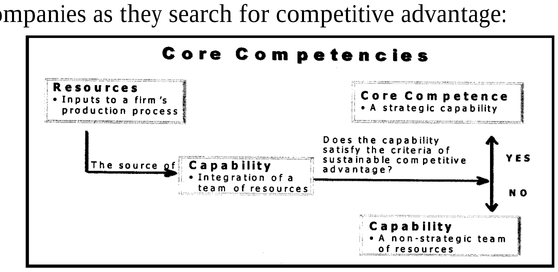
Signs of strength and Weakness in Competitive Position	
Signs of Competitive Strength	Signs of Competitive Weakness
• Important core competencies	• Confronted with competitive disadvantages
• Strong market share (or a leading market share)	• Losing ground to rival companies
• A pace-setting or distinctive strategy	• Below-average growth in revenues
• Growing customer base and customer loyalty	• Short on financial resources
• Above-average market visibility	• A slipping reputation with customers
• In a favourably situated strategic group	• Trailing in product development
• Concentrating on fastest growing market segments	• In a strategic group destined to lose ground
• Strongly differentiated products	• Weak in areas where there is the most market potential
• Cost advantages	• A higher-cost producer
• Above-average profit margins	• Too small to be a major factor in the market place
• Above-average technological and innovational capability	• Not in good position to deal with emerging threats
• A creative, entrepreneurially alert management	• Weak product quality
• In position to capitalise on opportunities	• Lacking skills and capabilities in key areas

When the company's resources and capabilities result in a core competence, the company will be able to produce goods or services with features and characteristics that are valued by customers. This implies that companies can implement valuecreating strategies only when its capabilities and resources can be combined to form core competencies.

The question is asked: "How many core competencies are required for a competitive advantage?" McKinsey & Company recommends that companies identify 3 or 4 competencies around which to frame their strategic actions. For example, McDonald's has exactly four competencies (in real estate, restaurant operations, marketing, and its global infrastructure).

Building Core Competencies

We will discuss two conceptual tools or frameworks available to companies as they search for competitive advantage:



1. Four criteria which determine which of the company's resources and capabilities are core competencies, and
2. Value chain analysis, a framework for determining which valuecreating competencies should be maintained, upgraded and developed and which should be outsourced.

Criteria of Sustainable Competitive Advantage

The relationship between resources, capabilities, and the decision point at which managers determine whether or not capabilities are (or are not) core competencies.

This decision point, which includes four criteria, should be used to determine whether or not a company's capabilities are core competencies and can be a source of competitive advantage.

However, a shortterm competitive advantage is available when company capabilities are valuable, rare, and nonsubstitutable. The length of time that a company possessing such capabilities can expect to sustain a competitive advantage depends on how long it takes for competitors to successfully imitate the value creating activity or process, or reproduce valued features or characteristics of the product or service.

Thus, the ability to sustain a competitive advantage is dependent on company capabilities being valuable, rare, nonsubstitutable, and costly to imitate as given below

Core Competencies must be:
Valuable
Capabilities that either help a firm to exploit Opportunities
To create value for customers or to neutralize threats in
The environment aware
Capabilities that are possessed by few, if any, current or
potential competitors
Costly to Imitate
Capabilities that other firms cannot develop easily, usually
Due to unique historical conditions, causal ambiguity or
Social complexity
Non Substitutable
Capabilities that do not have strategic equivalents, such as
firm-specific knowledge or trust-based relationships

Valuable

Capabilities that are valuable help a company exploit opportunities and/or neutralise threats in the external environment. Valuable capabilities enable a company to develop and implement strategies that create value for customers. For example, Sony uses its valuable capabilities to design, manufacture, and market miniaturised electronic technology to add value for consumers (or to serve as a joint venture partner or perform outsourced activities for other manufacturers who do not possess these valuable capabilities).

Rare

Capabilities are rare when they are possessed by few, if any, current or potential competitors. If many companies have the same capabilities, the same valuecreating strategies will be selected. As a result, none of the companies will be able to achieve a sustainable competitive advantage. Companies that develop and nurture capabilities that are different from those held by other companies would achieve a competitive advantage.

Costly To Imitate

Capabilities are costly to imitate when other companies are unable to develop them except at a cost disadvantage relative to companies that already have them. This usually is a result of one or a combination of three conditions:

1. **Unique historical conditions** such as establishing facilities in a key location that preempts competition when no other locations have the same or similar value related characteristics or developing a unique organisational culture in the early stages of the company's life that cannot be duplicated by cultures developed at different times. A unique culture can not only serve as a source of competitive advantage, but also may be a source of competitive disadvantage. The latter may be the case when a company's culture prevents it from recognising or successfully adapting to changes in a turbulent environment. At the same time, a unique culture may be a source of sustainable competitive advantage.
2. **Causal ambiguity** also may prevent competitors from perfectly imitating a competency if the link between a company's resources, capabilities, and core competencies is not identified or understood. Also, competitors may not be able to identify or determine how a company uses its competencies to achieve a sustainable competitive advantage.
3. **Social complexity** means that a company's capabilities are the product of complex social phenomena such as interpersonal relationships within the company or between The Company And Its Customers And Suppliers.

Nonsubstitutable

A company's capabilities are nonsubstitutable when they do not have strategic equivalents. In addition, if capabilities are invisible, it is even more difficult for competitors to identify viable substitutes. Examples of capabilities that can be difficult to identify or to find suitable substitutes for include companyspecific knowledge and trustbased working relationships.

The relationship between the characteristics of company capabilities, the sustainability of competitive advantage, and performance implications.

Sustainable Competitive Advantage				
Valuable Rare	Costly to Imitate	Non-substitutable	Competitive Consequences	Performance Implications
No / No	No	No	Competitive Disadvantage	Below Average Returns
Yes / No	No	Yes/No	Competitive Parity	Average Returns
Yes / Yes	No	Yes/No	Temporary Competitive Advantage	Average / Above Average Returns
Yes / Yes	Yes	Yes	Sustainable Competitive Advantage	Above Average Returns

Major Inferences that you can Draw:

Resources and capabilities that are neither valuable, rare, costlytoimitate, nor nonsubstitutable mean that the company will be at a competitive disadvantage and will earn belowaverage returns.

Resources and capabilities that are valuable, but are neither rare nor costly to imitate and may or may not be nonsubstitutable mean that the company can achieve competitive parity and earn average returns.

Resources and capabilities that are both valuable and rare, but are not costly to imitate and may or may not be nonsubstitutable, may enable the company to achieve a temporary competitive advantage and will earn aboveaverage to average returns.

Resources and capabilities that are valuable, rare, costlytoimitate, and non-substitutable will enable the company to achieve a sustainable competitive advantage and earn aboveaverage returns.

Company	Country of Origin	Original core Business	Key skills	Growth path
Honda	Japan	Motor cycles	Piston engine design and development	Cars, lownmowers, small generators
Gillette	USA	Shaving products	Advertising effectiveness	Other toiletries, e.g. deodorants
Hanson	UK	Textiles	Financial control; acquisition evaluation	Post-acquisition cash maximisation in low technology businesses
McDonald' s	USA	Hamburger restaurants	Site selection; Quality stanclardisation	Extension of opening hours to include breakfast; product innovation (fish, pizza, salads)
Marks & Spencer	UK	Clothes retailing	Supplier management; value-for-money branding	Diversification into food, furniture, flowers
Sony	Japan	Transistor radios	Production innovation; evaluation of future customer desires	Broad consumer electronics; TV cameras; computer components

Because they are generally knowledgebased, capabilities that are company's core competencies become more valuable as they are used over time. For example:

Sharing knowledge, across people, jobs and organisational functions, may result in an increase in the value of that knowledge in ways that are competitively relevant.

Core competencies can also become core rigidities (or core incompetencies).

Core competencies must be strategically relevant, which means that companies must continually strive to develop new competencies.

New competencies must be developed to meet the changes (and challenges) of the new competitive landscape as both technological and global factors are rapidly changing.

Thus, nurturing existing competencies must be balanced by efforts to encourage the development of new competencies

LESSON 27:
BENCHMARKING

Learning Objectives

On Completion Of This Chapter You Should Be Able To:

- You should be able to understand that good planning will only occur if the planner has a detailed knowledge of both external and internal enviroment within which organization operates.
- You should be able to understand the importance of the external enviroment to the strategy process
- You should be able to understand the range of factors in the external enviroment that may influence planning decisions.

Benchmarking

Benchmarking is another tool which can be used to generate competitive advantage. It is a process of identifying in a systematic way superior products, services, processes. and practices that can be adopted in an organisation to reduce costs, decrease operations cycle time, and provide greater customer satisfaction. The concept of benchmarking has been derived from land surveying in which it indicates a reference point called benchmark which is established as a base for surveys. Webster Dictionary defines benchmark as “a survey’s mark; previously determined position used as a reference point; standard by which something can be measured and judged.” Sarah Cook has defined benchmarking as follows:

“Benchmarking is a process of identifying, understanding, and adapting outstanding practices from within the same organisation or from other businesses to help improve performance.”

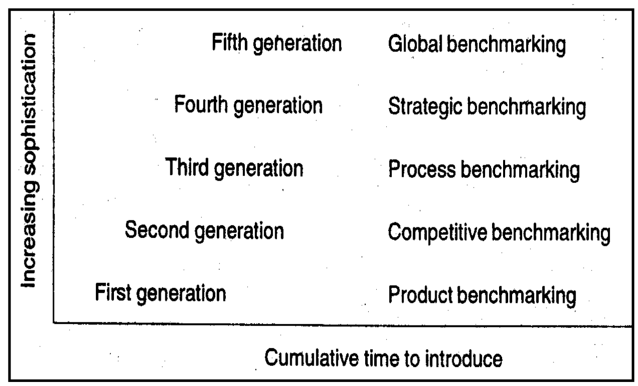
Features of Benchmarking

1. Benchmarking is based on the theme “see what others do and try to improve upon that.” Therefore, this implies some kind of measurement which can be accomplished in two forms: internal and external. Both internal and external practices are compared and a statement of significant differences is prepared to identify the gap which should be filled.
2. Benchmarking can be applied to all facets of a business; it includes products, services, processes, and methods. It goes beyond the traditional competitor analysis in the form of identifying strengths and weaknesses and includes clear understanding of how the best practices are used.
3. Benchmarking is not aimed solely at direct product competitors but those organisations and businesses that are recognised as best or industry leaders.
4. Benchmarking is a continuous process and not just oneshot action. It is continuous because industry practices constantly change and a continuous monitoring of these practices is required to bring suitable change in the organisation.

Types of Benchmarking

There are different types of benchmarking. Since benchmarking is an evolutionary process in an organisation, its application varies over the period, of time resulting into different types of benchmarking as shown in

At each subsequent stage, the complexity and sophistication increase because emulation of practices becomes gradually more difficult. For example, emulation of product features of a company is much easier as compared to its competitive practices. The first generation of benchmarking is related to product analysis which reveals what product features are valued by the customers most. At the second level comes competitive benchmarking in which the performance of a company is compared with either close competitor or industry leader depending on the competitive position of the company in industry. At the third level, process benchmarking is undertaken to make a comparative analysis of various



LESSON 28: MC KINSEY'S 7S FRAMEWORK

Learning Objectives

On completion of this chapter you should be able to:

- You should be able to undersatnd CSF's referred to as a strategic factors or key factors for success which are very crucial.
- You should be able to understand that why companies fail or succeed depending upon on whether CSF's has been identified or not.
- You should be able to understand that CSF's are based on practical logic, heuristic than an elaborate procedure.
- You should be able to understand that CSF's are result of long years of managerial experience which leads to the development of intution, judgement and a hunch that can be used in strategic decision making.

Critical Success Factors Approach

In order to understand how critical success factors (CSFs) approach is applied to generating competitive advantage and the concept of CSFs, let us take few examples. A good academician can be successful in teaching and research and not necessarily, he succeeds as a business man. A player having high competence in a particular game, say lawn tennis, and is successful is unlikely to. succeed in cricket. Even in the same game, a player cannot succeed in all positions, for example, a good, wicket keeper cannot be a good bowler too. The question is: why does this happen? The answer is: each activity has unique requirement, and a single person cannot meet the requirement of all activities. He can be successful only in that for which he has competence to meet its requirement. (Success is defined in terms of objective achievement.) This social phenomenon can be replicated in business situation where the question may be asked: why does a successful business organisation in one industry fails in another industry? The answer of this question lies in the opening part of this chapter: an organisation's core competence does not necessarily lead to competitive advantage because it may not have any relevance to the industry hi which the organisation fails. It appears, then, that requirement of an industry differs from those of other industries. This requirement is expressed in terms of critical success factors.

Concept of Critical Success factors

Critical success factors, also referred to as strategic factors or key factors for success, are those characteristics, conditions, or variables which when maintained and sustained can have significant impact on the success of an organisation competing in a particual industry. A CSF may be a characteristic such as product features, a condition such as high capital investment, or any other variable. A basic nature of CSFs is that they differ from Industry to industry: consumer goods versus industrial goods, differentiated versus undifferentiated industries, local versus global industries so on. Exhibit 9.2 presents CSFs for some industries for the sake of clarification.

Exhibit **Critical success factors in different industries**

Toothpaste industry. quality in terms of form, flavour, foam and freshness, widearea distribution network, high level of promotion, and brand loyalty.

Food processing industry. high quality product, packaging, efficient distribution network, and sales promotion.

Shoe industry: high quality product, cost efficiency sophisticated retailing, flexible product mix, and creation of product image.

Automobile industry. styling, strong dealer network, manufacturing cost control, and ability to meet environmental standards.

Courier service: speedy dispatch, reliability, and price.

Managing these CSFs effectively generates competitive advantage. For example, Ohame states that:

"**Key success factors** (CSFs) in an industry and business need to be identified to inject a concentration of resources into a particular area where the company sees an opportunity to gain significant strategic advantage (competitive advantage) over its competitors.

Identifying Industry CSFs

In order to generate competitive advantage along CSFs, it is necessary to identify these. Based on a study related to identifying strategic factors which are important to different businesses, Steiner views that "there are indeed strategic factors needed for a business and they can be identified. However, the question is : if CSFs differ from industry to industry, how can these be identified? In order to find out the answer of this question, managers can put another question: what do we need to do in order to be successful in a particular business? It is just like an individual putting a question: what does he/she need to do to be successful in studies, in career, etc. However, the answer of the question 'what needs to be done for success in a business' is not as simple as it prima facies appears. Therefore, managers need to generate as much information as possible by going through following ways:

1. CSFs can be identified based on logic, heuristics, or even a rule of thumb rather than through any theoretical model. These are based on long years of managerial experience which leads to the development of intuition, judgement, and hunch.
2. CSFs can also be identified internally in the organisation by using creative techniques like brainstorming.
3. CSFs can be deduced from other companies' statements, expert opinions, organisational success stories, etc.

Using CSF Approach

CSF approach can be used in a number of ways to generate competitive advantage. Rockart has identified three steps in using CSF approach: generate the critical success factors, refine CSFs into objectives, and identify measures of performance. 17 While the first step is related to identification of CSFs, other two are related to using these CSFs. A company can generate competitive advantage based on CSFs in the following ways:

1. The company can identify key result areas based on CSFs. A key result area is an aspect of an organisation or its unit that must function effectively for the entire organisation to succeed. If a key result area has been defined in terms of CSFs, its focus is more relevant. A key result area may be any type, for example, aftersales service In automobile or equipment industry.
2. The company can allocate its resources, both physical and human, on the basis of CSFs. For example, in fastmoving consumer goods, there are two critical success factors: product innovation and efficient distribution system. Hindustan, Lever has focused on both by deploying its critical resources in both these areas.
3. A company can generate new CSFs as these are not static but dynamic. Thus, the new CSF may be more important than the existing ones. This is based on the maxim of doing things differently. For example, when Reliance entered textile fabrics, it introduced the concept of branding which was not a critical concept in textile at that time. In order to promote its brand, it went for huge advertising. With the result, Reliance became number one in textile business very soon.

On the basis of CSFs, a company can differentiate itself from others by doing the same thing differently or by doing different thing. However, CSF approach is not free from its limitation which are in two forms. First, existing or potential competitors can emulate the strategy through benchmarking and other tools and a company cannot remain as competitive as it used to be.

Second, if one company can generate a new CSF, others can also do. Inthis case also, the company may not remain highly competitive. Thus,allocating huge resources based on CSFs runs a risk. However, the risk is a

prime element of any strategy. It does not mean that CSF approach is not meaningful because of its limitations. In fact, it has, What an organisaiton needs to do is that it takes continuous realigning of CSFs into its operations

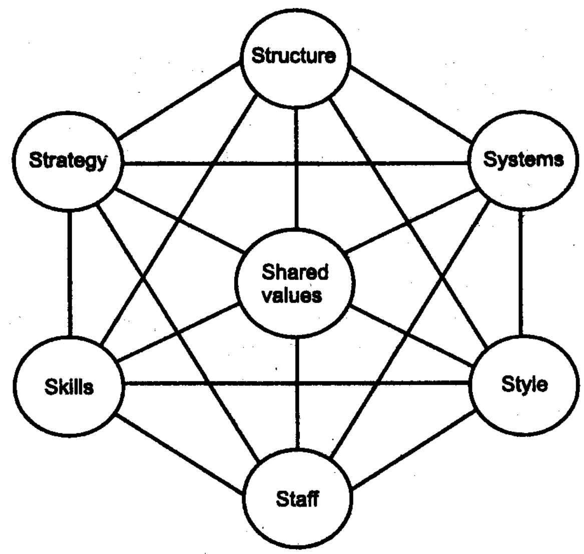
Organisational Critical Success Factors

The above discussion of CSFs is externally focused in the sense that it concentrates on what an organisation should do to be successful in a particular industry. Researchers, both academicians and consultants, have made attempt to find out the answer of the question: what are the characteristics of an organisation which make it successful in different industries or meeting the requirements of CSFs of these industries? Though the answer of this question is not, precise because of interplay of different variables in determining success of an organisation, some clues can be derived from various prescriptions and research studies. McKinsey & Company, a USbased consultant, has prescribed seven factors which lead to success as shown in Figure

1. **Strategy** a means to achieve objectives.
2. **Structure**basic framework to designate responsibilities and functions.
3. **Systems**management tools for planning, decision making, communication, and control.
4. **Staffs**human resources of the organisation.
5. **Skills**organisational and individual capabilities. S. Stylehow managers lead and motivate.
6. **Shared values**organisational values which govern behaviour of its members.

Based the McKinsey 7S framework, Peter and Waterman have identified eight characteristics of successful companies (called as excellent companies):

CSF 's diagram



1. Bias for action,
2. Close to customers
3. Autonomy and entrepreneurship
4. Productivity through people
5. Handson, value driven
6. Stick to knitting
7. Simple form, lean staff, and
8. Simultaneous loosetight control.

However, these characteristics should not be taken on static basis for generating competitive advantage. For example, some of the companies such as Delta Airlines, Digital Equipment, IBM, Included in the list of excellent companies started showing declining performance soon after the publication of the book.

AT Kearney, another USbased consultancy firm, conducted a study which included 1100 companies in Europe. American continent, and AsiaPacific region to identify organisational growth drivers. In association with Economic Intellegent Unit, the researchers also surveyed 57 CEOs of Indian and MNCcontrolled companies. They identified five organisational growth driversleadership, strategy, competencies and resources, organisational design, and organisational culture and climate. The external factors affecting growth were macro environment, competitive pressure, customer satisfaction, shareholder pressure, and technological change in that order.

Finance Asia has adjudged Infosys Technologies and Reliance Industries as the two bestmanaged companies of Asia for the year 2000. While a case on Reliance has been given In Part V of the text, Exhibit 9.3 traces the success factors of Infosys

Lets take an example

Critical Success Factors of Infosys

Infosys Technologies Limited is engaged in development of application software mostly for business. Software development is highly knowledgebased industry in which quality of human resources is a key determinant of competitive advantage. Infosys derives most of its revenues from overseas operations. For achieving excellence, it has concentrated on five key elementsleadership, human resources, strategy, organisational culture, and organisation structure.

Leadership. Infosys believes that leadership is one of the most essential ingredients of organisational success which is provided by its Chairman, N R Narayanmurthy (affectionately called as NRN by Infocionsthose who work for the company call themselves). Leadership is based on high business vision and predominently supportive styles. There is emphasis on developing leadership qualities among employees

Throughout the organisation so that there is no role vacuum. Top management emphasises on opendoor policy, continuous sharing of information, takes inputs from ernployees in decision making, and builds personal rapport with employees.

Human Resources. Since Infosys is in knowledgebased industry, it focuses on the quality of the human resources. Out of total personnel, about 90 per cent are computer professionals. At the entry level, it emphasises on selecting candidates who find the company's middleclass culture satisfying, superior academic records, technical skills, and high level of learnability. The company emphasises on training and development of its employees on continuous basis and spends about 2.65 per cent of its revenues on upgradation of employees' skills. In an era when personnel turnover is very high in IT industry, Infosys has offered stock options to every employee with the result that not only personnel turnover is negligible but employees are highly motivated to work.

Strategy. Infosys has adopted a clientfocused strategy to achieve growth. Rather than focusing on numerous small organisations, it focuses on limited number of large organisations throughout world. In order to cater its clients, the company emphasises on custombuilt softwares.

Organisational Culture. Organisational culture is one of the strongest features of Infosys. It emphasises on high ethical values in all operations, equality among all personnel irrespective of their organisational positions, encouragement of high performance standards set by the personnel themselves, and sharing of outcomes of performance by all. The company has set a culture in which no stakeholder aspires to take more than what it contributes. Work culture is quite friendly and emphasis is placed on teamwork.

Organisation Structure. The company has adopted a free form organisation devoid of hierarchies. Everyone is known as associates irrespective of his position in the company. Software development is undertaken through teams and the constitution of teams is based on the principle of flexibility. A member who might have been team leader in one project,. may be replaced by another member of the same team for another project. This system not only helps in creating the feeling of equality but also helps in developing project leaders.

LESSON 29:
SWOT ANALYSIS AND VALUE CHAIN

Learning Objectives

On completion of this chapter you should be able to:

- *You should be able to understand that this method for assessing the strengths and weaknesses of an organization on the basis of an understanding of the series of activities it performs.*
- *You will understand that a value chain is a set of interlinked value creating activities performed by an organization.*
- *You will understand that these activities may begin with the procurement of basic raw material go through its processing in various stages and continue right up to the end products finally marked to the ultimate consumer.*

Swot Analysis

SWOT analysis means analysing strengths, weaknesses, opportunities and it is a useful strategic planning tool and is based on the assumption that if managers carefully review internal strengths and weaknesses and external threat and opportunities, a useful strategy for ensuring organisational success can be formulated. It is a simple technique for getting a quick overview of a strategic situation so that such strategies can be formulated as to produce a good between the company's internal competencies (strength and weaknesses) and environment (opportunities and threats).

Strengths and Weaknesses

A "strength" is a positive characteristic that gives a company an important capability. It is an important organisational resource which enhances a company, competitive position. Some of the internal strengths of an organisation are:

- Distinctive competence in key areas
- Manufacturing efficiency
- Skilled workforce Adequate financial resources Superior image and reputation
- Economies of scale
- Superior technological skills
- Insulation from strong competitive pressures
- Product or service differentiation
- Proprietary technology.

A "*weakness*" is a condition or a characteristic which puts the company at disadvantage. Weaknesses make the organisation vulnerable to competitive

pressures. These are competitive liabilities and strategic managers must evaluate their impact on the organisation's strategic position when formulating strategic

policies and plans. Weaknesses require a close scrutiny because some of them can

prove to be fatal. Some of the weaknesses to be reviewed are:

- No clear strategic direction
- Outdated facilities
- Lack of innovation is Complacency
- Poor research and developmental programmes
- Lack of management vision, depth and skills
- Inability to raise capital
- Weaker distribution network
- Obsolete technology
- Low employee morale
- Poor track record in implementing strategy
- Too narrow a product line
- Poor market image
- Higher overall unit costs relative to competition.

Opportunities and Threats

An "opportunity" is considered as a favourable circumstance which can be utilised for beneficial purposes. it is offered by outside environment and the management can decide as to how to make the best use of it. Such an opportunity may be the result of a favourable change in any one or more of the elements that constitute the external environmen. It may also be created by a proactive approach by the management in moulding the environment to its own benefit. Some of the opportunities are:

- Strong economy
- Possible new markets
- Emerging new technologies
- Complacency among competing organisations
- Vertical or horizontal integration
- Expansion of product line to meet broader range of customer needs
- Falling trade barriers in attractive foreign markets

A "threat" is a characteristic of the external environment which is hostile to the organisation. Management should anticipate such possible threats and prepare its strategies in such a manner that any such threat is neutralised. Some of the elements that can pose a threat are:

- Entry of lower cost foreign competitors Cheaper technology adopted by rivals
- Rising sales of substitute products
- Shortages of resources
- Changing buyer needs and preferences
- Recession in economy
- Adverse shifts in trade policies of foreign governments
- Adverse demographic changes

SWOT analysis involves evaluating a company's internal environment in terms Of strengths and weaknesses and the external environment in terms of opportunities and threats and formulating strategies that take advantage of all these factors. Such analysis is an essential component of thinking strategically about a company's situation.

MANAGEMENT	
I .	Does the company use strategic management concepts?
2.	Are company objectives and goals measurable and well communicated?
3.	Do managers at all hierarchical levels plan effectively?
4.	Do managers delegate authority well?
5.	Is the organisation's structure appropriate?
6.	Are job description and job specifications dear?
7.	Is employee morale high?
8.	Is employee turnover and absenteeism low?
9.	Are organisational reward and control mechanisms effective?

MARKETING	
1 .	Are markets segmented effectively?
2.	Is the organisation positioned well among competitors?
3.	Has the company's market share been increasing?
4.	Are present channels of distribution reliable and cost-effective?
5,	Does the company have an effective sales organisation?
6.	Does the company conduct market research?
7.	Is product quality and customer service good?
8.	Are the company's products and services priced appropriately?
9.	Does the company have an effective promotion, advertising, and publicity strategy?
10.	Is marketing planning and budgeting effective?
11.	Do the company's marketing managers have adequate experience and training?

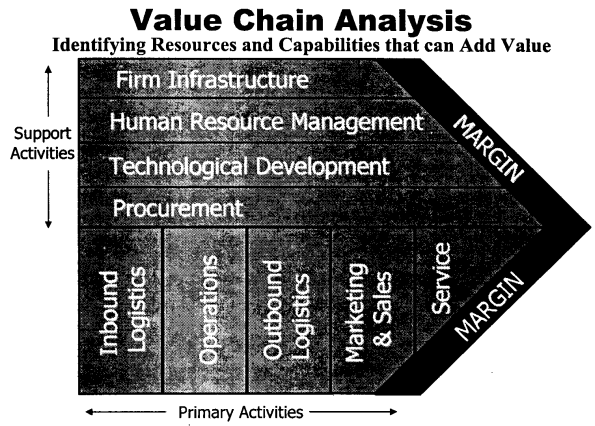
RESEARCH AND DEVELOPMENT	
1 .	Does the company have R&D facilities? Are they adequate?
2.	If outside R&D companies are used, are they cost-effective?
3.	Are the organisation's R&D personnel well qualified?
4.	Are R&D resources allocated effectively?
5.	Are management information and computer systems adequate?
6.	Is communication between R&D and other organisational units effective?
7.	Are present products technologically competitive?

COMPUTER INFORMATION SYSTEMS	
1	Do all managers in the company use the information system to make decisions?
2.	Is there a chief information officer or director of information systems position in the company?
3.	Are data in the information system updated regularly?
4.	Do managers from all functional areas of the company contribute input to the information system?
5.	Are there effective passwords for entry into the company's information system?
6.	Are strategies of the company familiar with the information systems of rival companies?
7.	Is the information system user friendly?
8.	Do all users of the information system understand the competitive advantages that information can provide companies?
9.	Are computer training workshops provided for users of the information system?
10.	Is the company's information system continually being improved in content and user friendliness?

Value Chain Analysis

The second framework that companies can use to identify and evaluate the ways in which their resources and capabilities can add value is value chain analysis. This framework is useful because it enables companies to understand which parts of their operations or activities create value by segmenting the value chain into primary and secondary activities as illustrated in the figure.

The figure illustrates how the valuecreating activities performed by the company can be separated into primary and secondary activities. Primary activities, shown vertically, represent traditional line activities such as inbound logistics, operations, outbound logistics, marketing and sales, and service. Support activities, shown horizontally, are represented by a company's staff activities and include its financial infrastructure, human resource management practices, technological development, and procurement activities.



The first step in value chain analysis is to carefully examine each of the company's primary activities to determine the potential for creating or adding value.

- **Inbound Logistics:** Examine all activities related to the receipt, control, warehousing, inventory, and distribution of raw materials or component parts into the production process.
- **Operations:** Activities to be examined are all those necessary to convert the inputs (raw materials or components) available as a result of inbound logistics into finished products. Examples include machining, assembly, equipment maintenance, and packaging.
- **Outbound Logistics:** This category represents the company's activities involved with the collection, storage, and physical distribution of products to customers. Examples include warehousing or storage of finished products, material handling, and order processing.
- **Marketing and Sales:** Several marketing and sales activities must be completed to both induce customers to purchase products and ensure that products are available. Activities include developing advertising and promotion campaigns; selecting and developing distribution channels; and selecting, training, developing, and supporting a sales force.
- **Service:** These are the activities that a company offers to enhance or maintain a product's value, including installation, product use training, adjustment, repair, and warranty services.

The next step in the value chain analysis process is an examination of the company's support activities to determine any value creating potential in those activities.

- **Procurement:** These are activities that are completed to purchase the inputs needed to produce a company's products, including items consumed or used in the manufacturing process (such as raw materials or component parts), supplies, and fixed assets (machinery, equipment and facilities).
- **Technological Development**: All activities that are completed to either improve a company's products or its production processes. This includes basic research, process and equipment design, product design, and servicing procedures.
- **Human Resource Management:** These activities are related to the recruiting, hiring, training, developing, and compensating (including performance assessment and reward systems) of a company's employees.
- **Company Infrastructure:** These activities support the activities performed in the company's value chain, including general management practices, planning, finance, accounting, legal, and government relations. By performing its infrastructure related activities, a company identifies external opportunities and threats, and internal strengths and weaknesses related to company resources and capabilities, and supports or nurtures its core competencies.

Using the value chain framework enables managers to study the company's resources and capabilities in relationship to the primary and support activities performed to design, manufacture, and distribute products, and to assess them relative to competitors' capabilities. For these activities to be sources of competitive advantage, a company must be able to perform primary or support activities in a manner that is superior to the ways that competitors perform them. Also perform a primary or support activity that no competitor is able to perform to create superior value for customers and achieve a competitive advantage.

This implies that, given that individual companies are comprised of unique or heterogeneous bundles of activities, reconfiguring the value chain, or rebundling resources and capabilities, may enable a company to develop unique valuecreating activities. The managerial challenge is that the value creation process is difficult and there is no one best way to assess a company's primary and support activities or to evaluate the value creating potential of those activities either within the company or relative to competitors, because of incomplete or ambiguous data.

However, by being objective, managers may be able to use the value chain framework to identify new, unique ways to combine resources and capabilities to create value that are difficult for competitors to recognise, understand, or imitate. The longer a company is able to keep competitors "in the dark," as to how resources and capabilities have been combined to create value, the longer a company will be able to sustain a competitive advantage.

Companies can use outsourcing as an alternative to identify primary or support activities for which its resources and capabilities are not core competencies and do not enable the company to add superior value and achieve competitive advantage.

Outsourcing

Outsourcing describes a company's decision to purchase a valuecreating activity from an external supplier. Outsourcing has become important, and may become more important in the future, for two reasons:

- ***First***, there are limits to the abilities of companies to possess all of the bundles of resources and capabilities that are required to achieve superior performance (relative to competitors) in all of its primary and support activities.
- ***Second,*** with limits to their resources and capabilities, companies can increase their ability to develop resources and capabilities to develop core competencies and achieve competitive advantage by nurturing only a few core competencies.

However, outsourcing is yet to pick up in India in a major way.

When outsourcing, a company seeks the greatest value. In other words, a company wants to outsource only to companies possessing a core competence in terms of performing the primary or support activity that is being outsourced. When evaluating resources and capabilities, companies must be careful not to outsource activities in which they can create and capture value. Additionally, companies should not outsource primary and support activities that are used to neutralise environmental threats or complete necessary ongoing organisational tasks

LESSON 30:
INTRODUCTION TO STRATEGY IMPLEMENTATION

Learning Objectives

On completion of this chapter you should be able to

- You will understand the complete framework of strategy implementation
- You will understand factors causing unsuccessful implementation of strategy.
- You will understand the steps involved in Activating strategy

Concept of Strategy Implementation

In a simple way, strategy implementation can be defined as a process through which a chosen strategy is put into action. Though this definition is very simple but does not specify what action are required in strategy implementation. To elaborate the issues and activities involved in strategy formulation, let us consider other definitions. Steiner et al have defined strategy implementation as follows:

"The implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structures, processes, and resources, in reaching organizational purposes."[1]

McCarthy et al have defined strategy implementation as follows:

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

Factors causing unsuccessful implementation of strategy

Before going into the details of how a chosen strategy is implemented, it is desirable to identify the factors which cause unsuccessful implementation of strategy so that managers can take adequate safeguard against these, factors. These factors are of following types:

1. Unsatisfactory coupling of strategy and operational actions.
2. Insufficient attention to the negotiation of outcomes in decision situations, and
3. Defective strategy.

1. Unsatisfactory Coupling of Strategy and Actions

Unsatisfactory coupling of the strategy to the actions necessary to implement it, both within the organization and in the external decision situations with which it is concerned may cause unsuccessful implementation of the strategy. This type of difficulty can result from a number of causes and conditions. For example, unsatisfactory coupling of the new strategy may be due to the lack of explicit decoupling from previous strategy and commitment within the organization itself. This decoupling may be caused, in turn, by the existence of a sizable group of people within the organization who are convinced that the new strategy is not practical and that the previous ways and activities are best. Another factor responsible for this unsatisfactory coupling may be misperceptions by the strategist of the impact of the newly proposed initiatives on the organization and its people. It is sometimes assumed that the new initiatives will be accepted by the organization with a minimum of time and effort from all those who are involved. In actual practice, however, much more work is necessary to ensure that the strategy is accepted and implemented than to prepare it in the first instance. Another reason for unsuccessful coupling may be because of different perspective of strategists and implementers. In most cases, majority of people are concerned with the current operations. Their primary task is to ensure that these operations are conducted smoothly and efficiently. Their perspective is involved with the avoidance of change and of other factors that could interfere with the operations in their area of responsibility. Strategists, on the other hand, seek out changes and determine whether it can be used to the advantage of the organization. These different perspectives can result in the two groups becoming alienated from each other. For successful implementation of the strategy, a link between these two groups is necessary.

2. Insufficient Attention

Another major factor causing unsuccessful implementation of the strategy is insufficient attention to the negotiation of outcomes in the external decision situations. It is a tendency to assume, once the strategy is formulated, that all that is necessary for the success of the organization is the aggressive pursuit of the strategy. However, this assumption holds good only as long as there is no change in the decision situations. If these situations change, there should be corresponding change in the strategy also. For this, it is essential that the structure of the strategic decision situations in which the organization is involved should be kept clearly in view throughout the implementation. If this is done, changes in the conditions surrounding those decision situations can be taken in stride. Contingency strategy made during the strategy formulation process can be brought into operation when appropriate.

3. Defective Strategy

Sometimes, there may be strategy which cannot be implemented within the context of present and future organizational resources. Perhaps, everyone of us may be aware about 'who will bell the cat'. The story goes like this. Perturbed with the sudden attack of the cat, a community of rats called a meeting to overcome this problem. In the meeting, an elder rat suggested, "bell the cat so that whenever she comes, we shall escape on hearing the sound of the bell." On this, a younger rat asked, "who will bell the cat ? Pat came the reply from the elder rat, "strategic decision making is my role implementation is yours". Though this a jest side of the situation, many organizations follow this pattern in their strategy formulation and implementation process. The net result is that either strategy is denounced half way or put in cold storage incurring loss in both the situations. Therefore, strategic choice should always be cqrrelated with the organizational capability to implement it.

While implementing a strategy, the above factors should be taken into account and various tools of strategy implementation should be selected carefully to ensure effective implementation.

Activating Strategy

Activation is the process of stimulating an activity -so that it is undertaken effectively. Activation of strategy is required because only a very small group of people is involved in strategy formulation while its implementation involves a large number of people in the organization. So long as a strategy is not activated, it remains in the mind of strategists. Activation of a strategy or set of strategies requires the performance of following activities:

1. Institutionalization of strategy,
2. Formulation of derivative-plans and programmes,
3. Translation of general objectives into specific objectives. and
4. Resource mobilization and allocation.

1. Institutionalisation Of Strategy

The first basic role of the strategist in strategy implementation is the institutionalization of the strategy. Since strategy does not become either acceptable or effective by virtue of being well designed and clearly announced, the successful implementation of strategy requires that the leader acts as its promoter and defender. Often what happens is that leader's role is quite prominent in strategy formulation and his personality variables become influential factors in the strategy formulation. Thus, in practice, it becomes almost personal strategy of the top man in the organization. Therefore, there is an urgent need for the institutionalization of the strategy because without it, the strategy is subject to being undermined. Institutionalization of strategy involves two elements:

- Communication of strategy to organizational members and
- Getting acceptance of strategy by these members.

Strategy Communication

The role of a strategist is not only to make the fundamental analytical and entrepreneurial decisions, but also to present these to the members of the organization in a way that appeals to them and brings their support. Thus, in order to get the strategy accepted and, consequently, implemented requires its communication.

The form of communication may be oral through the interaction among strategist and other persons, particularly at higher level in meetings or in other ways of personal interaction. However, for a large organization with multi-locational units, such a form of communication may not be adequate, and well-documented written form may be required. Such a document may contain (i) the context in which the particular strategy has been formulated like organizational mission and objectives, environmental variables, and organizational variables: (ii) contents of the strategy such as the contribution of the strategy to the achievement of organizational objectives, changes required in existing organizational processes, and what is expected from personnel at different levels in the organization.

Given below is an example of how BHEL (a multi-unit public-sector company) communicated its strategy (Exhibit).

Exhibit : BHEL's Growth Perspectives

BHEL published a 24-page document titled 'BHEL's Growth Perspectives in the 1980s' in April 1982 as a communication from its chief executive, K.L. Puri to the employees of the company. The contents of the documents were as follows:

1. BHEL's objectives;
2. Business opportunities and threats-macro environment and sector-wise (thermal. hydro, transmission. and transportation) analysis;
3. Directions for business development (sector-wise and exports);
4. Resources mobilization (human. financial. and technological);5. Research and development;
6. Achieving the targets; and
7. Present activity profile of BHEL

Strategy Acceptance

It is not just sufficient to communicate the context and content of a strategy but to get the willing acceptance of those who. are responsible for its implementation. This will make organizational members to develop a positive attitude towards the strategy. This helps them to make commitment to strategy by treating it their own strategy than imposed by others.

Creation of such a feeling is essential for the effective implementation of the strategy.

A major problem in strategy acceptance is that people often resist a strategy, particularly when it makes significant departure from the old-established practices. The basic reason of resistance emerges from the feeling that the new way of doing things will put them in some adverse situation. For example, many of the modernization strategies have been opposed by trade unions because of their perception that these would put additional work load on their members or there may be job cuts. Many of the dis-investment and divestment strategies have also been opposed by empoyees of all sorts and these strategies could not be implemented in many cases. Though the problem of overcoming such a resistance will be discussed in the last chapter of this part, here it may be emphasized that strategy acceptance is a pre-requisite for its effective implementation.

2. Formulation of Derivative Plans and Programmes

Once the strategy is institutionalized through its communication and acceptance, the organization may proceed *to* formulate action plans and programmes. Since these plans and programmes are derived from a strategic choice (strategic plan), these are known as derivative plans and programmes.

Action Plans

Action plans target at the most effective utilization of resources in an organization so that objectives are achieved. These action plans may be of several types like plan for procuring a new plant, developing a new product, and so .on. What types of action plan will be formulated in the organization would depend on the nature of its strategy under implementation, for example, action plans in a takeover strategy would be different from expansion through undertaking green-field projects. However, while formulating action plans, follow-questions should be put so that action plans contribute positively in strategy implementation:

1. How does the particular action plan contribute to the objectives of the strategy?
2. When will the activities devised under an action plan be undertaken?
3. Who will perform the activities?
4. What support will be needed to perform those activities?

Programmes

A programme is a single-use plan that covers relatively a large set of activities and specifies major steps, their order and timing, and responsibility for each step. There may be several programmes in an organization; some of them being major, others being minor. These programmes are generally supported by necessary capital and operating budgets. For example, in the case of a takeover strategy, two types of costs are involved: price to be paid for takeover and operating cost involved in takeover process. Further, the activities of takeover are identified and sequence and timing of performance of these activities are also determined so that takeover programme is completed well in time. Since there may be various programmes involved in the implementation of a strategy, these should be well coordinated so that each of them contributes positively to others.

3. Translating general Objectives into Specific Objectives

Organizational objectives, discussed in chapter 4, are of general and broad nature. They provide direction for action on continuous basis. However, these objectives are too general and, sometimes, intangible to be transformed into action. In order to make these operative, managers determine specific objectives within the framework of general objectives, which the organization and its various units will seek to achieve within a specific period. For example, growth is one of the vital objectives of every organization. This provides direction for undertaking various activities through which growth can be achieved. However, this is very general and does not provide clue about how much growth in what period of time. In order to overcome this problem, organizations set specific objectives to be achieved in a specified time. For example, Tata Group has set growth objective in terms of doubling group turnover in four years and doubling net profit in three years. Such a specific objective provides sharp focus on the activities that may be undertaken to achieve this volume of growth. .

Most of the specific objectives tend to be of short range in character and have definite time limits within which the organization has to achieve these. Translation of general objectives into specific and operative objectives must fulfill two criteria.

1. Translation of general objectives into specific objectives should be tangible and meaningful. As far as possible, these objectives should be easily measurable as organizational performance is measured against these objectives.
2. Specific objectives should contribute to the achievement of general objectives. In fact, time-bound objectives are set to make the achievement of general objectives more feasible. For example, long-term objectives involving plans for the distant future may fail to make individual objectives tangible and meaningful standards for control. This can be overcome by setting specific objectives at different stages of general long-term objectives.

Management by Objectives

Management by objectives (MBO) is a tool for defining objectives at individual level in an organization. After defining objectives through mutual agreement between a superior and his subordinate, the latter is allocated commensurate resources and his performance is measured against these objectives. Weihrich and Koontz have defined MBO as follows: "MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner, consciously directed towards the effective and efficient achievement of organizational objectives."

4. Resource mobilization and allocation

For implementing a strategy, an organization should have commensurate resources and these resources should be committed and allocated to various units and functions where these have optimum use. There are different types of organizational resources and each of these has specific nature and characteristics. These resources are broadly classified into two broad categories: financial and human. Financial resources are used to procure various physical resources such as land, building, plant, machinery, raw materials, etc. These resources are the means by which an organization produces goods and services of value through conversion process. The success of the organization depends on the quality of its resources and their utilization. Therefore, the organization should feel concerned about how to mobilize resources and allocate these to various units and subunits.

Resources

It might be said that resources represent those assets, both tangible and intangible, with which the company has to work: its assets, including its people, and the value of its brand, a variety of individual, social, and organisational phenomena. To put it more succinctly, resources represent inputs into a company's production process, such as capital equipment, the skills of individual employees, brand names, financial resources, and talented managers.

By themselves, or individually, resources generally will not enable a company to achieve a competitive advantage. They must be combined or integrated with other company resources to establish a capability. When these capabilities are identified and nurtured, they can result in core competencies, which may lead to a competitive advantage. A company's resources can be classified either as tangible or intangible.

Resources	
Tangible Resources	What a firm has to work with:
• Financial	its assets, including its
• Physical	people and the value of its
• Human Resources	brand name
• Organisational	
Intangible Resources	Resources represent inputs
• Technological	into a firm's production
• Innovation	process such as capital equipment,
• Reputation	skills of employees, brand
	names, finances and
	talented managers

Tangible Resources

Tangible resources are assets that can be seen or quantified, such as a company's physical assets (for example, its plant and equipment). Tangible resources can be classified in one of four ways as illustrated below:

- Financial resources, such as borrowing capacity is organisational resources, such as its formal reporting structure and systems
- Physical resources, such as location
- Technological resources, such as patents and trademarks

It is interesting to note that tangible resources may be less valuable today than they were in the past. To support this conclusion, economist John Kendrick has found intangible assets to have contributed increasingly to US economic growth since the early 1900s. The ratio of intangible business capital to tangible business capital in 1929 was 30 per cent to 70 per cent, but that ratio was 63 per cent to 37 per cent in 1990. The growth in market capitalisation of companies like Infosys and Wipro point to the fact that the same may be true in the case of Indian scenario.

Intangible Resources

A company's intangible resources may be less visible, but they are no less important. In fact they may be more important if a company expects to achieve a competitive advantage. Intangible resources range from innovation resources, such as knowledge, trust, and organisational routines, to the company's peopledependent or subjective resources of knowhow, networks, organisational culture, to the company's reputation for its goods and services and the way it interacts with others (such as employees, suppliers, or customers). Three primary classifications of intangible resources are presented below:

- Human resources, such as knowledge, trust, and managerial capabilities
- Innovation resources, such as scientific capabilities and capacity to innovate
- Reputational resources, such as the company's reputation with customers or suppliers

Tangible resources are those that can be seen (such as plants), touched (such as equipment), documented (such as contracts with suppliers of raw materials), or quantified (such as the value of a specific asset). Generally tangible resources will not, by themselves, represent capabilities that will serve as sources of core competencies. However, they still have value and will contribute to development of capabilities and core competencies.

Strategic value of Tangible and Intangible resources

Thus, the strategic value of tangible and intangible resources is important. The strategic value of resources is indicated by the degree or extent to which the resource(s) contribute to the development of capabilities, core competencies, and ultimately, to a competitive advantage for the company This is another way of saying that a single resource, tangible or intangible, has strategic value only if, in combination with other resources, a capability is established.

The relationship is pretty straightforward. Resources are the source of company capabilities, capabilities are the source of core competencies, and core competencies are the foundation for achieving a competitive advantage and strategic competitiveness.

Because they cannot be quantified, touched, or seen, and are more difficult to explain, intangible resources are more likely to be sources of sustainable competitive advantage. And, if they also are difficult for competitors to identify and/or understand, they also may represent the most likely source(s) of a company's capabilities, core competencies, and sustained competitive advantage.

Brand Name (Intangible Asset)

One intangible resource that may enable a company to create a reputation and serve as a source of competitive advantage is a brand name. Specifically, what a brand name communicates to customers about the performance characteristics or attributes of a company's product(s) represents a direct link to a company's reputation with its customers.

When the brand name communicates positive characteristics of a product (for example, superior performance, high quality, or superior value), consumers will tend to purchase the brand name product rather than similar products offered by competing companies. Thus, it is important that companies with strong brand names nurture the core competencies that provide the brand name with value and continually communicate that value through consistent advertising messages.

When a company has a brand name that serves as a foundation for competitive advantage, the company often will try to leverage the power of that brand name. However, the value of a brand name can be lessened or reduced by competitive actions, which the company either does not recognize or to which it fails to respond. Therefore, the companies need to use various strategies to safeguard their brands.

- For companies whose brand names are expected to thrive and continue to provide a competitive advantage (such as Nike or CocaCola), their challenge is to nurture and exploit the resources, capabilities, and core competencies that are the source of competitive advantage.

- For companies whose brands are under fire (such as Surf or Parachute), the challenge is to reestablish the value of the brand. Their challenge is to reconfigure their existing bundle of resources, capabilities, and core competencies to renew them as sources of competitive advantage.
- For companies whose brands are troubled (such as PCL Computer and Purina), because the brands are no longer a source of competitive advantage, the challenge is even greater. They must identify and develop new bundles of resources, capabilities, and core competencies and nurture them to establish a new source of competitive advantage.
- Companies may also choose to package their brand as a way to differentiate themselves from competitors.
- Other companies (e.g., Proctor & Gamble, Hindustan Lever, and ITC) support their brandname products through heavy advertising expenditures.

It is important to remember that resources, both tangible and intangible, represent the primary sources that enable a company to establish capabilities, the capacity for a set or bundle of unique resources to integratively perform a task or activity. In other words, individual resources alone, while they may have some value, will contribute to the development of capabilities only when they are put together in unique combinations to provide the foundation for core competencies and the establishment of competitive advantage.

LESSON 31: STRUCTURAL IMPLEMENTATION

Learning Objectives

On completion of this chapter you should be able to:

- You will understand relationship between strategy and structure.
- You will understand the importance of structural change in strategy implementation
- You will understand the organization structure concept through the example of organization structure of Hindustan Lever Ltd.

Introduction

Structural implementation of strategy involves designing of organisation structure and interlinking various units and subunits of the organisation created as a result of the organisation structure. Organisation structure is the pattern in which the various parts of the organisaion are interrelated or interconnected. Thus, it involves such issues as to how the work of the organisation will be divided and .assigned among various positions, groups, departments, divisions, etc. and the coordination, necessary to accomplish organisational objectives: will be achieved. Thus, there are two aspects of organisational design: differentiation and integration. Differentiation refers to 'the differences in cognitive and emotional orientations among managers in different functional departments' and integration refers to 'the quality of the state of collaboration that are required to achieve unity of efforts in the organisation: [1] Therefore, the organisation must emphasize on both the aspects: it must design organisation structure and provide systems for interaction and coordination among organisation's parts and members.

Strategy-Structure Relationship

There is close relationship between an organisation's strategy and its structure. The understanding of this relationship is important so that in implementing the strategy, the organisation structure is designed according to the needs of the strategy. The relationship between strategy and structure can be thought in terms of utilizing structure -for strategy implementation because structure is a means to an end and not an end in itself. The master appropriate end is the objectives for which the organisation exists in the first place, as revealed by its strategy. Without coordination between strategy and structure, the most likely outcomes are confusion, misdirection, and splintered efforts within the organisation. Research.evidence also suggests that structure follows strategy. According Chandler, changes in organisations strategy bring about new administrate problems which, in turn, require a new refashioned structure if the new strategy is to be successfully implemented. Chandler has found structure tends to follow the growth strategy of the organisation but not until inefficiency and internal operating problems provoke a structural adjustment. Thus organisational actions proceed in a particular sequence:new strategy creation, emergence of new administrative problems, a decline in portability and performance, a shift to a more appropriate organisation structure, then recovery to improved strategy execution and more profit and performance. However, this sequence can be broken if suitable organisation structure is conceived at the starting point of strategy implementation.

The relationship between strategy and structure, however, should not be viewed merely as one-way traffic, rather it should be viewed as two-way traffic. On the one hand, the structure should be according to the need the strategy so that it is implemented effectively. On the other hand, structure of the organisation may playa critical role in influencing its choice of strategy. Recognition of this two-way interaction between strategy and structure is crucial for a complete understanding of the criteria which underlie structural design. It becomes obvious that a top management perspective in structural design is necessary when one understands that such a design is a result of overall strategy, and the success of the strategy is also dependent on that design. The interdependence of structure with strategy can be summarized by quoting Cannon who has derived from his long experience of his consulting firms in devising strategies and organizing companies. He observes:

"The experience of McKinsey supports the view that neither strategy nor structure can be determined independently of the other. If structure cannot stand alone without strategy, it is equally true that strategy can rarely succeed without an appropriate structure. In almost every kind of large-scale enterprise, examples can be found where well-conceived strategic plans were thwarted by an organisation structure that delayed the execution of the plans or gave priority to wrong set of considerations

... good structure is inseparably linked to strategy...,"

Relating Structure to Strategy

The close association of structure with strategy suggests that the organisation should relate its structure with its strategy. It should design the structure according to the needs of the strategy for- its effective implementation. Without coordination between strategy and structure, the most likely outcomes are confusion misdirection, and splintered efforts within the organisation. The structure is a means to implement a particular strategy and, therefore, the good structure is one which best fits with the strategy. In evaluating whether the structure is designed properly to meet the needs of the strategy, two questions can be posed:

1. What functions and activities should be performed for the success of the strategy?
2. Is structure adaptable to the pressure of the external environment?

The answer of these two questions should point squarely at the functions essential to strategic success. However, in applying the test of consistence of strategy and structure, the strategist frequently meets three difficult. First, as he attempts to relate structure to strategy, he may find the strategy unclear, emerging. The basic question that should be put for answer before diagnosing the structural adequacy is: how definite is the strategy? If the answer to this question is uncertain, how does a manager test the adequacy of his organisation structure? Therefore, if the strategy is precise, clear and definite, the adequacy of organisation structure can be tested easily.

Second difficulty results from the fact that symptoms of organisational malfunctions are not always explicit unlike the physical object. Things are to be interpreted on the basis of various qualitative factors which may become subjective. It is a common human tendency to cover up unpleasant things and organisational situations fall in this category. Therefore, the strategist has to build up his information system in such a way that he is able to monitor organisational adequacy.

Third problem in applying the test of adequacy is that malfunctioning symptoms have multiple causes. Many of external factors may cause ll1alfunctioning in the organisation and not the structure itself. For example if the profit is down because of increased competition and consequence -lower price realisation, the correction will be required in strategic posture and the organisation should be analysed in the context of both internal _ well as external factors to pinpoint the exact nature of problem and consequently the remedial action. These problems must be kept in mind -while relating structure to strategy.

Mechanism for Relating Structure to Strategy

The first aspect of structure-strategy fit relates to the type of functions that the organisation structure should facilitate to perform. There are tests which any good organisation structure should satisfy. First -implement the strategy properly, certain functions must be performed. Therefore, the structure should ensure that all the necessary activities are performed and there is no duplication in the performance of the -activities. Second, an activity's contribution to strategy should determine its rank and placement in the organisational hierarchy. Thus key activities should never be subordinated to non-key activities. Revenue-earning or result-producing activities should never subordinate to support activities. By making success causing for -the major building blocks for the structure, the chances are greatly improved that strategy will be effectively implemented.

The second aspect of structure-strategy fit relates to the adaptive -character of the environmental pressure on the organisation. Organisation has to interact continuously with its environment and this interaction some sort of changes are brought continuously in the organisation. If the change is a minor one and comes within the purview of established programmes of action, the change will be absorbed within the system; major or rapid changes throw the organisation out of equilibrium seriously affecting its functioning. New equilibrium is reached by taking new programmes. Therefore, the organisation structure should be able -absorb these changes.

In relating structure to strategy, following strategic principles organizing may be helpful. These principles are not strictly in accordance -with traditional principles of organizing. These principles are considered be specially pertinent for a firm with multiple products and multiple industry-market opportunities. These should also suit the smaller but growing firms in a dynamic volatile environment.

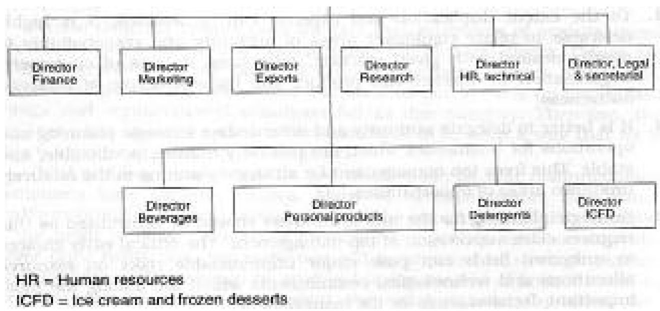
1. To the extent duplication and expense can be avoided. it is highly desirable to relate - significant areas of authority and responsibility to results desired with given markets, industries, or sets of customers. Organisation by market can produce the highest degree of strategic awareness.
2. It is better to delegate authority and decentralize strategic planning and operations for businesses which are relatively mature, predictable, and stable. This frees top management for strategic planning in the relatively unknown areas of opportunities.
3. Strategic planning for the unknown areas should be centralized as this requires close supervision of top management. The critical early choices in unknown fields can pose major unpredictable risks on resource allocations and technological commitments which are among the most important decision areas for the management.
4. In centralisation-decentralisation continuum, there should be centralized measurements. This implies after-the-fact measurement and not the control which is affected by the divisional heads.
5. Emphasis should be on result-centered rather than profit-centered decentralization. It is not necessary to effect total profit and loss divisionalisation in order to delegate decision-making authority' to lower echelon managers. Decentralization can be confined to those key operating and support areas that have within their make-up tradeoff issues which a subordinate manager can resolve to affect timely and market knowledgeable strategic decisions. In other words, neither centralization nor decentralization are cut and dried propositions. Many graduations are available to resourceful management, and entrepreneurial type of responsibilities can be assigned with significant leverage for achieving results without handing over complete profit responsibility.

Various forms of organisation structure and their suitability to strategies suggest that no one form is suitable for all situations. Therefore, many companies opt for combination of more than one form. Exhibit the organisation structure (partial at the top level only) of Hindustan Lever Limited which is essentially a combination of functional and divisional structures. The company has constituted certain standing committees. Besides, ad hoc committees and groups are constituted whenever need arises.

Exhibit:

Organisation Structure of Hindustan Lever

Hindustan Lever Limited is a major fast-moving consumer-goods company. Its products have been grouped into three broad categories: home and personal care, foods and beverages, and industrial and agricultural with a number of products in each group. The organisation structure of the company is as follows:



At the second level, marketing functions have been organised on the basis of territorial divisionalisation with North, South, East and West divisions. In order to support its marketing functions. human resource functions have also been organised on the same basis.

Structural Change

If the present organisation structure does not adequately fit the need of chosen strategy in the light of the above strategy-structure fit and strategic principles of organizing, top management should look for reorganization. Many companies have reorganized their structures recently because of the change in their strategies due to the following factors:

1. rapid growth leading to problems of manageable size and communication;
2. excessive diversification of product lines;
3. increasing competition and environmental changes;
4. changes in managerial styles particularly from centralized family decisions to decentralized decision making;
5. change in organisational climate and managerial commitments; and
6. unsatisfactory work performance because of structural conflicts.

However, before taking reorganization, it is constructive for management to check off the following questions to ensure whether the firm can function efficiently without the reorganization:

1. Has firm clarified its n1ission and responsibilities to all concerned under- the existing structure?
2. Are there significant opportunities for improved direction and motivation in day-to-day operations?
3. Can procedures and practices be improved within the existing structure?
4. Should any key personnel reassignments be made?
5. Having exhausted the above, what, if any, organisational changes should be made?

If the change is required, it should be total package of articulated and efficient structure, effective back-up systems, and motivated people dimensions. Initially, the process reorganization was the responsible of line management, usually the chief executive. It was, therefore, a highly intuitive process largely inspired by management's desire to solve certain existing problems, make key personnel changes, or take up the fad of the time. However, the trend has channel. Now most of the large organisations have either organisation development department or take the help of external consultants because the emphasis is on planned change. Since the organisation is a complex system of mutually dependent parts, it is logical that organisational change involves an alteration or modification of one or more parts of the system. Thus what is needed is an operational scheme of organisation of parts so that the focus and the direction of the change sought may be clearly identified for any given situation and the extended and interactive effects of a change in anyone part of the system or on the other parts may be anticipated and traced. Thus structural reorganization should be in the context of other interactive subsystems of the organisation, viz. technology, behavioural, technical and procedural, goals and values, and managerial. Therefore, mere restructuring of organisational relationships is not sufficient but an integrated approach is required.

LESSON 32:
FUNCTIONAL IMPLEMENTATION

Learning Objectives

On completion of this chapter you should be able to:

- You will understand the concept of functional policies and plans.
- You will be able to differentiate between policy and procedure.
- You will understand the role of functional policies and plans in strategy implementation.
- The importance of integration of functional plans and policies.

Functional implementation deals with the development of policies and plans in different areas of functions which an organisation undertakes. Every business organisation is built around two basic functions: production and marketing; to be in business, every organisation has to produce goods or services and sell these to the customers. The resources that are used to perform and pay for these two basic functions constitute two other significant functions-finance and personne1. Thus, an organisation has to formulate policies and plans in these functions to implement its strategy successfully.

Functional Policies and Plans

Integrated strategic planning system has significant dimension that coordinates the various plans from the top level of the organisation down through the lower levels. Such plans are coordinated at different levels so that planning efforts at a lower level contribute to the higher level efforts. Thus, integration of various functions, their plans and efforts leads to effective implementation of strategy. The integration can be achieved if various functional plans are derived directly from strategic plans and that too at the level of their formulation. However, this may not always happen, particularly in the absence of proper guidelines. For, an organisation is a growing concern whose operational patterns have already been established which -may not contribute to the type of integration needed at various levels. Further, the functional plans are prepared by almost at any level of the organisation. For example, the marketing manager develops overall marketing objectives, policies, action programmes, budget, etc. His subordinates, in turn, develop supporting marketing plans covering each area of marketing operation-distribution, sales promotion, marketing plan-which are incorporated into overall plan of the organisation. Similar exercises are done in other functional areas which are incorporated into master plan for implementation. At all these levels, coordination is necessary which is not achieved automatically but through the development of policies.

Policies are guides to action. They are in the form of specific statements or general understanding which provide guidance in decision making to members in respect of any course of action. They indicate how the task assigned to the organisation might be accomplished and provide a basis for lower level managers on which to make decisions about the use of resources which have been allocated. But a policy does not tell the managers how to handle a specific activity; it is only a general guide to action. It limits the choices of managers in most cases but it does not limit them entirely.

Difference between Policy and Procedure

Before we proceed to the discussion of development of functional policies, it is desirable to make a comparison of policy and procedure. A procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished. Thus, a procedure provides guidelines to organisational members about how to accomplish a work. A policy also provides guidelines for actions. Thus, there is a likelihood that a confusion arises between policy and procedure as both provide guidelines for future course of action. However, this guiding aspect is different in policy and procedure. **The major difference between the two can be identified as follows:**

1. **Policy provides guidance for managerial thinking as well as action.** As a result, it does not tell a manager ,how to do the things; it merely channels his decision-making along a particular line by eliminating his span of consideration. On the other hand, a procedure simply provides guidelines to the action by prescribing how an action can be performed step by step.
2. **A policy is more flexible as compared to a procedure**. Policy is more flexible because it prescribes the areas of discretion to managers, while procedure prescribes the exact sequence of the activities without scope of any variation. This difference between policy and procedure may be understood by an example. An organisation may have a policy' of granting vacation to its employees. For implementing this policy, certain procedure may be followed through which an employee may get leave and related benefits. A manager can refuse the leave to the employee concerned depending on the organisational situation. But the employee will have to follow certain procedure of applying for leave, completion of certain formalities to avail the benefits if leave is granted.
3. **Policy is more pronounced at higher levels while procedures are more prevalent at lower levels.** At higher levels, managers are more concerned with looking into the totality of the organisational functioning and, therefore, they should prescribe policies so that uniformity is maintained for particular action. People at lower levels are engaged mostly in routine work which can be better accomplished if the set standards are prescribed without leaving' any scope of discretion. Since external situations play more important role in policy formulation and its implementation, managers at

higher levels have to make many decisions which are not similar to the previous ones. Therefore, they have authority to vary an action according to the needs. At lower levels, no such problems arise.

Role of Functional Policies and Plans

Functional policies play important role in strategy implementation. A functional policy is formulated basically to control and reinforce implementation of functional strategies and also the corporate strategy. **Control and reinforcement of strategy implementation are facilitated by functional policies in the following ways:**

1. Through the functional policies, top management can ensure that strategy is implemented by all parts of the organisation as policies cover almost entire activities of the organisation.
2. Policies specify the manner in which things can be done and limit discretion for managerial action. Thus, the top management of the organisation can rest assured that all personnel of the organisation will direct their efforts in a way relevant for strategy implementation.
3. Policies provide guidelines for managerial decisions. This aspect of the policies serves the strategy implementation in two ways. First, there will be uniformity throughout the organisation in managerial action. Second, there will be considerable time savings in decision making as managers are well aware what kind of actions. are required in a given situation.
4. Functional policies provide basis for control in respective areas as policies lead to consistent pattern of behaviors: This, in turn, acts as basis for controlling.
5. Policies provide coordination across different functions. Coordination among different functions is very important for strategy implementation.

All functions of an organisation are interdependent and interrelated. Therefore, what is happening in one function has its relevance for other- functions. All functions can contributepositively when they are performed in a coordinated way.

Development of Functional Policies and Plans

Managers develop policies which are decision guides and make the strategy work. Therefore, the critical element involved in analytical exercise for policy making is the ability to factor the grand strategy into policies that are compatible, workable and just theoretically sound. It is not enough for the managers to decide to change the strategy. What comes next is equally important: How do we get there? When? and How efficiently? A manager answers these questions by preparing policies to implement the strategy. For example, if an organisation chooses to go for diversification, the policy maker has to decide what to diversify into, where to diversify, how much money will be needed, from where the money will come and what changes are needed in various functions of the organisation. The decisions on all these aspects are much easier if proper policies have been formulated.

The amount of policy making in the formal sense will vary with the size and complexity of the organisation. If the organisation is small one with simple business, only a few policies will be sufficient. Moreover, the policies are generally understood and verbal. However, in large and complex organisations, large number of policies are needed, In whatever forms, the policies are developed, they must be judged on the following criteria:

1. Do they exist in the areas critical to the success of the organisation?
2. Do they reflect present or desired organisational practices and behavior?
3. Are they clear, definite, and explicit leaving no scope for misinterpretation?
4. Are they consistent with one another and do they reflect the timing needed to accomplish the goals ?
5. Are they practical in given existing or expected situations?

Integration of Functional Policies

When various functional policies have been developed for implementation of the strategy, implementation is not necessarily complete; if these policies are not properly integrated, they may not contribute properly towards strategy implementation. Integration in functional policies is necessary because they are interdependent; a particular policy affects other policies and, in turn, is affected by other policies. Functional policies may be considered like horses in a chariot. A chariot may have very good horses but it may not move forward even by an inch if some of the horses are pulling it forward and others are pulling it backward. The chariot may move forward at a high speed if all horses pull it forward at the same time. The considerations that guide strategists in the integration of functional policies may be as follows:

1. Need for internal consistency;
2. Relevance to developing organisational capabilities;
3. Making trade-off decisions;
4. Intensity of linkages; and
5. Timing of implementation of policies.

Internal Consistency

There is a need to be sure that there is internal consistency in the policies developed for various functions. Since various functions are interdependent, a decision for functionally dependent factors cannot be made without regard to their impact on other areas of business. Otherwise, suboptimisation is likely to result. For example, a major production decision variable is that of plant capacity. This decision depends heavily on, besides other things long-range sales forecast and the structure of distribution channel (marketing function), cost of capital and sources of funds (finance function) and availability of relevant human resources (personnel function). Thus, plant capacity decision cannot be made in isolation of other factors.

Relevance to Organisational Capabilities

Integration of various functional policies should focus on developer organisational capabilities to implement the strategy effectively. For synergistic effects occur across functional areas and distinctive competence emerges as a result of deploying resources to the areas where the organisation wishes to build up .its strategic advantages. This can be observed in the case of companies which intend to be a market leader, low cost producer, or technologically superior competitor, or the largest organisation. In all these alternative cases or a combination there of integration of various functional policies would be necessary, though there may be difference in emphasis. For instance, the company which wants to become a market leader would have to offer products of the best possible quality at competitive prices through an efficient distribution system supported by aggressive promotional efforts, as is the case with Hindustan Lever. For Reliance Industries which is to be the largest company in petrochemical sector, the emphasis has to be on high technology, mobilisation of large resources but not necessarily emphasizing distribution and promotion. Thus, integration of policies should aim at developing competencies relevant to the company's objectives as defined through strategy formulation.

Making Trade-off Decisions

In integrating various functional policies, the organisation faces the situation of trade-off decisions because of the inherent nature of each organisational function. The demand for optimizing a particular function may be in one way, for another function, in another way which may be conflicting to each other. For example, production function's optimisation may lie in the most modern technology, a costly affair; finance function's optimisation may be least cost technology. Both are contradictory. Similar contradictions may be observed in other functional areas also. Therefore, there has to be a trade-off among various functional areas which may suboptimise some functional areas but may optimise the organisation. It is based on the maxim 'if you want to get something, you have' to lose something.' In applying this maxim in trade-off decision, the principle is what you get is more important than what you lose. This is true in the case of integration of policies.

Intensity of Linkages

All functions of an organisation are interdependent and interlinked; some directly, others indirectly. Types of linkage determine the level of integration of various functions. For instance. if the strategy is built on offering newer products, there would be greater linkage between R&D and production function; if the .strategy is built on low-cost mass consumption items, there would be close linkage between production and marketing. Thus, intensity of linkages is not constant but moves according to the strategy.

Timing of Implementation of Policies

There should be integration in timing in putting different policies into action. This may bring better result for the organisation as a whole. For instance, if a con1pany is facing resource crunch, it may be better to put off those plans and actions which may have long-term effect on it like R&D. Similarly, if the con1pany is moving into high-tech area, more emphasis has to be placed on training and development.

Functional Implementation at EI Hotels

Example of EIH Limited shows how it has chalked out its various functional policies and plans and how they contribute positively to each other and the organisation as whole.

The company is the owner of famous Oberoi chain of hotels in India and abroad. With a very humble beginning in the hotel business, the company has the largest hotel chain in the country and the largest Indian hotel chain abroad. The company has followed con1ir!uous growth strategy through expansion since the very beginning. In order to achieve this feat, the company has implemented its strategy by taking integrated actions. Such actions include the various areas of hotel management namely construction and acquisition of hotels, interior decoration, foods and beverages, servicing, pricing, financing, marketing, manpower management, and delegation' of authority. It can be seen that in hotel management, many of these are quite unique in the sense that they require different approach as compared to their counterparts in industrial organisations. A discussion of these will show how E I Hotels Limited has successfully implemented its strategy of growth.

1. Construction and Acquisition of Hotels: The company expanded its hotel business through the construction and acquisition of hotels. It concentrated on hotel of top category with 300-500 rooms either for construction or for acquisition. The idea was that bigger than this size of hotel may lose its charm by becoming overcrowded while smaller than this size may not create much impact. The company also located its hotels in the central places of the cities which might have initial higher costs but have various other advantages. It may be mentioned that location is an important factor in hotel business. Thus, the company has its hotels in all the major cities of the country which can afford five-star hotels. It also opened hotels in Middle East, West Asia, Europe, Africa and Australia wherever opportunities' existed. Overseas hotels have been opened through acquisition and marketing tie up. In negotiating hotel acquisition, the company emphasised on personal service and key personnel were deputed for the purpose so that deal could be struck within shortest possible time. In fact, in many cases, the chairman himself entered into the deals. The idea was that owners and the government with whom the deals were taking place should be impressed that they were dealing with persons who had sufficient authority to make decisions of vital importance. This resulted into quick acquisition of hotels or fixing of marketing tie.

2. Architecture and Interior Decoration: The company has emphasised on architecture and interior decoration to an extent that each hotel looks unique. Each hotel has individuality which reflects the ambition, the culture, the magnificence, and the dreams of the people who go to these hotels. The graphics, the staff uniforms, the lighting, air-conditioning, the plumbing, the maintenance, etc. have been of high grades. The hotel management works continuously with all associated with construction and maintenance of hotels. Thus, every minute details are worked out _ constructing and maintaining a hotel. So much attention is given _ maintenance that general managers of each hotel have been authorized _ spend 7 to 8 per cent of sales on maintenance and refurbishment. Ever: hotel has good shopping archade which caters to the needs of foreign tourists specifically and attract them.

3. Foods and Beverages: E I Hotels tries to ensure that best quality foods and beverages are served in all the hotels so that customers are attracted. These are supposed to be fresh. Quality and variety are maintained. Menu is changed quite frequently and every day some special dish is offered. The foods are prepared with right blending and foods and beverages are served at right temperature. Since the hotel tries to attract foreign tourists, it has also recruited foreign chefs. It is the policy of the company that at least one foreign chef is attached to every hotel to ensure good quality of international foods and beverages. It is the responsibility of every hotel manager to monitor the trained kitchen staff performance, guide them, and inspire them to perfection in their food preparation.

4. Servicing: Hotelier is primarily a service industry and there is very high significance of services offered in hotels. The company has adopted the policy of personalized services. Every customer, either coming to stay in the hotel or to dine in the restaurant is treated as valued guest. He is given an impression that the hotel wants his business. Such service is provided while the guest stays at hotels or he takes his food in restaurant. An attempt is made to take note of likings and disliking of the persons who visit the hotel so that when they visit next time, commensurate comforts are offered to them. Staff members have been instructed to say 'our hotel' instead of' my hotel' while talking to the customers. This creates feeling of belongingness in the mind of customers.

5. Pricing: It is the policy of the company to offer the most expensive rooms in the cities in which it operates its hotels. However, at the same time, an attempt is made to provide the most value for money in terms of comforts, service, and status. When the prices are raised, these are not just adjusted for the rate of prevailing inflation but they commensurate with the comforts. The company adopts a customer mix to keep the occupancy Tate high in which 70-80 per cent rooms are sold to groups at a lower price and 20-30 per cent at the higher prices. Attempt is made to attract foreign customers to the extent of 90 per cent so that high rates are ensured and at the same time, international status is maintained.

6. Marketing: E- I Hotels adopts comprehensive marketing strategy in order to achieve its objectives. In its marketing and promotional aspect, emphasis is put on the chain of Oberoi hotels rather than a particular Oberoi hotel so that chain is advertised and each hotel can gain from others. To sell the chain means selling the image of Oberoi. In order to achieve this, the company performs following activities. First, it utilizes the opportunities for editorial coverage of its hotels and their various facilities. This provides ample opportunities for hotels publicity with due credibility. Second, in advertisement copies, the fact is emphasised that seven hotels of Oberoi group are listed in the 300 world's best hotels. Third, company concentrates on travel agents and sells them the chain for a group. Fourth, it concentrates on network representation. Fifth, attempt is made to attract individual travelers for repeat business and word of mouth publicity:

7. Financing: The company is very rigid in taking loans from financial institutions so that it does not get involved with them. It has the policy to work with its own money and then to work with public money through deposits as these do not require any guarantee except the confidence in the company. This is the reason for high share capital of the company (Rs. 10.88 crore as compared to Rs. 6.64 crore of Indian Hotels Limited operating Taj group of hotels). It believes in fast collection of dues but at the same time, pays fast so that interest burden is reduced and the parties are kept satisfied.

8. Manpower. Manpower management is very strong aspect of the company. It believes in excellence of work and, therefore, requires people of very high caliber. Manpower planning is taken on long-term basis to find out what kind of people will be required at what time. The recruitment and selection process is very scientific and the candidates for various positions are selected after a very rigorous exercise. Most of the people are taken as management trainees. They are provided very rigorous training. Training emphasizes manual work and an aptitude to work so that trained personnel can render personalized service. They see the hotel life as it really is shorn of its glamour. The level of discipline is very high almost soldierly. Since the company pays high money apart from so many perks, it has been able to attract and retain most capable persons.

9. Authority Delegation. The company has adopted the policy of decentralization of authority. For major corporate functions, there are vice presidents at the corporate office. Each hotel is headed by a general manager who enjoys considerable authority, even the financial authority. Each hotel is treated as independent unit and general managers can make any decisions within the framework of the guidelines provided by the corporate office. For example, they are free to spend 7-8 per cent of their revenue on refurbishment of the hotel. Similarly they can make any decision to improve the image of their hotels. Delegation of authority not only provides opportunities to implement plans speedy but also provides training and motivation for employees.

LESSON 33:
FUNCTIONAL IMPLEMENTATION (CONTINUED)

Learning Objectiive

On completion of this chapter you should be able to:

- You should be able to understand the nature of organizations and the ways in which they convert inputs to produce goods and services.
- You should be able to understand that the purpose of the purchasing, marketing, finance and production functions.
- You should be able to understand the objectives of different business functions within overall organizational plan.

Functional Approach

Functional approach of organisational analysis takes into account various functional areas and evaluates these for' identifying strengths and weaknesses. The major functional areas are production/operations, marketing, finance and accounting, and human resources. Each of these major areas is divided into subareas, for example, marketing Is divided into sales promotion, physical distribution, sales volume,' and so on. Similar is the case with other functional areas. Besides these functional areas, organisation's general management factors are also taken into, consideration. Thus, in functional approach of organisational analysis, following factors are evaluated to identify strengths and weaknesses:

- Production/operations,
- Marketing,
- Finance,
- Human resources, and
- General management.

In the discussion that follows, various features of these factors, indicating strengths and weaknesses have been presented. While using these features in respect of various factors, two points should be taken into consideration:

1. These features provide a normative and suggestive list; in actual practice, these factors may vary depending on the nature of organisations.
2. Since organisational analysis is meant to relate strategy to environment, it is always future oriented. Therefore, these factors should not be evaluated on static basis but on dynamic basis in the context of environment. In fact, in many cases, the present strengths may turn to be weaknesses because of environmental changes. Various factors have been presented, here, in a sequence for the sake of convenience in analysis and not in order of their importance.

Production/Operations

Production / Operations processes are the mediating factors for converting raw. materials into finished products. There are various factors which affect the internal operations of the organisation and these factors should be taken into account while appraising the organisation's capabilities in these areas.

1. Allocation and Use of Resources

The degree of an organisation's success or failure depends on the degree of effective allocation and use of resources. Resources do not mean only money, building, and plant but also the scarce resources of management talent, capability, and technical skills. An organisation making wellbalanced allocation and use of its resources is in a better position to face challenges from the environment. The allocation and use of resources can be balanced by taking into account the need for various activities contributing to the objectives, their criticality, and resource requirements.

2. Rationalisation of Resources.

Another important aspect of using resources is their rationalisation. This problem is more important in the context of multiunit organisations. For example, a multiunit organisation may have many plants and offices with duplication of various efforts. The extent to which the duplication is avoided, the company becomes strong as cost of duplication is a burden on the organisation.

3. Locational Pattern

Though locational pattern is affected by a large number of factors, both economic and noneconomic, it affects the operational efficiency of the organisation. Such locational pattern can be analysed both for plants as well as for administrative offices. The extent to which organisation's plants and offices are located at favourable places, it stands to benefits and that is a strength for it. For example, opening of plants in backward areas may offer various advantages because of incentives from the government, but opening of administrative offices may not offer the similar advantages. This is the reason why many companies go for backward areas for establishing production facilities but open offices in welldeveloped areas, for example, Fort area in Mumbai or Chowranghee area in Kolkata.

4. Production Capacity and its Use

The use of production capacity affects the profitability of the organisation. High use of production capacity is strength but a low use of this is a weakness because the organisation's cost of production in this case may be very high.

5. Cost Structure

The cost structure of the product affects the organisation's profitability. If the cost of product is high, it is a weakness. Moreover, the extent to which cost cannot be controlled is also weakness of the organisation. Thus, low cost with high level of controllability is a strength and high cost with low. level of controllability is weakness.

6. CostVolumeProfit Relationship

While cost structure gives the general idea of high or low cost, costvolumeprofit relationship suggests the profitability of the organisation at various levels of production. If the relationship is such that it gives break even at high level of production with low margin of safety, it is weakness for the organisation, On the other hand, if break even point is low with high margin of safety, it is strength for the organisation.

7. Operation Procedures

Efficient and effective operation procedures like production design, scheduling, output, and quality control affect the internal efficiency of the organisation. As such, these are the strengths for the organisation, and opposite of these will be weakness because these will affect organisational efficiency adversely.

8. Raw Materials Availability

The extent to which the raw materials are critical and scarce and are supplied from a very limited sources, the organisational functioning is adversely affected. In such a case, the organisation does not have any control or has very limited control over the supply of raw materials. Hence, its dependence on the limited sources of supply of raw materials is a weakness. If the company is procuring its materials from welldiversified sources and the materials are easily available indigenously, its dependence is less which is a strength for it.

9. Inventory Control System

An efficient inventory control system which pinpoints on the various aspects of materials provides strength to the organisation because it can control and regulate the procurement of materials in such a way that its cost is minimum and there is no unnecessary hindrance in the production. A defective and nonexistent inventory control system is a weakness.

10. Research and Development

Research and development is an important area where management should concentrate because of two reasons. First technical collaboration with any foreign organisation lasts up to five years with an extension of three years in exceptional cases. The government stipulates that local organisations, should develop its R&D during this period. Second, there are special tax benefits on the expenditure of R&D and products developed out of the organisation's R&D efforts. In order to take the advantages, the organisation must take R&D activities and ,must evaluate as how these are contributing to the organisational product development. R&D activities can be evaluated in terms of amount spent on them, number of products developed, or number of patents registered by inside R&D. A high score on these items is strength of the organisation.

11. Patent Rights

Organisations holding certain patent rights under which they can use some well established brand names have certain advantages because they have not to incur any extra expenditure for promoting the brand.

On the basis of the above discussion, the major strengths and weaknesses In the field of production/operations can be identified as depicted in Table below:

Strengths and weaknesses in production/operations

Strengths	***Weaknesses***
1. Well-balanced allocation and use of resources	1. Defective allocation and use of resources
2. Favourable locational pattern of plants and offices	2. Unfavourable locational pattern of plants and offices
3. Adequate use of production capacity	3. Inadequate use of production capacity
4. Low cost of production	4. High cost of production
5. Low break-even point	5. High break-even point
6. Efficient and effective procedures	6. Ineffective procedures
7. Abundant and multi sources of raw materials supply	7. Scarce and limited sources of raw materials supply
8. Effective inventory control system	8. Ineffective inventory control system
9. Adequate and effective research and development	9. Inadequate and ineffective research and development
10. Holding of well-established patent right	10. No patent right

Marketing

Marketing factors are of prime importance for a business organisation as it relates itself to its environment through marketing functions. The managers should appraise the organisation in the light of various marketing factors taking into account how these factors are contributing or not contributing to the achievement of organisational objectives and how long they will continue to do so if the same position continues. Prominent marketing factors taken for evaluation are as follows.

1. Competitive Competence

Business organisations have to operate in a competitive field, except in the case of protective markets where markets are not defined by individual company or market factors but by nonmarket factors. The organisation's competitive competence can be appraised on the basis of trends in market shares for which the information can be made available from various outside sources as well as through the organisation's own marketing research department. Apart from market shares, many other factors also go in determining the competitive competence as described below.

2. Product Mix

Product mix decides the various sources of revenue to the organisation. This is true not only for a diversified organisation but even for a single class. If the revenue is coming from a single product or from very limited number of products for a diversified company, this may be its weakness.

3. Product Life Cycle
Product life cycle is an attempt to recognise distinct stages in the sales history of the product. Corresponding to these stages are the various marketing opportunities and threats. Normally every product and brand has to pass through a life cycle: introduction stage. growth stage, maturity stage, and declining stage. Products at declining stage are the weak point for the organisation and adequate precaution must be taken.

4. Marketing Research
Marketing research offers the information for taking various marketing decisions in the light of the environmental demand. The efficient and effective marketing research system is a strength for the organisation because it will enable to relate the organisation with its environment through suitable strategy.

5. Channel of Distribution.
An effective channel of distribution is a strength of the organisation because it not only distributes the products at the points where these are needed but also provides the feedback regarding the changes in the market forces. However, a centralised distribution channel may be a weak point because it may weaken the organisation's position at the time of emergency.

6. Sales Force
An effective and efficient sales force closed with key customers is a strength for the organisation because it may withstand any threat posed by the environment. However, sales force concentrating sales efforts to a few customers may be weakness.

7. Pricing
Pricing is a factor which affects both sales as well as revenue to the organisation, particularly in pricesensitive markets. Though there can be different pricing strategies in different markets and at different product life stages, these must match with the product and market.

8. Promotional Efforts
Various promotional efforts affect the positioning of the products in the market. They also affect the brand images as well as the general image of the organisation.. Effective promotional efforts are a strength for the organisation and their absence a weakness.

On the basis of the analysis of various factors of marketing, strengths and weaknesses in this area are presented in Table below:

Strengths and weaknesses In marketing	
Strengths	Weaknesses
1. Favourable company image	1. Poor company image
2. Diversified product-mix	2. Single or limited product
3. High market share	3. Low market share
4. Growing or maturing stage of product life cycle	4. Declining product life cycle
5. Effective and efficient distribution channel	5. Ineffective distribution channel
6. Efficient and motivated sales force with contacts with large number of customers	6. Inefficient sales force With limited contact with customers
7. Efficient promotional efforts and proper product positioning	7. Lack of promotional efforts
8. Efficient marketing research and feedback system	8. Defective or no marketing Research
9. Pricing commensurate with product and market features	9. Pricing unrelated to product and market features
10. Review and updating of marketing strategy.	10. Stagnant marketing strategy.

Finance
Finance area deals primarily with raising, administering, and distributing financial resources to various activities so that a proper balance is maintained and the organisation achieves its objectives. Since the objective achievement is often expressed in monetary terms, the areas of finance and accounting have assumed added importance. The extent to which the organisation has effective financial management and accounting system, it is strong. The strengths and weaknesses in the areas of finance and accounting can be ascertained in the following ways.

1. Capital Cost
The various sources through which the organisation raises its financial funds determine the capital cost. A proper balancing of various sources of financing ensures that the overall cost of capital for the organisation is low. While determining the sources for funds, various factors can be taken Into account, such as debt/equity norm, capital market position, profitability of organisation, and various conditions attached with funds. A low capital cost is a strength and high capital cost is weakness.

2. Capital Structure
Capital structure of an organisation determines the scope for flexibility in raising additional capital needed, maintaining financial leverage, and maintaining minimum capital cost. An effective capital structure is strength which provides for greater flexibility for raising funds and appropriating various sources of funds so as to take advantages of trading on equity.

3. Financial Planning
Financial planning is the determination, in advance, of the quantum of capital requirement and its forms. Thus, it determines what types of assets will be required to run the business and how much capital will be required for this, time when the capital is required, and from where the necessary capital will be available. If the organisation plans all these things well in advance, it stands to benefit and thus, it is its strength.

4. Tax Benefits
Tax benefits are partly the result of efficient financial planning and partly the result of environmental variables, particularly government policy. If the organisation is planning its investment pattern properly, it takes the advantages of tax benefits under the provisions of Sections 32A. 801, 80HH, 35 (2ia), and 35(28a). Advantages under these provisions may reduce the tax liability of the organisation to a very low level or even zero level, consequently improving its liquidity. Similar advantages may accrue in indirect taxes also.

5. Pattern of Shareholding
The pattern of shareholding decides the type of threats the organisation may fare regarding its take over by another company or group. If the shareholding is widely distributed, the company and its present management can run things smoothly and can think in longterm perspective. Thus, wider shareholding provides strength to the organisation but concentration of shareholding even in the hands of financial institutions may be a weakness.

6. Relationship with Shareholders and Financiers

The type of relationship between the company and its shareholders and financiers determines the type of risk that the company can take. If such relationship is cordial, the company can go for smooth working even in case of adversity and can undertake major policy changes. The role of shareholders and financiers is quite important in formulating and implementing these policies because such actions can be taken only after their approval.

7. Accounting Procedures

Efficient accounting procedures and systems for costing, budgeting, profit planning, and auditing not only determine that there Is no. misappropriation of funds but also provide feedback for further course of action. They provide information at the points where it is needed and the time when it is needed. Absence of such systems provides inefficiency in the organisation and it cannot know the way in which it is progressing.

On the basis of above discussion, the major strengths and weaknesses in the area of finance are presented in Table

Strengths and weaknesses in finance	
Strengths	Weaknesses
1. Low capital cost	1. High capital cost
2. Sound capital structure	2. Defective and rigid capital structure
3. Sound financial planning and proper capitalisation	3. Bad financial planning either over or undercapitalisation
4. Advantages of tax concessions	4. High incidence of taxes
5. Widely distributed shareholding	5. Shareholding in a few hands
6. Cordial relations with shareholders and financiers	6. Lack of cordial relations with shareholders and financiers
7. Efficient and effective accounting systems and procedures	7. Lack of proper accounting systems and procedures

Human Resources

In organisational analysis, often, human resources are not given adequate importance because of the perception that these resources do not contribute to organisational success. This perception was valid in preliberalised era, when most of the organisations were operating in protected markets. However, postliberalisation, the competitive scenario has changed from sellers' market to buyers' market in which organisations are using human .resources as a means for developing competitive advantage. In this context, Ghoshal has observed as follows:

A growing number of managers in India and abroad have begun to, recognise that the fundemantal basis of competition has begun to change. The scarce resource, and the primary source of competitive advantage, is no longer physical or financial capital, but human capital. As large assetbased companies like TISCO see the market value of pygmies like Infosys soar past theirs, the notion of competing through people has been transformed from a fashionable and politically correct statement to a serious cause for concern

Similar view has been expressed by leading organisations of the country. For example, Y.C. Deveshwar, Chairman of ITC Limited has viewed that "the secret of creating a winning corporation lies in the appreciation of potential value of human capital and in the ability of the distributed leadership within the company to nurture and mobilise such talent. In fact, one billionaire of Silicon Valley, USA has commented that "my employees are my most important assets. When they go home in the evening, my networth drops to zero." The importance of analysing human resources is as follows:

1. Human resources handle all physical and financial resources in an organisation. Without their efforts, these nonhuman resources remain idle. In this context, Likert observes that "all the activities of any enterprise are initiated and determined by the persons who make up that institution: plants, offices, computers, automated equipments, and all else that a modem firin uses are unproductive except the human efforts.

2. Human resources are the source of creative energy. In today's dynamic world, creativity is vital to every organisation. Creative thinking is the process of bringing a problem before one's mind clearly by imagining, visualising, supposing, musing, contemplating, or the like, and then originating an idea, concept, realisation, or picture along new or unconventional lines. People in the organisation are the only source of such creativity. They can produce unlimited ideas. There is no apparent limit to what people can accomplish when they are motivated to use their potential to create new and better ideas. No other resource in the organisation can do that.

Human resources can be used as a means for developing competitive advantage which may be in the form of lower cost of production, development of products for special needs, unique means for marketing the products, developing means for raising funds at lower cost, etc. Since all these are done by human resources, they can be geared to achieve all these.

In analysing human resources, following factors are taken into consideration:

1. Quality of Personnel

Quality of personnel employed by an organisation is a key determinant of its success. The quality of personnel includes their knowledge, skills, attitudes, and motivation to work. If all these characteristics are favourable, these are strengths as these can be used as a means for translating physical and financial resources into outputs in a better way.

2. Personnel Turnover and Absenteeism

Personnel turnover, particularly at managerial and technical levels, is a big problem for organisations in today's context. In knowledgebased industries like information technology, consultancy, etc., this problem is even more acute. Since organisations build their strategies around the personnel available at present or available in future, retention of personnel is a significant issue. To the extent, an organisation is able to retain its key personnel, it has strength. Coupled with personnel turnover is personnel absenteeism. Those organisations which are able to manage personnel turnover and absenteeism have strengths.

3. Industrial Relations

Industrial relations is a basic element for the success of the organisation particularly in the age of frequent industrial relations problems. Better industrial relations is strength for the organisation. The state of industrial relations can be measured taking into account the breakdown in work because of employee agitation or noncooperation, number of industrial disputes, number of grievances from the employees, employee absenteeism and turnover, and their willingness to accept change in the organisation.

On the basis of the above discussion, major strengths and weaknesses in the area of human resources are presented in Table below:

Strengths and weaknesses In human resources area	
Strengths	***Weaknesses***
1. Highly skilled personnel	1. Low skilled personnel
2. High learnability	2. Low learnability
3. Favourable attitudes to change	3. Unfavourable attitudes to change
4. High motivation and morale	4. Low motivation and morale
5. High personnel retention	5. High personnel turnover
6. Low personnel absenteeism	6. High personnel absenteeism
7. Effective industrial relations	7. Ineffective industrial relations

General Management

Various factors discussed above are, no doubt, important but they cannot work well without the support of suitable leadership and various management practices. These are the integrating force of an organisation. Therefore, strategists should analyse these factors to identify strengths and weaknesses. Following factors are relevant in this category:

1. Leadership

Leadership is the process of winning enthusiastic support of personnel in an organisation. It is one of the major determinants of organisational success. Most of the organisations which have achieved high success are characterised by good leadership, and they place emphasis on transformational leadership as against transactional leadership. A transformational leader inspires his followers through high vision and energy. A transactional leader determines what subordinates need to do to achieve objectives, classifies those requirements, and helps the subordinates become confident that they can reach objectives.

2. Top Management Constitution and Philosophy

Top management contributes the lifeblood for the total organisation. Its constitution and philosophy are strong determinants of organisational success. Organisation characterised by ageold and traditional management is less likely to succeed in the environment of growing competition. Enterprising approach of top management is also an important factor determining the growth of the organisation. Thus, futureoriented top management having enterprising professional approach Is strength of the organisation.

3. Organisational Image and Prestige

Organisational image and prestige affect the organisational working by providing it various facilities and constraintsbetter image and prestige providing facilities and low image and prestige providing constraints. The measurement of corporate image and prestige, however, is quite difficult because of the absence of any quantitative criteria. For this purpose, various indicators can be taken into account, such as appraisal of organisational working by third parties, willingness of financial institutions to advance loans, customers' loyalty towards the products offered by the company, level of satisfaction to suppliers and creditors of the company, importance attached to the statements by the company, etc. A favourable reaction on these factors is an indicator of better company image and prestige which is a strength for the company.

4. Organisational Climate

Organisational climate is the internal set of attributes specific to an organisation that may be induced from the way the organisation deals with its members. Thus, organisationmembers relationship is built upon the basis of how the former treats the latter. Organisational climate can be measured by taking into account how its members react to various actions, how willingly they cooperate with it in achieving Its objectives, and how satisfied they are with the organisation. A sound organisational climate based on mutual trust and confidence and human consideration is a strength for the organisation.

5. Management Practices

The extent to which the organisation follows various management practices affects its success. High scores on managerial practices in respect to strategic planning, objective control and evaluation system, management information system, and manpower planning and succession plan are strengths of the organisation.

6. Organisation Structure

Organisation structure is network of internal relationship through which individuals interact among themselves in the context of organisational matters. A suitable organisation structure is strength for the organisation. The suitability of organisation structure is not universal phenomenon but is determined by the organisation's environment, technology, size, and people. Thus, a suitable organisation structure is one, which meets the demands of all these factors.

7. Organisational External Relationships

As discussed earlier, the organisation has to work in environment where large number of factors exist. These factors affect the organisational operations by offering facilities and constraints to it. The extent to which the organisation builds relationships with the factors offering such facilities and constraints, including government and other regulatory bodies, Its success or failure is determined. If its relationship with the various external forces is good, it stands to affect these forces favourably making use of most facilities and avoiding constraints, hence strength for the organisation.

Based on the above discussion, major strengths and weaknesses in the area of general management can be summarised as given in Table below:

Strengths and weaknesses in general management	
Strengths	***Weaknesses***
1. Transformational leadership	1. Transactional leadership
2. Future-oriented top management	2. Present-oriented top management
3. High organisational image and prestige	3. Low organisational image and prestige
4. Sound organisationl climate based on mutual trust and respect	4. Low organisational climate based on authoritarian culture and mutual suspicion
5. Sound and suitable management practices	5. Ineffective management practices
6. Suitable organisation structure consistent with external and internal demands	6. Lack of well-defined or ill-defined organisation structure
7. Well-maintained external relationships	7. Lack of external relationships

LESSON 34: BEHAVIOURAL IMPLEMENTATION

Learning Objectives

On completion of this chapter you should be able to:

- You will be able to understand the concept of behavioral implication.
- You will be able to understand the importance and role of organization culture.
- You will be able to understand clearly the impact of organization culture on implementation of strategy.
- You will be able to understand the relation between culture and strategy.
- You will be able to realize the significance of the term values.
- You will be able to understand the importance of values in strategy implementation.
- You will know about the concept of Corporate Governance.

Strategic Leadership

Strategic leadership is the process of transforming an organisation with the help of its people so -as to put it in a unique position. Thus, two aspects are involved in strategic leadership. First, it transforms the organisation which involves changing all faces such as size, management practices, culture and values, and people in such a way that the, .organisation becomes unique. Second, strategic leadership process emphasizes people because they are the source for transforming various physical and financial resources of the organisation into outputs that are meaningful to the society. Thus, strategic leadership proceeds as follows:-

1. Strategic leadership deals with vision-keeping the mission in sight-and with effectiveness and results. It is less oriented to organisational efficiency in-terms of cost-benefit analysis.
2. Strategic leadership en1phasises transformational aspect and, therefore transformational leaders emerge in the organisation. Transformational leadership is the set of abilities that allow a leader to recognize the need for change. to 'create a vision to guide that change. and to execute that change effectively.
3. Strategic leadership inspires and motivates people to work together with a common vision and purpose.
4. Strategic leadership has external focus rather internal focus. This external focus helps the organisation to relate itself with its environrnent

Organisational Culture

Organisational culture is another element which affects strategy implementation as it provides a framework within, which the behaviour of the members takes place. Though there are differing Views on what constitute an organisational culture, generally, it is defined as a set of assumptions the members of an organisation share in common. For example, organisational culture has been defined as follows:

"Organisational culture is the set of assumptions. beliefs, values and norms that are shared by an organisation's members.

Thus, there are two types of elements which define the culture of an organisation: abstract elements and material elements. Abstract - elements are internally oriented and include values, beliefs, attitudes, and feelings. Material elements are externally focused and include building, personnel dresses, products, etc. Vijay Sathe has exemplified some common things to demonstrate the components of organisational culture:

- Shared things (e.g.. the way people dress)
- Shared saying (e.g.., let's go down to work)
- Shared actions (e.g., a service-oriented approach)
- Shared feelings (e.g., hard work is not rewarded here)

Impact of Organisational Culture

Organisational culture is very important factor which affects the different organisational processes including implementation of strategy; strategy implementation involves completion of different processes. In particular, corporate culture affects the following aspects of the organisation:

1. Objective Setting

Culture molds people and people are the basic building blocks of the organisation. The objectives of the organisation must reflect, at least in part, the objectives of its members, particularly those who are the key decision makers. Thus for one organisation. the objective may be profit maximisation but the same objective may be unworthy; mean, and petty for other organisations.

2. Work Ethics

Ethics relates to conformity to the principles of human conduct. According to common usage, moral. good, right, honest, etc. are more or less used as synonymous to ethical act. Work ethics in an organisation is derived from its 'culture. Thus, corporate culture—determines the ethical standards for the orgamsation' as a whole and its individual members.

3. Motivational Pattern

Culture interacts 'to develop in each person' a motivational pattern. Culture determines the way people approach their jobs and even life in general. If organisational culture, is geared towards achievement, people will find it quite motivating and put their utmost energies for the work. In its absence. high achievement-oriented people develop frustration and desert the organisation Therefore; for implementing strategies. particularly growth strategies. organisational culture should be achievement-oriented.

4. Organisational Processes

Various organisational - processes like planning, decision. making, controlling, etc. are determined by the organisational culture because these processes are carried out by the people , in tl1e organisation. Bhattacharya has analysed the cultures of various professionally-managed companies. .including' . multinationals as well as family-managed companies In India to find out how cultures affect organisational processes. The analysis is presented in Table .

Relating Culture and Strategy

We have seen that strategy and culture are interlinked; culture affects how-a strategy may be implemented though it has. a .role in strategy formulation too. Our emphasis here is to analyse how organisational culture can be made. a facilitating factor in 'strategy implementation.In relating strategy and culture. strategists have four alternatives:

1. to ignore corporate culture;
2. to adapt' strategy implementation to suit corporate culture;
3. to change corporate culture to suit strategic requirements; and
4. to change the' strategy to 'fit the corporate culture.

Each of these alterative has different"' implications for the total strategic management. Now let us see how a particular alternative is relevant.

- Strategists can simply ignore the corporate culture while implementing a strategy specially when it is not possible to change corporate culture. In fact. corporate culture is built over a period of time and. therefore. can not be changed overnight; cultural change is a slow process and is time-consuming. Ignoring culture in strategic management is not better alterative because it may be dysfunctional.
- Another alternative to the above is to change strategy implementation to suit corporate culture. Strategists may have flexibility in organisational design.-organizational systems and processes for strategy implementation. These variables can be manipulated to subserve the interests of 'corporate culture. However. in such a case, each specific situation in the organisation calls for an innovative solution.
- The third alternative is to change the strategy itself if it does not fit with the corporate culture. However. changing strategy mid-way is- not a very desirable proposition. Therefore. corporate culture should -be considered as a determinant of strategic choice.
- The last alternative in relating strategy is to change corporate culture to suit strategic requirements. This is the optimum choice in the present prevailing Indian. business environment which is becoming more and more competitive day-by-day necessitating change in old methods. In fact. many companies have failed simply because they were not able to adopt suitable strategies due to corporate cultural constraints. Though cultural change process is slow. attempt can be made to change the culture. This transition may be brought by making strategic task explicit, enhancing managerial capability to imbibe changes, arid exhibiting a strong and assertive leadership.)

Values and Strategy

Values of individuals, particularly those of key strategists, have major impact on strategy of the, organisation. While terminal values shape organisational strategies, instrumental values indicate how these strategies are to be implemented. Depending on the dominance of terminal values in strategists, these are means for organisational transformation. Let us see how this happens

Values and Strategy Implementation

strategy implementation is mostly affected by instrumental values of people in the organisation. However, when we say people, the question arises: who- are- these -people in the oigamsati6n? The answer -of -this question is significant -because that will determine the shape of. strategy implementation. From strategic management point of view, people ill an organisation are divided into four groups board of directors chief executives, other managers, and corporate plam1ing staff, as' discussed in Chapter 3. Out of these groups, chief executive and managers under" him are mostly responsible for, strategy. implementation. However, values are held by individuals which are part. of their personality. Therefore, it is quite likely that values of ,different individuals do not match. Though organisational culture represents the collectivity of personal values, 'it is only representative and not all inclusive. Thus, in actual practice, the relationship between organisational values and personal values exists as shown in Figure

Different weak values	Common values	Different strong
		values

Figure: Relationship between Organisational and Personal Values

Two - sets of values-organisational and personal show following relationships 'and reconciling ;or modifying process:

Common-Values

Since an organisation -is a collectivity. -of people and organisational values represent the collective values of its members. there are some commonality between these two. These common values do not require any reconciliation or modification because both have already been integrated.

Different weak Values

In this case, part of the organisational and personal values differs but the divergence is related to weak values either terminal or instrumental. A weak value has low priority in the hierarchy of values whether organisational or personal. In fact, every individual has a set . of values arranged in hierarchy. Because of hierarchical nature of values. they differ in terms of importance. Since there are individual differences, hierarchy of values also differs. For example, an individual may attach very high importance to honesty and integrity and does not reconcile on these issues. Another individual may place it at low level and may reconcile on these issues. Therefore, weak and strong values are relative and person-oriented. Where divergence exists on weak values. reconciliation takes place through normal socialization process which involves adaptation of organisational values and norms by employees with a view, to adhere to those. This socialization- process, however, is pot one-way traffic rather two-way traffic in which an individual is able to modify' organisational values to-some extent.

Different-Strong values

Problems in 'strategy implementation emerge when there is divergence of values which are strong for the organisation or individual. -If values are strong to the organisation. any divergence may lead to separation of individuals whose values are at divergence. For example. Wipro has very strong values in terms of ethical integrity. Any individual falling short of integrity is sacked regardless of his-' position as shown in Exhibit. Another alternative available to the' organisation is to design its structure and processes in such a way that these match with the values of an 'individual whose values are at divergence. In such a situation. the organisation will retain its core values while allowing change in others. This type of adjustment is required when the individuals are quite critical to the success of the strategy under implementation.

Exhibit

Indian psycho-philosophical thoughts

With regard to values and ethics rooted in 'Indian -thought, Chakraborty has presented several ,ideas listed below:

1. The concept of self - in human - being has to embrace the spiritual dimension beyond the physical, social, and economic 'dimension's:
2. The creative energies of human beings are derived fr9m and rooted in Supreme Creative Intelligence. '
3. Managerial decision-making requires the interplay of both analytic and holistic faculties.
4. The final resolution of managerial conflicts lies in de-egoization of self.
5. The key to cooperation and teamwork lies in realisation that the same Atman (soul) dwells in all.
6. The quality of managerial decision-making can be improved through an understanding and internalization of the doctrine of Karma.
7. Motivational strategies should be based on 'giving' model rather than 'needing' model of human beings.
8. Ability for developing effective leadership styles requires an understanding of three qualities 'of human beings: Sattwa (righteousness), Rajas (selfishness), and Tomas (laziness).
9. All managerial decisions are subjective in the ultimate analysis and the effectiveness of such decisions depends critically on the purity of mind of the decision-maker.

All the –above propositions have very high relevance in Indian, business scenarios of today 'particularly in terms of- including values and ethics.

Corporate Governance

Corporate governance is a newly introduced 'system for managing a company in the best interest of all its stakeholders - though in the 'context of state administration, the concept of governance is quite old. where it is referred to as the system of directing and controlling the activities of a state particularly in princely states and empires. We, may find the concept of state governance even in the writings of Kautilya.

Contents of Corporate-Governance Code

A corporate governance code -usually contains the following matters:

1. Constitution of Board of Directors. Constitution of board of directors role of non-executive directors, its meeting, key matters that must be brought before the board, etc.
2. Disclosure of Information. Disclosure of financial and other information in the company's annual accounts and reports as well as periodical disclosure.
2. Management Practices. Management practices to protect the interests of shareholders, consumers, financiers, creditors, distributors, government and society

Confederation of Indian Industry (CII) has suggested a desirable code of corporate governance which has been presented in Exhibit

Exhibit

CII desirable code of corporate governance ell has formulated a code of corporate governance with the primary objective of bringing about qualitative changes in the corporate governance practices if) India. The main features'. of the code-are as follows:

1. As the key to good corporate governance lies with effective functioning of the board of directors, the full board which should be single tired, should meet at intervals of two months and at least six times a year.
2. The non-executive directors should comprise at 'least 30 per cent of the board if one 'of them is chairman.
3. 'The non-executive directors should comprise at least 50 per cent of the, board if the chairman and managing director is the same person.
4. No individual should be a director on the boards for more than 10 companies at any given time.
5. Non-executive directors must be active, have defined' responsibility and be conversant with profit and loss account, balance sheet, cash flow statement, financial ratios, and have some knowledge of company law,)

LESSON 35: RESOURCE MOBILISATION AND ALLOCATION

Learning Objectives

On completion of this chapter you should be able to:

- You will understand the concept of resource mobilization.
- You will be able to understand resource allocation and commitment.
- You will understand the various basis of Resource allocation.

Resource Mobilization

Resource mobilization involves, procurement of resources that may be required to implement a strategy, and depending on the nature of the strategy, type and volume of resources will be determined. For example, a strategy involving substantial expansion of business will require huge resources of different types as compared to a strategy involving market development. An organization's capacity to mobilize resources has reciprocal relationship with strategy. On the one hand, a strategy determines what type of resources will be required, on the other hand, resource mobilization capacity determines what type of strategy will be selected. For example, high competence of Reliance Industries to mobilize financial and human resources has enabled it to go for highly investment-oriented strategies.

Resources can be owned, leased, or rented. What emphasis will be put on different sources depends on the nature of resources and resource procurement strategy of the organization. Traditionally, companies owned and controlled most of the resources that entered their business. But this situation is changing. Companies are finding that some resources are not performing as well as those that they could obtain from outside. Many organizations have decided to outsource less critical resources if these can be obtained at better quality or lower cost from outside the company. How various types of resources, financial and human-can be procured will be discussed in detail in Chapter 15 dealing with functional implementation.

Resource Allocation

After resource mobilization, resource allocation activity is undertaken. This involves allocation of different resources-financial and human-among various organizational units and subunits. In order to understand the rationality of resource allocation, it is essential to understand commitment principle because resource allocation is a kind of commitment.

Commitment Principle

Commitment involves adhering to a thing for which a person is committed. In the context of planning, commitment principle implies planning for the future impact of today's decisions. Since the futurity of different decisions varies, risk involved in respective decisions also varies. Applying the concept of commitment principle in resource allocation implies that when resources are committed to a unit or a project, the organization takes a risk. The risk involved depends on the time taken to recover resource cost. Since a unit requires resources for varying periods-long-term for creation of physical assets; short-term for inventory, debtors, etc., cost recovery period also varies. Therefore, while allocating resources, commitment principle should be taken into consideration.

Basis for Resource Allocation

While allocating the resources, an organization may take two alternative steps: (i) resources should be allocated at a place where these have their maximum contributions, or (ii) resources should be put according to the needs of various organizational units/subunits. Both these alternatives may become complementary to each other if there is an objective evaluation of the resource requirement of various units.

Budgeting is the means through which resources 'are allocated to various organizational units. However, the traditional budgeting which focuses just on the past resource allocation as the basis is not useful for resource allocation in any way because the conditions, both external as well internal, change making the past practices of resource allocation meaningless. Therefore, when budgeting is used as a tool for resource allocation, it has to be oriented to the objectives of the organization and the way each unit of the organization will contribute to the achievement of these objectives. From this point of view, following types of budgeting are more relevant:

1. Capital budgeting
2. Performance budgeting
3. Zero-base budgeting
4. Strategic budgeting.

Capital Budgeting

Capital budgeting is the planning of deployment of financial resources of an organization for the purpose of maximizing the long-term profit ability of the organization. In this budgeting, various techniques like average rate of return, payback period, internal rate of return, and net present value, are used to determine where a rupee put will earn maximum profit. This method, however, is more useful at the stage of considering the various alternative project proposals. From strategic management point if view, it does not offer much help. at the strategy implementation level. Also if does not consider the allocation of human resources who' really matter in making a project successful.

Performance Budgeting

A performance budgeting is an input/output or cost/result budgeting: It emphasizes non-financial measurement of performance, which can be related to financial measurement in explaining changes and deviations from planned performance. Historical comparisons of non-financial measurements of an activity are particularly helpful in justifying budget proposals and in showing how resources are being used. These measurements are useful for evaluating past performance and for planning future activities.

Zero-base Budgeting

Zero-base budgeting (ZBB) is based on a system where each function, irrespective of the fact whether it is old or new, must be justified in its entirety each time a new budget is formulated. It requires each manager to justify his entire budget in detail from scratch, that is zero base. Each manager states why he should spend any money at all. The process' of ZBB involves the four basic steps: (i) identification of decision units, that is cluster of activities or assignments within a manager's operations for which he is accountable; (ii) analysis of each decision unit in the context of total decisi0n package; (iii) evaluation and ranking of all decision units to dev-clop the budget request; and (iv) allocation of resources to each unit based upon ranking. Thus, emphasis is placed upon resource allocation according to the contributions of each decision unit.

ZBB results into a number of benefits over traditional budgeting. Such benefits may be in the form of (i) effective allocation of resources, (ii) improvement in productivity and cost effectiveness, (iii) effective means to control costs, (iv) elimination of unnecessary activities. (v) better focus on organizational objectives, and (vi) saving time of top management. However, ZBB may result into some problems if not followed properly. For example, it may result into extra paper work, difficulty in identifying decision packages, tendency to establish minimum level of efforts, etc. However, these problems can be overcome when an organization gains experience of ZBB.

Strategic Budgeting

Strategic budgeting is comparatively a newer concept as a tool of resource allocation among various SBUs and units of an organization. Under strategic budgeting, in determining the resource needs of an organizational unit, the basic question that is put is: 'What sort of performance and results do we want to generate?' This should be followed by another question: 'What key activities, organizational units, tasks, and jobs need to be set up and organized to produce these results?' The answer should suggest the kinds of skills, expertise, and funding which will be needed to allow the various organizational units to accomplish the designated results. Therefore, jobs and tasks should be defined in terms of the desired strategic results and performance rather than in terms of the functions to be performed. Specific objectives should be developed not only for the organization as a whole but for each major organizational unit, and through the efforts of subordinate managers, for each job. Every manager in the organization needs to have his job spelled out in terms of expected results and the resources that may be required to accomplish those results. One of the major advantage of setting up of careful network of verifiable results to be achieved and a requirement of resources for achieving these effectively is the opportunity to tie up the resources with results which ultimately helps in implementing the strategy. In strategic budgeting, there are two stages of budget- preparation: (1) preparation of position papers and (2) preparation of budget.

Preparation of Position Papers

Preparation of position papers provides the background on which strategic budget is prepared. Such position papers include environment, organizational resources and constraints, past performance and direction for future activities.

1. Position Paper on Environment

The position paper on environment may include economic, regulatory, political, marketing and competitive and technological factors. The paper may cover the environment's trends likely to affect the organization's performance specifying the assumptions involved. This position paper is likely to provide reference base for the development of annual plan to ensure the required alignment between strategic plan and annual plan.

2. Position Paper on Organizational Constraints and Resources

This paper would specify, at a broad level, the resources available for achieving the targets by way of personnel, funds, technology, capital expenditure, etc. Similarly the paper also suggests the likely constraints faced by the organization so that the resources are deployed keeping these constraints in mind.

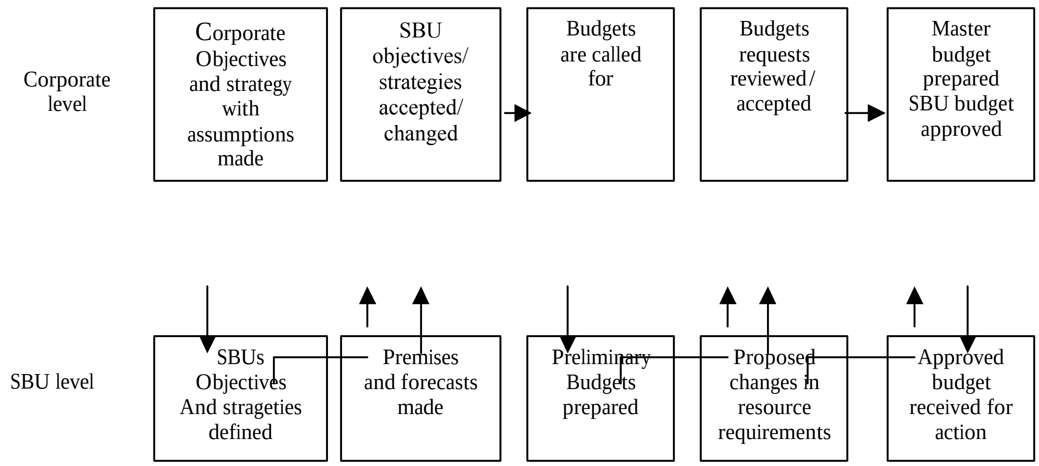
3. Position Paper on fast Performance

This would discuss the results of organizational performance in quantitative terms. The paper can show the performance based on strategic business units, or responsibility centers. Such an analysis would aid in deciding the relative emphasis to be provided to the different business lines so 'that there is alignment between market needs and products and the process of organizational resource allocation among product/business.

4. Position Paper on Future Direction of Activities

This paper would suggest the various short-term and long-term targets to be fulfilled. The targets may be identified again for the organization as a whole and for different strategic business units and responsibility centers. The paper would also indicate the way the organization will take over various activities to match itself with the environmental requirement, like meeting the competitive threats. The paper may also include the various tactics to be adopted to meet the above objectives. These may include the fixation of levels for working capital, credit level, wastage of materials and other physical factors.

The various position papers may be prepared by the corporate planning division, if it exists, or by respective functional executives, or by any other executive who has been entrusted specifically with the responsibility for preparing these, with the active collaboration of other functional and operational executives. These papers may then be discussed among functional and operational heads so as to identify issues pertaining to the organizational context. Subsequently the papers may be discussed at the corporate level so that specific guidelines are prepared. These position papers and policy guidelines would be sent to various levels of managers who may take up the job of preparing actual budgets.



Preparation of Budget.

The strategic budget is prepared through the interaction between corporate level and SBU level in the light of position papers. The process will go like the one given in Figure

Figure: Process of strategic budgeting

Budget preparation will actually start when the SBU managers are communicated about the likely course of future action in the light of environmental factors, organizational resources and constraints: and past performance. It is better to initiate the budget preparation from the bottom in the light of position papers. However, the exercise will not merely be restricted to taking previous figures with some pluses or minuses but everyone responsible in the organization must ask for resource allocation with details of various activities and the way these activities will contribute to the overall organizational objectives. Such demands for resource allocation will be integrated at successive levels and finally integrated in a master budget for the organization as a whole. Since budget demand at each -' on the chosen strategy of the organization, there is every possibility that master budget will show the allocation of various resources according to the needs and importance of various functions, products, or businesses, thereby ensuring the better use of organizational resources and achievement of organizational objectives.

Exhibit presents the example of the process of strategic budgeting in a company to show how the process is carried on within a time frame.

Exhibit

Strategic budgeting at Navin Industries

Navin Industries Limited (name disguised) is engaged in manufacture and sale of consumer durables as well as office equipments. Besides manufacturing, it also procures these products from other manufacturers and sells under its own brand name. However, major portion of sales of about Rs. 150 crore comes from its own manufacture. It operates on all-India basis. The company has been organized around two' main product divisions-consumer durables and office equipment-each maintaining its' own finance, marketing and manufacturing functions. Other functions like personnel, R&D, legal, 'and secretarial are organized at the corporate level. The company is operating in highly competitive marketing environment and much emphasis is placed on product development.

The company started corporate planning in 1975 probably because of high level of competition, rapid technological change, and a long gestation period for new investments. It prepares a five-year corporate-plan annually in the period December-March incorporating annual plans for certain parts of the operation. The budget is also prepared annually in the period January-March. The five year plan is based on objectives set early in the planning cycle like return on investment, margin on sales determined by company guidelines and analysis of environment. The company sets less quantified market objectives, for example, market position as well as certain qualitative objectives reflecting general policies, for example, relating to product excellence and marketing ethics. The quantified objectives are set in terms of return on sales and market share after consultation with respective divisional heads and corporate planning manager. These objectives provide the base for strategic planning and annual budgeting.

Objective setting takes place in the context of continuous environmental appraisal and competitive comparisons against the company's performance and capabilities. Strategies adopted in earlier periods are reviewed in the light of current environmental analysis and objectives. Since the process requires flexibility in strategic planning because of changing environment, alternative scenarios of different conditions and corresponding strategies are prepared.

The environmental appraisal described above provides preliminary assumptions of sales volume, profit margins, and economic conditions for annual budgeting. Initial budget preparation is a' participative exercise undertaken by operating managers in the light of the objectives set by, senior managers. The process starts in the month of January every year for the coming financial year of the company-April-March. A large part of the budget preparation is based on the implications and requirements of product development programmes, which require the linking of manufacturing, research and development, marketing and finance. Initial budget submissions go to senior managers and reviewed in the light of company's financial structure and policies. Final budgets are received and reviewed with operating managers and the board and are issued at the end of March. There are two budget objectives: first, conventional financial-marketing objectives, which are taken as the first stage of movement towards five year plan objectives; second, product programme objectives for each operation and market which are also reviewed in terms of the five year plan.

Annual marketing budgets are reviewed every quarter of the financial year to identify the problem area and, also to review the achievement for control purpose. Action plans are constructed involving price, product, and promotional change to meet identified problems. Thus, annual plans are used for both guidelines and control and are also used for reviewing conditions for the next five-year plan.

The company integrates the annual plans and five-year plan. There are mechanisms to do this: the use of annual budgets based on five year plan, the corporate financial guidelines, and the rotation of staff between corporate planning unit, and operations or other staff functions. For example, the corporate planning unit is quite flexible in its constitution and personnel are drawn from various departments and divisions for about one year. After the end of their stay in this unit, they are rotated by others. Thus, these three mechanisms fully integrate annual planning with five year planning. The budgets almost divide five-year plan into operational plans, corporate financial guidelines take the problems of both annual and long-term planning, and rotation of staff brings operational management directly into planning. The company thus follows the strategic planning with strong planning-budget integration mechanisms. The mechanisms used imply that corporate plans are used as the base for operational decision making

Problems in Resource Allocation

Another issue, which must receive the attention of the strategists in resource allocation is the problem involved in its process whatever the basis of resource allocation is adopted. The problems emerge because:

- resources are limited,
- there are competing organizational units with each trying to have major share of the cake, and
- organization's past commitment.

These factors taken together-make resource allocation a rational-political process which we have seen at the level of choice of strategy . In such a case, there is a possibility -that resource utilization becomes sub-optimal. Specifically, following problems in resource allocation in an organization may emerge:

1. Every unit in the organization tries to get maximum possible resources because allocation of more resources to a unit is considered, as more power vis-a-vis other units. Further, every unit wants to have flexibility in its operation and tries to hide its inefficiency. To some extent, this may be done by grabbing more resources. Power-play by various organizational units may be due to lack of clear objective priority ordering. This problem may be overcome by clearly defining the expected contributions of a unit and the resources required for those contributions.

2. Organization's past commitment of resources works as hindrance in resource allocation if the problem is not addressed to properly. Though some techniques like zero-base budgeting or strategic budgeting tries to overcome this problem by transferring the resources from the units where these are under-utilized to the units where these may be better utilized, the process is not simple. The managers of those units from where the resources are taken may show lot of resistance, as they feel neglected. To overcome this problem, the strategists' role of persuasion and motivation to accept the reality of the situation is the most important.

3. Sometimes, the organization itself may become resistant to change even if it is a loser. It has been found that in many cases, the organization puts its best managers to manage a declining product because it has been a pride of the organization in the past but presently it may not-be of any strategic importance. Similarly, the organizational units that can boast the past glories may obtain major share of available resources, even though other' business areas may offer more potential. This problem may be solved to a great extent -by inculcating the habit of change in the light of new emerging business-situations.

LESSON 36: CONCEPT OF STRATEGIC EVALUATION AND CONTROL

Unit : 4
Strategic Evaluation and Control

Learning Objectives

On completion of this chapter you should be able to:

- You will understand the concept of strategic valuation and control.
- You will be able to distinguish Strategic control from Operational control.
- You will understand the barriers in strategic evaluation and control.
- You will understand the role of Strategic Evaluation and Control.

Concept of Strategic Evaluation and Control

Strategic evaluation and control is related to that aspect of strategic management through which an organisation ensures whether it is achieving its objectives Contemplated in the strategic action. If not, what corrective actions are required for strategic effectiveness. Glueck and Jauch have defined strategic evaluation as follows:

"Evaluation of strategy is that phase of the strategic management process in which the top managers determine whether their strategic choice as implemented is meeting the objectives of the enterprise.

There are two aspects in this phase of strategic management: evaluation which emphasizes measurement of results of a strategic action and control which emphasizes on taking necessary actions in the light of gap that exists between intended results and actual results in the strategic action. However, because of on-going nature of strategic evaluation and control process. both these are intertwined. In practice. the term control is used in a broad sense which includes evaluative aspect too because unless the results of an action are known, control actions cannot be taken.

Strategic and Operational Control: A Comparsion

Before we proceed further. it is worthwhile to make a comparison of strategic and operational control because the emphasis in both differs though an integrated control system may contain both. Strategic control is the process of taking into account the changing assumptions. both external and internal to the organisation on which a strategy is based, continually evaluating the strategy as it is being implemented and taking corrective actions to adjust strategy according to changing conditions or taking necessary actions to realign strategy implementation. For strategic evaluation and control following questions are relevant:

1. Are the premises made during the strategy formulation process proving to be correct?
2. Is the strategy being implemented properly?
3. Is there any need for change in the strategy? If yes, what is the type of change required to ensure strategic effectiveness?

Operational control focuses on the results of strategic action and is aimed at evaluating the performance of the organisation as a while, different SBUs and other units. The relevant questions for operational control are:

1. How is the organisation performing?
2. Are the organisational resources being utilised properly?
3. What are the actions required to ensure the proper utilization of resources in order to meet organisational objectives?

Operational control is used by almost every organisation in some form or the other. There are two types of operational control post-action and Steering to evaluate the outcome of a strategy. In post-action control which measures results after an action is completed. for example. Measurement of organisational performance in terms of return on investment. Second is the steering control which is designed to detect deviations from standards and to permit corrective actions before an operation is fully completed, for example, quality control. Both these are used in the organisation tem different purposes and at different levels. For example post-action control is mostly used by the top management so as to identify the total results of a strategy, while second type of control is exercised by functional and tower level managers to affect periodic control so that the results are achieved.

Difference between Strategic and Operational Control

Strategic control and operational control both differ from each other in terms of their aim. main concern. focus. time horizon, and techniques used.2 Differences between the two are presented in Table

Table : Difference between strategic and operational control

Attribute	*Strategic control*	*Operational control*
1. Basic question	Are we moving in right direction?	How are we performing?
2 Aim	Proactive, continuous questioning of the basic direction of strategy	Allocation and use of resources organisational resources
3.Main concern	Steering the future direction of the organisation	Action control
4. Focus	External environment	Internal organisation
5. Time horizon	Long-term	Short-term
6. Exercise of control	Exclusively by top management, may be through lower-level support	Mainly by executive or middle management or the direction of top management
7. Main techniques	Environmental scanning, information gathering, questioning and review	Budgets, schedules and MBO

Barriers in Strategic Evaluation and Control

Strategic evaluation and control being an appraisal process for the organisation as a whole and people who are involved in strategic management process either at the stage of strategy formulation or strategy implementation or both, is not free from certain barriers and problems. These barriers and problems centre around two factors: motivational and operational. Let us see what these problems are and how these problems may be overcome.

Motivational Problems

The first problem in strategic evaluation is the motivation of managers (strategists) to evaluate whether they have chosen correct strategy after its results are available. Often two problem; are involved in motivation to evaluate the strategy: psychological problem and lack of direct relationship between performance and rewards.

1. Psychological Barriers

Managers are seldom motivated to evaluate their strategies because of the psychological barriers of accepting their mistakes. The strategy is formulated by top management which is very conscious about its sense of achievement. It hardly appreciates any mistake it may community at the level of strategy formulation. Even if something goes wrong at the level of strategy formulation, it may put the blame on the operating management and tries to find out the faults at the level of strategy implementation. This over-conscious approach of top management may prevent the objective review of whether correct strategy has been chosen and implemented. This may result into delay in taking correct alterative action and bringing the organisation back at satisfactory level. This happens more in the case of retrenchment strategy, particularly divestment strategy where a particular business has failed because of strategic mistake and in order to save the organisation from further damage, the business has to be sold.

2. Lack of Direct Relationship between Performance and Rewards

Another problem in motivation to review strategy is' the lack of direct relationship between performance achievement and incentives. It is true that performance achievement itself is a source of motivation but this cannot always happen. Such a situation hardly motivates the managers to review their strategy correctly. This happens more in the case of family-managed businesses Where professional managers are treated as outsiders and top positions, particularly at the board level, are reserved for insiders. Naturally very bright managers are not' motivated to review correctness or otherwise of their strategy. The family managers of such organisations are even more prone to psychological problem of not reviewing their strategy and admit their mistakes.

Thus, what is required for motivating managers to evaluate their performance and strategy is the right type of motivational climate in the organisation. This climate can be set by linking performance and rewards as closely as possible. This linking is required not only for the top level but for the lower down in the organisation too. Many forward-looking companies. though few in .number, have taken this step when they have adopted the policy of taking board members from outside their families and friend groups. These companies have taken this- step not only to satisfy the requirements of financial institutions of broad basing the directorship but they have taken this step to motivate their top level managers. Naturally top managers in such companies can take any step to fulfil the organisational requirements including the evaluation of their strategy.

Operational Problems

Even if managers agree to evaluate the strategy, the problem of strategic evaluation is not over, though a beginning has been made. This is so because strategic evaluation is a nebulous process; many factors are not as clear as the managers would like these to be. These factors are in the areas of determination of evaluative criteria, performance measurement, and taking suitable corrective actions. All these are involved in strategic evaluation and control. However, nebulousness nature is not unique to strategic evaluation and control only but it is unique to the entire strategic management process. We shall make an attempt later in this chapter as to how these operational problems may be overcome.

Role of Strategic Evaluation and Control

Strategic evaluation and control, though very important phase of strategic management, is often overlooked by strategists on the premise that once they have formulated a strategy and implemented, their role in strategic management is over. They remain mired with daily control reports which can be taken even at lower levels. This approach may be alright when there is not high stake involved in a strategy but fatal when the stake is high. Without strategic evaluation and control, strategists have no means to measure whether the chosen strategy is working properly or not. When strategic evaluation and control is undertaken properly, it contributes in three specific areas:

1. Measurement of organisational progress,
2. Feedback for future actions, and
3. Linking performance and rewards.

Measurement of Organisational Progress

Evaluation and control measures organisational progress towards achievement of its objectives. When a strategy is chosen, it specifies the likely outcomes which are relevant for achieving organisational objectives. The strategy is not an end in itself; it is a means for achieving something valuable to organisational success. Therefore, measuring this success as a result of strategy implementation is a prime concern for every strategist. This measurement should be undertaken during the process of strategy implementation as well as after implementation to ensure the progress as quickly as possible so that remedial actions are taken at appropriate time.

Feedback for Future Action

Strategic management being a continuous process with no apparent beginning and end, evaluation and control provides clues for recycling various actions which are relevant for achieving organisational objectives. This is possible only when strategic planning and control are well integrated. How control as a feedback mechanism helps in future course of action may be seen from Figure 18.1. (page 489).

Thus, control activities are undertaken in the light of criteria set by a strategic plan. But at the same time, control provides inputs either for adjusting the same strategic plan or taking future strategic plans. This is the way organisations progress over the period of time. They take a strategic action, implement it, and find its results. If the results are in tune with what were

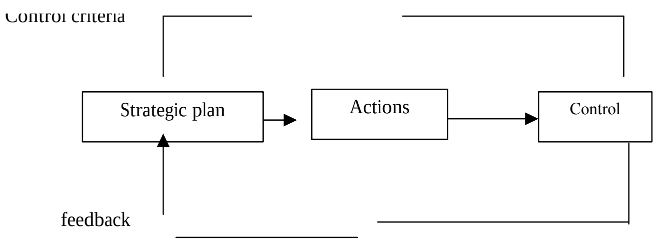


Figure : Strategic Planning and Control Relationship

intended the similar types of strategic actions are taken in future. Thus, there is a chain of strategic plan actions and control.

Linking Performance and Reward

This is the most crucial aspect of strategic evaluation and control but many organisations fail in linking performance and reward. This happens not only at the level of different organisations but even for a country as a whole. For example Abegglen has observed that “the dispension of part of the rewards by the organisations without regard to performances is more common in the less modem parts of the country than in the more advance ones, and in less developed than in more developed countries. It is one of the reasons why organisational control is less effective in less developed countries. Thus; linking performance and reward is a big issue. If taken objectively, evaluation and control provides inputs for relating performance and reward. This linking is vital for motivating organisational personnel more so in an era when there is not only fight for market share but for human talent too. A performance-based motivation system works better than the one which considers factors other than performance.

Participants in Strategic Evaluation and Control

Since strategic evaluation and control is a part of strategic management process, all those persons who participate in strategy formulation and implementation should also participate in strategic evaluation. except those who act in advisory capacity .Board of directors, chief executive, other managers, corporate ,planning staff, consultants participate in strategic managen1ent process. Out of these corporate planning staff and consultants act either advisors or facilitators Thus, three groups of personnel are actively involved in strategic evaluation and control though their areas of evaluation and control differ. In some cases, outside agencies like financial institutions or government, mostly to the case of public sector enterprises. also participate in strategic evaluation and control either through their participation in board of directors or having power to interfere with management practices. However, the role of financial institutions in strategic evaluation and control is quite limited excel through their nominee’s on board of directors. In the case of public sector enterprises, the role of government in strategic evaluation is perform’” through nomination of board members and through controlling ministries of particular enterprises. In some specific situations, authorities may be constituted at above the board level to evaluate the performance of group companies. For example, Tata Group has set up Group Executive Office (GEO) and Business review Committees (BRCs) to review the performance of group companies numbering about one hundred. If we exclude these case, the role of board of directors, chief executive, and other managers in strategic evaluation and control is quite significant.

Role of Board of Directors

Board of directors of a company, being the trustee of shareholders’ property, is directly answerable to-4hem. Thus, board should be directly involved in strategic evaluation and control However, since board does not participate in day-to-day management process, it evaluates the performance of the company concerned after certain intervals in its meetings. Therefore, the role of board of directors is limited to evaluating and controlling those aspects of the organisational functioning which have long-term implications. Such aspects are overall financial performance, overall social concern and performance, and certain key management practices having significant impact on organisation’s long-term survival Generally, the evaluation and control information used by the board is concise but comprehensive as compared to control reports used at lower levels.

Role of Chief Executive

The chief executive of an organisation is responsible for overall performance. Therefore, his role is quite crucial in strategic evaluatioI1- and control. Though he is not involved in evaluation of routine performance which is left to other managers, he focalizes his attention on critical variations between planned and actual. Generally, he applies the principle of management by exception which is a system of identification and communication of that signal which is critical and needs the attention of a high-level manager. Depending on the size of the organisation, the chief executive’s role varies in the context of evaluation and control on day-to-day basis. In a smaller organisation, the chief executive may, perhaps, be interested in daily production and cost figures, but in a large organisation, these become unimportant for him from his control point of view. Thus, in a large organisation, the chief executive is more involved on controlling through return on investment, value added, and other indicators which measure performance of overall organisation.

Role of Other Managers

Besides board of directors and chief executive, other managers are also involved in strategic evaluation and control. These are finance managers, SBU managers, and middle-level managers. Their role in strategic evaluation and control is as follows:

1. Finance managers are primarily concerned with finding out deviations between planned and actual performance expressed in monetary terms. These are done through financial analysis, budgeting, etc.
2. SBU managers are responsible for overall evaluation and control of their respective strategic business units. In fact, they are the chief executives of their own SBUs except that

they report to the chief executive of the organisation from whom they seek directions.

3. Middle-level managers, mostly functional managers and sub-unit managers are responsible for evaluation and control of their respective functions and sub-units. These managers are more concerned with day-to-day operational control and prepare reports to be used by higher-level managers. For example_ a production manager is more interested in controlling production volume, production cost, product quality, etc.

Role Of Organisational Systems In Evaluation

Strategic evaluation operates in the context of various organisational systems.An organisation develops various systems which help in integrating various parts of the -organisation. The major organisational systems are: information system, planning system, motivation system, appraisal system, and development system. All these systems play their role in strategic evaluation and control. some of these systems are closely and directly related and some are indirectly related to evaluation and control. For example, information system is closely linked to evaluation as it provides clue as to how the organisation is progressing. Development system, on the other hand, is not closely linked to evaluation system but is undertaken as a post-control action. In the light of this, let us see how various organisational systems play their role in strategic evaluation and control.

Information System

Evaluation and control action is guided by adequate information from the beginning to the end. Management information and management control systems are closely interrelated; the information system is designed on. the basis of control system. Every manager in the organisation must have adequate information about his performance, standards, and how he is contributing to the achievement of organisational objectives. There must be a system of information tailored to the specific management needs at every level, both in terms of adequacy and timeliness.

Control system ensures that every manager gets adequate information. The criterion for adequacy of information to a manager is his responsibility and authority, that is in the context of his responsibility and authority, what type of information the manager needs. This can be determined on the basis of careful analysis of the manager's functions. If the manager is not using any information for taking certain action, the information may be meant of informing him only and not falling within his information requirement Thus, an effective control system ensures the flow of the information that is required by an executive, nothing more or less. There is another aspect of information for control and other function, that is, the timeliness –I information. Ideally speaking, the manager should be supplied information when he needs it for taking action. For correcting the deviation timely action is require by the manager concerned. For this purpose must have the information at proper time and covering the functioning of a period which is subject to control. The control system functions effective, on the basis of the information which is supplied in the organisation. -However, the information is used as a guide and on this basis, identifies what action can be taken.

Planning System

Planning is the basis for control in the sense that it provides the entire spectrum on which control function is based. In fact, these two terms are often used together in the designation of the department which carries production planning, scheduling and routing. It emphasizes that there is a plan which directs the behaviour and activities in the organisation. Control measures these behaviour and activities and suggests measures to remove deviation, if any. Control further implies the existence of certain goals and standards. These goals are provided by the planning process. Control is the result of particular plans, goals, or policies. Thus, planning offers and affects control. Not only that, the planning is also affected by control in the sense that many of the information provided by control is used for planning and preplanning. Thus, there is a reciprocal relationship between planning and control, as discussed earlier in this chapter.

Since planning and control systems are closely interlinked, there should be proper integration of the two. This integration can be achieved by developing consistency of strategic objectives and performance measures. Prescribing performance measures which are strategically important is quite significant because often it is said 'what you measure is what you get'. In developing performance measures, two considerations must be taken into account. First, the performance measures should focus on whether short-term profitability, or growth and technological ascendancy, or logistic efficiency, or some other objectives should be of primary concern. Second, the measures should relate to the managerial domain of each of the managers as each of them is responsible to exercise control in his own domain.

Motivation System

Motivation system is not only related to evaluation and control system but to the entire organisational processes. As we have seen earlier in this chapter, lack of motivation on the part of managers is a significant barrier in the process of evaluation and control. Since the basic objective of evaluation and control is to ensure that organisational objectives are achieved, "motivation plays a central role in this process. It energizes managers and other employees in the organisation to perform better which is the key for organisational success.

Appraisal System

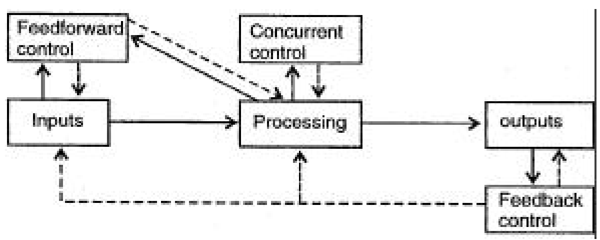
Appraisal or performance appraisal system involves systematic evaluation of the individual with regard to his performance on the job and his potential for development. While evaluating an individual, not only his performance is taken into consideration but also his abilities and potential for better performance. Thus, appraisal system provides feedback for control system about how individuals are performing.

Development System

As discussed in Chapter 15, development system is concerned with developing personnel to perform better in their present positions and likely future positions that they are expected to occupy. Thus, development system aims at increasing organisational capability through people to achieve better results. These results, then, become the basic for evaluation and control.

Stages of Control

Depending on the stages at which control is exercised, it may be of three types: (1) control of inputs that are required in an action, known as feed forward control; (2) control at different stages of action process, known as concurrent, real-time, or steering control; and (3) post action control based on feedback from the completed action, known as feedback control. Control at various stages of action is presented in Figure



- Flow of information
- Corrective action

Figure : Stages of control

Feed Forward Control

Feed forward control involves evolution of inputs and taking corrective action before a particular sequence of operation _ completed. Thus, it attempts to remove the limitations of time lag in taking corrective action. Feed forward control monitors inputs into a process determine whether the inputs are as planned. If inputs are not as planned corrective action is taken to adjust the inputs according to the plan so that the desired results are achieved within the planned inputs. It is just like hunting a duck. A hunter will always aim ahead of a duck's flight compensate for the time lag between a shot and a hoped-for hit. To be effective, feed forward control should meet the following requirements:

1. Thorough and careful analysis of the planning and control system must be made, and the more important input variables identified.
2. A model of the system should be developed.
3. The model should be reviewed regularly to see whether the input variables identified and their relationship still represent realities.
4. Data on input variables must be regularly collected and put into the system.
5. The variations of actual input data from planned inputs must be regularly assessed, and their impact on expected results is evaluated.
6. Action must be taken to show people problems and the measure required to solve them.

Concurrent Control

Concurrent control is exercised during the operation of a programme. It provides measures for taking corrective action or making adjustments while the programme is still in operation and before any ma damage is done. In the organisational context, many control activities are based on this type of control, for example, quality control during the operation, or safety check in a factory, Here, the focus is on the process itself. Data provided by this control system is used to adjust the process. Many strategic controls fall in this category.

Feedback Control

Feedback control is based on the measurement of the results of an action. Based on this measurement, if any deviation is found between performance standards and actual performance, the corrective action is undertaken as shown in Figure. The control aims at future action of the similar nature so that there is conformity between standards and actual. This is required because, sometimes, feed forward or concurrent control is not possible to apply, for example, many personal characteristics of an individual which go into behavioral processes are not measurable, hence feed forward control is difficult to apply. In the business organisations, top management control is mostly based on feedback. To Intake feedback control effective, it is essential that corrective action is taken as soon-as possible.

LESSON 37:
CONTROL PROCESS

Learning Objectives

On completion of this chapter you should be able to:

- You will understand the complete control process.
- You will be able to understand the evaluation and control criteria.
- You will understand the factors for strategic evaluation and control.

Control Process

Control, particularly operational control. is exercised by a process consisting of four major steps as shown in Figure

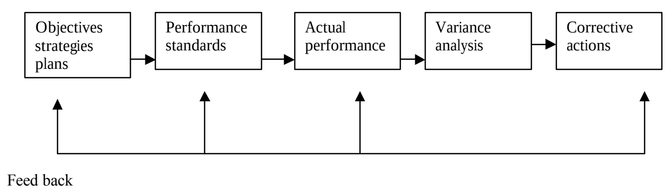


Figure : Control Process

In order to exercise control, managers have to take four steps as indicated in Figure These steps are as follows:

1. Setting performance standards
2. Measuring actual performance
3. Analysing variance
4. Taking corrective actions.

Setting Performance Standards

Every function in the organisations begins with plans which are goals, objectives, or targets to be achieved. In the light of these, standards are established which are criteria against which actual results are measured.

For setting standards for control purposes, it is important to identify clearly and precisely the results which are desired. Precision in the statement of these standards is important. In many areas, great precision is possible. However, in some areas, standards are less precise. Standards may be precise if they are set in quantities-physical, such as volume of products, man-hour or monetary, such as costs, revenues, investment. They may also be in qualitative terms which measure performance.

After setting the standards, it is also important to decide about the level of achievement or performance which will be regarded as good or satisfactory. There are several characteristics of a particular work that determine good performance. Important characteristics which should be considered while determining any level of performance as good for some operations are: (i) output, (ii) expense, and (iii) resources. Expense refers to services or functions which may be expressed in quantity, for achieving a particular level of output. Resources refer to capital expenditure, human resources, etc. *after* identifying these characteristics, the desired level of each characteristic is determined. The desired level of performance should be reasonable and feasible. The level should have some amount of flexibility also, and should be stated in terms of range-maximum and minimum as shown in Figure

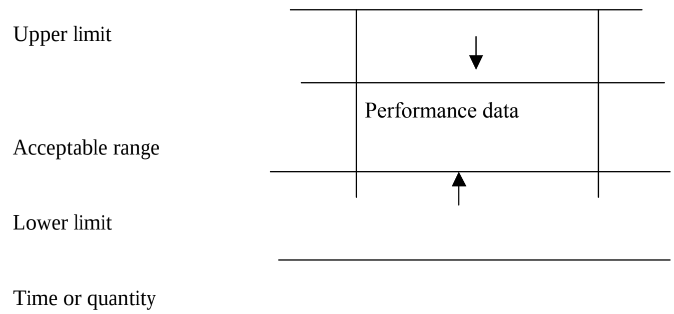


Figure: Control range

Control standards are most effective when they are related to the performance of a specific individual. because a particular individual can be made responsible for specific results. However, sometimes accountability for a desired result is not so simply assigned; for example, the decision regarding investment in inventory- is affected by purchase, rate of production, and sales. In such a situation, where no one person is accountable for the levels of inventories, standards may be set for each step that is being performed by a person.

Measuring Actual Performance

The second major step ill. control process is the measurement of performance. The step involves measuring the performance in respect of a work in terms of control standards. The presence of standard implies a corresponding ability to observe and comprehend the nature of existing conditions and to ascertain the degree of control being achieved.

The measurement of performance against standards should be on a future basis, so that deviations may be detected in advance of their actual occurrence and avoided by appropriate actions. Appraisal of actual or expected performance becomes an easy task, if standards are properly determined and methods of measuring performance which can be expressed in physical and monetary terms, such as production units, sales volume, profits, etc. can be easily and precisely measurable. The performance which is qualitative and intangible, such as human relations, employee morale, etc. cannot be measured precisely. For such purposes, techniques like psychological tests and opinion surveys may be applied. Such techniques draw heavily from intuitive judgement and experience, and these tools are fat" from exact. According to Peter Drucker, it is very much desirable to have clear and common measurements in all key areas of business. It is not necessary that measurements are rigidly quantitative. In his opinion, for measuring tangible and intangible performance, measurement must be (i) clear, simple, and rational, (ii) relevant, (iii) direct attention and efforts, and (iv) reliable, self-announcing, and understandable without complicated interpretation or philosophical discussions.[5]

Analysing Variance

The third major step in control process is the comparison of actual and standard performance. It involves two steps: (i) finding out the extent of deviations, and (ii) identifying the causes of such deviations. When adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed.. Management may have information relating to work performance, data, charts, graphs and written reports, besides personal observation to keep itself informed about performance in different segments of the organisation. Such performance is compared with the standard to find out whether the various segments and individuals of the organisation are progressing in the right direction.

When the standards are achieved, no further managerial action is necessary and control process is complete. However, standards may not be achieved in all cases and the extent of variations may differ from case to case. Naturally, management is required to determine whether strict compliance with standards is required or there should be a permissible limit of variation (Figure) In fact, there cannot be any uniform practice for determining such variations. Such variations depend upon the type of activity. For example, a very minute variation in engineering products may be significant than a wide variation in other activities.

When the deviation between standard and actual performance is beyond the prescribed limit, an analysis is made of the causes of such deviations. For controlling and planning purposes, ascertaining the causes of variations along with computation of variations is important because such analysis helps management in taking up proper control action. The analysis will pinpoint the causes which ate controllable by the person re-possible. In such a case, person concerned will take necessary corrective action.

However. if the variation is caused by uncontrollable factors the person concerned cannot be held responsible and he cannot take any action.

Measurement of performance.' analysis of deviations and their causes may be of no use unless these are communicated to the person who can take corrective action. Such communication is presented generally in the form of a report showing performance standard. actual performance, deviations between those two, tolerance limits, and causes for deviations. As soon as possible. reports containing control information should be sent to the person whose performance is being measured and controlled. The underlying philosophy is that the person who is responsible for a job can have a better influence on final results by his own action. A summary of the control report should be given to the superior concerned because the person on the job may either need help of his superior in improving the performance or may need warning for his failure. In addition, other people who may be interested in control reports are (i) executives engaged in formulating new plans: and (ii) staff personnel who are expected to be familiar with control information for giving any advice about the activity under control when approached.

Taking Corrective Actions

This is the last step in the control process which requires that actions should be taken to maintain the desired degree of control in the system or operation. An organisation is not a self-regulating system such as thermostat which operates in a state of equilibrium put there by engineering design. In a business organisation, this type of automatic control cannot be established because the state of affairs that exists is the result of so many factors in the total environment. Thus. some additional actions are required to maintain the control. Such actions may be on the following lines:

1. Improvement in the performance by taking suitable actions if the performance is not upto the mark: or
2. Resetting the performance standards if these are too high and unrealistic; or
3. Change the objectives, strategies and plans if these are not workable.

Evaluation and Control Criteria

In putting the control process in operation, two basic issues are involved what to control and how to control. The first issue is related, to the identification of those factors on the basis of which degree of business success is determined. The second issue involves the use of various control techniques. The first issue is taken here while the second issue will be taking in the next chapter.

Criteria of Business Success

The success of any organisation, whether business or non-business. _ measured in tem1s of its objective achievement. Since an organisation May pursue a number of objectives simultaneously, and these may be expressed: in different forms. there are a number of criteria which are used for control.

These criteria are grouped into two categories: intervening criteria and end-result criteria as shown in Figure.

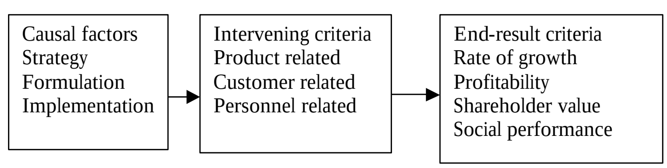


Figure: Evaluation and Control criteria

Causal Factors

Causal factors are those that influence the course of development in an organisation. These are independent variables and affect intervening criteria and through these, end-result criteria. For example, strategy formulation and its implementation affects various product, customer, and personnel related criteria. These, in turn, affect different end-result criteria which are used, generally, to measure business performance.

Intervening Criteria

Intervening criteria are those factors which are reflected as the internal state of the organisation. These are caused by causal factors and, therefore, cannot be changed independently except by changing causal factors; in this case type of strategy and its implementation. For example, personnel attitudes and morale, an intervening criterion, cannot be changed unless there is a suitable change in organisational design, systems, and leader-ship-all being elements of strategy implementation.

Intervening criteria are, generally grouped into three categories: product, customer, and personnel related. An illustrative list of intervening criteria is given below:

Product Related Criteria

1. Product quality and performance
2. Product cost and price
3. New products introduced

Customer related criteria

1. Customer service
2. Customer satisfaction
3. Customer loyalty

Personnel related criteria

1. Attracting and retaining human talent
2. Personnel ability and skills
3. Personnel motivation and attitudes to work

End-result Criteria

End-result criteria are those factors which are caused by causal and intervening factors and are often in terms of the criteria in which organisational success is measured. These factors are highly dependent and, therefore, cannot be changed except by changing the factors responsible for these. End-result criteria are grouped in four categories: rate of growth, profitability, shareholder value, and social performance. Given below is the illustrative list of these factors:

Rate of Growth

1. Sales growth
2. Market share
3. Asset increase

Profitability

1. Profit-sales relationship
2. Return on value added
3. Return on investment

Shareholder Value

1. Dividend payment
2. Bonus shares
3. Market price of shares

Social performance

Satisfaction of various stakeholders.

After identifying the factors to be evaluated, another issue comes in the form of fixing standard in respect of these factors. Since many factors are in qualitative form and others are in quantitative form, both qualitative and quantitative standards are set for evaluation and control.

At this stage, it will be worthwhile to understand the criteria that are used by companies for strategic evaluation and control. Tabe presents the findings of a study of 72 companies on the criteria used by these companies.[6]

TABLE : **Factors for strategic evaluation and control**

Factor	***Average***
1. Value added	2.32
2. Return on value added	1.56
3. ROV A/ROI	2.21
4. Attracting and retaining talent	2.25
5. Number of future managers	2.06
developed 6. New product development	2.20
7. Improved service to customers	2.65
8. Competitive return to shareholders	2.25
9. Maximisation of shareholders' value	2.14

Measured at 4-point scale

The above study shows the various factors for strategic evaluation and control in general form. Let us take the case of factors used for measuring a company's performance. *Financial Express*, a daily financial newspaper, uses the following criteria for selecting the best company of the year as shown in Exhibit

Exhibit:

Criteria for performance measurement used by Financial Express

1. Export revenue for competitiveness,
2. Cash plough back/total debt for capability to reduce debt,
3. Profit after tax/net worth for profitability
4. Plough back to net worth for capability to use internal accruals,
5. Interest cover for ability to serve lenders,
6. Gross profit/sales for profit margin,
7. Earnings before depreciation, interest and tax/total assets for ability to use assets,
8. Profit after tax/assets for profitability in using assets,
9. Debt/equity for capital gearing,
10. Increase in assets for growth,
11. Increase in sales for growth.

At the second stage, the publication uses six different criteria for judging the companies. These are: earning before depreciation, interest and tax/net assets, profit after tax/net worth; growth in assets, growth in sales, gross profit/sales, cash plough back/net worth.

Let us see what criteria (quantitative) companies use for measuring their performance. Exhibit presents criteria used by Hindustan Lever Limited.

Exhibit:

Hindustan Lever: Use of quantitative criteria for performance measurement

In terms of ratios:

1. Profit after tax/sales
2. Earning per share (EPS)
3. Dividend per share (DPS)
4. Gross gearing-debt/equity
5. Interest cover (times)
6. Return on capital employed (RGCE)
7. Return on net worth (RONW)
8. Fixed assets turnover.(times)
9. Working capital turnover (times)

In absolute terms:

1. Sales
2. Exports
3. Contribution to exchequer
4. Market price of share
5. Market capitalization

The company uses these criteria for ten years on comparative

Besides, the company uses various qualitative criteria also.

Exhibit presents the criteria used by Reliance Industries to measure its performance.

Exhibit

Reliance Industries: Criteria used for performance measurement

In terms of ratios:

1. Sales per share
2. Net profit margin
3. Earning per share
4. Cash earning per share
5. Book value per share
6. Debt: equity ratio
7. EBDIT/sales
8. Return on net worth
9. Equity dividend
10. Payout ratio

In absolute terms

1. Total sales
2. Export and deemed export
3. Taxes paid to the Government
4. Market capitalization

Management by Exception

One of the most important ways of tailoring controls for efficiency effectiveness is to make sure that they are designed to point out exception In other words, by concentrating on exceptions from planned performance controls based on the time-honoured exception principle allow managers detect those places where their attention is required and should be give. This implies the use of management by exception particularly in controlling aspect. Management by exception is a system of identification a communication that signals to the manager when his attention is needed. From this point of view, management by exception can be used in other management processes also though its primary focus revolves around controlling.

Management by exception has six basic ingredients: measurement, projection, selection, observation, comparison, and decision-making.

1. Measurement assigns values to past and present performances: This is necessary because without measurement of some kind, it would be impossible to identify an exception.
2. Projection analyses those measurements that are meaningful to organisational objectives and extends them into future expectations.
3. Selection involves the criteria which management will use to follow progress towards organisational objectives.
4. Observation stage of management by exception involves measurement of current performance so that managers are aware of the current state of affairs in the organisation.
5. Comparison stage makes comparison of actual and planned performance and identifies the exceptions that require attention and reports thevariances to management.
6. Decision-making prescribes the action that must be taken in order to bring performance back into control or to adjust expectations to reflect changing conditions, or to exploit opportunity.

Thus, it can be observed that management by exception is inseparable from other management essentials in many ways. However, the major difference lies in the fact that the superior's attention is drawn only in the case of exceptional differences between planned performance and actual performance. In other cases, decisions are taken by subordinate manager. However, what is exceptional requires the completion of whole process.

Benefits Of Management By Exception

There are various areas where precepts of management by exception are used such as statistical control of product quality, economic order quantities and order points for control of inventories and supplies, break-even points for determining operating levels, trends in ratios of indirect to direct labour used in apportioning overhead, attitude surveys for gauging employee morale, etc. The use of management by exception is prevalent because of the following factors:

1. Management by exception saves executives' time because they apply themselves on fewer problems which are important. Other details of the problems are left to subordinates.
2. It concentrates executives' efforts on major problems. Instead of spreading managerial attention across all sorts of problems, it is placed selectively where and when it is needed. Thus, it ensures better utilization of managerial talents.

3. It facilitates better delegation of authority, increases. span of management and consequently provides better opportunities for self-motivated personnel in the organisation. It lessens the frequency of decisions at the higher levels of management which can concentrate on.

LESSON 38:
TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

Learning Objectives

On completion of this chapter you should be able to:

- You will understand the financial performance control.
- You will be able to understand the budgetary, ratio analysis and ROI.
- You will understand the Social Performance Control.

Financial Performance Control

Financial performance control, or simply referred to as financial control, is relevant for those aspects of business operations whose outcomes are expressed in monetary terms. Financial control is exercised at operative level as well as at overall organisation level though techniques involved are different. Financial control techniques are grouped into three categories from strategic management point of view:

1. Budgetary control,
2. Financial ratio analysis, and
3. Return on investment.

Budgetary Control

Budgetary control is derived from the concept and use of budgets. We have seen in chapter 6 that a budget is the financial expression of various organisational operations and the way in which budgets are prepared as tools for planning. Thus, budgetary control is a system which uses budgets as a means for planning and controlling entire aspects of organisational activities or parts thereof. Terry has defined budgetary control as follows:

"Budgetary control is a process of comparing the actual results with the corresponding budget data in order to approve accomplishments or to remedy differences by either adjusting the budget estimates or correcting the cause of the difference."

Some people treat budgetary control only as a technique of cost control. For example, Brown and Howard have defined budgetary control as follows:

"Budgetary control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing responsibility, comparing actual performance with budgeted and acting upon results to achieve maximum profitability."

However, the scope of budgetary control extends beyond cost control with the introduction of several types of budgeting.

Features of Budgetary Control

1. Budgetary control establishes a plan or target of performance which becomes the basis of measuring progression of activities in the organisation.
2. It tries to measure the outcomes of activities in quantified terms so that actual performance can be compared with budgeted performance.
3. It tries to focus attention of the management on deviation between what is planned and what is being achieved so that necessary actions are taken to correct the situation and to achieve the objectives of the activities. Thus, it does not control the activities directly but points out where control and corrective actions are required.

Benefits of Budgetary Control

Budget and budgetary control leads to maximum utilisation of resources with a view to ensure maximum returns because it provides aid to managerial planning and control. Besides, it also helps in coordination. Thus, budgetary control can play three roles in an organisation. These are: budgetary control as a tool for planning, budgetary control as a tool for control, and budgetary control as an aid to coordination. Let us see how budgetary control performs these three roles.

Budgetary Control as a Tool for Planning

The system of budgetary control, by preparing budgets before the activities are actually undertaken, facilitates the planning function of management in the following ways:

1. Budgetary control forces managers to plan their activities. Since budget allocation is based on the nature of activities undertaken in a department or section, the managers have to define what activities they plan for future. Thus, planning becomes an integral part of total managerial functions.
2. Since budgetary control is duly concerned with concrete numerical goals, it does not leave any ambiguity regarding the targets. Thus, every manager in the organisation is sure about what he is expected to do. This offers the opportunity of objective appraisal of performance, self-examination and even self-criticism.
3. It leads to a cautious utilisation of resources since it keeps a rigid check over activities in the organisation. This system acts both ways. It spurs efforts to achieve the goals and yet keeps them within the well defined boundaries. It focuses on rational use of organisational resources so as to promote a higher standard of performance and efficiency.
4. It also contributes indirectly to the managerial planning at higher levels. Budgetary control provides an effective means by which management can delegate authority without sacrificing overall control. The budget limits the area of activities to be trodden by the manager on their own. Thus, managers at higher levels can delegate the authority to their subordinates for the performance of assigned activities and they will be free for strategic thinking and planning.

Budgetary Control as a Tool for Control

Budgetary control acts as a tool of control in the following ways:

1. Budgetary control, as a control device, is very exact, accurate, and precise. A budget provides standards against which

control activities are undertaken. Thus, managers can keep a watch whether their efforts are proceeding in the right direction.

2. Budgetary control pinpoints any deviation between budgeted standards and actual achievement. This is communicated very quickly and managers can take suitable actions to overcome the deviations so as to achieve organisational objectives.
3. Budgetary control system also points out the reasons which may be responsible for deviation between budget and actual. Thus, it provides direction for necessary control actions.

Thus, it can be seen that with the constant help of the budgetary control system, attempts can be made to keep performance parallel with the estimated one.

Budgetary Control as an Aid to Coordination

Budgetary control system provides aid in coordination in the organization. It helps to achieve coordination in the following ways:

1. Budgetary control system promotes cooperation among various sub-units in the organisation. Since it is an instrument of planning, it brings activities of various departments under overall perspective. This inspires team spirit and promotes cooperation. For example, the well-planned sales and production budgets lead to better purchasing and the labour requirement for timely recruitment by personnel department, etc.
2. The system encourages exchange of information among various units of the organisation. The preparation of specific functional budget inevitably needs the free flow of information among the various departments of the organisation. This free flow of information helps in achieving coordination.
3. The system promotes balanced activities in the organisation. Volume of each activity depends upon the objectives of the organisation. Therefore, each activity should be performed in proportion to other activities. Thus, estimates of operations like sales, production, purchasing, etc., can be well checked against each other and likewise, the activities can be programmed.

Thus, budgetary control system is a vital and important device for planning, controlling and coordinating the activities in an organisation thereby contributes to attain higher standard of performance and efficiency.

Problems in Budgetary Control

Though budgetary control helps a lot the managers in planning, controlling and coordinating the activities of an organisation, it is not a fool-proof system. It has its own limitations. Therefore, managers should be well aware about these problems so as to take adequate precautions to minimise the impact of these. Problems in budgetary control system emerge from two sources: problems because of planning limitations and operational problems.

Planning Problems

As seen earlier, planning activity has its own limitations. Since budget is an outcome of planning activity, it cannot remain free from the limitations of planning. In this context, following problems are likely to emerge:

1. The biggest problem in budgetary control comes because of uncertainty of future. It is a well-known fact that budgets are prepared on the assumptions of future happenings in a certain way. But due to change in situations, budgets do not remain reliable and meaningful and do not help in achieving control.
2. Budgetary control, sometimes, may jeopardise the basic and important functions in the organisation. Once budgets are prepared, they become the basis for further course of action. The budgets of future years are prepared on the basis of previous budgets. Meanwhile, situations may change to such an extent, that many functions unimportant few years ago may become very important but budgets may not reflect that. This problem, however, can be overcome by periodic review of importance of various activities and incorporating their importance in budgeting. Zero-base budgeting does this to a very great extent.
3. The role of budgetary control system in the planning function is sometimes over-emphasised. Budgets become end in themselves and any deviation from budgeted figures is looked upon with contempt. This inflexibility contributes negatively to the organisational objectives. For example, in government departments, substantial portion of amount is spent in the last month of the financial year so as to keep the budget intact. This may result into avoidable inefficiency.

Operational Problems

Besides many planning problems, some operational problems also come in the way of effective budgetary control system. Following problems are the major ones:

1. A budget is just a sophisticated guesswork, so question can be raised about its usefulness for being used as standard against which to measure the performance and to take action. Apart from control actions relating to materials and things, control actions may be directed towards personnel in the organisation. This may work against the morale of the people in the organisation specially if the budgetary control system does not operate properly.
2. Budgetary control may affect organisational morale adversely in another way. There is every likelihood that department managers may adopt a defensive attitude as soon as unfavourable variances are brought to their notice. To save themselves from criticisms, they may pass on the blame on other managers. This may create many types of problems and conflicts in the organisation.
3. Budgetary control system requires a lot of paper work which the technical personnel always resent. In fact, this does not fit with their areas of specialisation. To the extent, the applicability of budgetary control system, particularly in its control aspect, may be limited.

Inspite of these problems and limitations, budgets are the most important tools for planning and control. Therefore, precautions should be taken so that the negative aspects of budgets and budgetary control are minimised. Exhibit presents the example of budgetary control system in Baroda Rayon Corporation Limited.

Exhibit

Budgetary Control in Baroda Rayon Corporation

Baroda Rayon Corporation is located at Surat with its head office at Mumbai. It produces rayon filament yarn, polyster filament yarn, and nylon tyre cord. It has adopted a comprehensive budgetary control system. It prepares its budget on annual basis to coincide with its financial year, April to March. There is a separate Budget Control and Cost Accounts (BCCA) department which coordinates the activities of budgetary control.

Budget Preparation

The company prepares its master budget alongwith budgets for major important functions like sales, production, cash, labour, etc. The budget is prepared by BCCA department in consultation with the chief executive, departmental heads. After the initial budget preparation, it is approved by budget committee and finally, it is sent for the approval of Board of Directors at its head office at Mumbai. Normally the standards of last year are used as the basis for budget preparation with suitable adjustment. For example, rates of materials are adjusted according to the prevailing rates in the market. Similarly adjustment is made in labour cost depending on the rate of dearness allowance payable to workers for the budget period. Dearness is paid on the basis of All India Cost of Living Index. Overheads are charged on percentage basis. When budgets are prepared and approved, these are communicated to respective heads of departments/sections for implementation.

Budgetary Control

For control purposes, variance analysis is made. Factors for variance between budgeted and actuals are identified. For taking further course of action, various factors have been divided into two parts: controllable and non-controllable. Controllable factors are like utilisation of plant capacity, unit consumption ratios of various raw materials, utilisation of auxiliary materials, labour utilisation, etc. Uncontrollable factors are like price of raw materials, price of the final products, etc. Budget deviations are calculated every month and for some sections every day. Deviations due to controllable factors are communicated to respective personnel for corrective actions. In case of deviations due to uncontrollable factors, these are communicated to the chief executive who in consultation with marketing people decides about a change in product mix specially if the deviation is due to price of final products. Usually a deviation below 5 per cent is ignored.

Financial Ratio Analysis

Financial ratio analysis identifies the relationship between two financial variables in order to derive meaningful conclusion about their behaviour. Metcalf and Titard have defined financial ratio analysis as "a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance.The type of relationship to be investigated depends on the objective and purpose of evaluation. In the case of measurement of overall performance, generally, four groups of ratios are considered: liquidity ratios, activity ratios, leverage ratios, and profitability ratios. A brief description of these ratios is presented here.

Liquidity Ratios

Liquidity ratios indicate the organisation's ability to pay its short term debts. These ratios are generally expressed in two forms: current ratio and quick ratio. Current ratio shows the relationship between current assets and current liabilities. This indicates the extent to which current assets are adequate to pay current liabilities. Quick ratio indicates the relationship between liquid assets (cash in hand and with bank and short-term debtors) and current liabilities. It helps in identifying the organisation's ability to pay its current liabilities without considering inventory in hand.

Activity Ratios

Activity ratios show how funds of the organisation are being used. These ratios are in the form of inventory turnover ratio, receivable turnover ratio, and assets turnover ratio. Inventory turnover ratio indicates the number of times inventory is replaced during the year and shows how effectively inventory has been managed. Receivable turnover ratio shows how promptly the organisation is able to collect dues from its debtors. Assets turnover ratio indicates how effectively assets have been used to generate sales.

Leverage Ratios

Leverage ratios indicate the relative amount of funds in the business supplied by creditors/financiers and shareholders/owners. These ratios are in the form of debt-equity ratio, debt-total capital ratio, and interest coverage ratio. Debt-equity ratio indicates the proportion of debt in relation to equity and indicates the financial strength of the organization. Debt-total capital ratio shows the proportion of debt to total capital employed. This also indicates the financial strength. Interest coverage ratio shows the interest burden being borne by the organisation in relation to its profit.

Profitability Ratios

Profitability ratios show the ability of an organisation to earn profit in relation to its sales and/or investment. Profitability ratios are expressed in terms of profit margin as well as return on investment. Profit margin, either net profit or gross profit, is expressed in the form of relationship between profit and sales and indicates the degree of profitability of the business. Return on investment is measured by relating profit to investment. Return on investment is the most comprehensive technique for controlling overall performance. Therefore, somewhat more elaborate discussion is presented.

Return on Investment

The efficiency of an organisation is judged by the amount of profit it earns in relation to the size of its investment, popularly known as 'return on investment' (ROI). This approach has been an important part of the control system of Du Pont Company, U.S.A., since 1919, though it was actually devised by Donaldson Brown in 1914. Since its successful operation in Du Pont, a larger number of companies have adopted it as their key measure of overall performance.

This technique does not emphasise absolute profit for judging the efficiency of an organisation as a whole or a division thereof, rather the amount of profit is related with the amount of facilities or capital invested in the organisation or the division.

The goal of a business, accordingly, is not to optimise profit, but to optimise returns on capital invested for business purposes. This standard recognises the fundamental fact that capital is a critical factor in almost any business and its scarcity puts limit on progress.

The system of control through return on investment can be seen from Figure as operating in Du Pont Company.

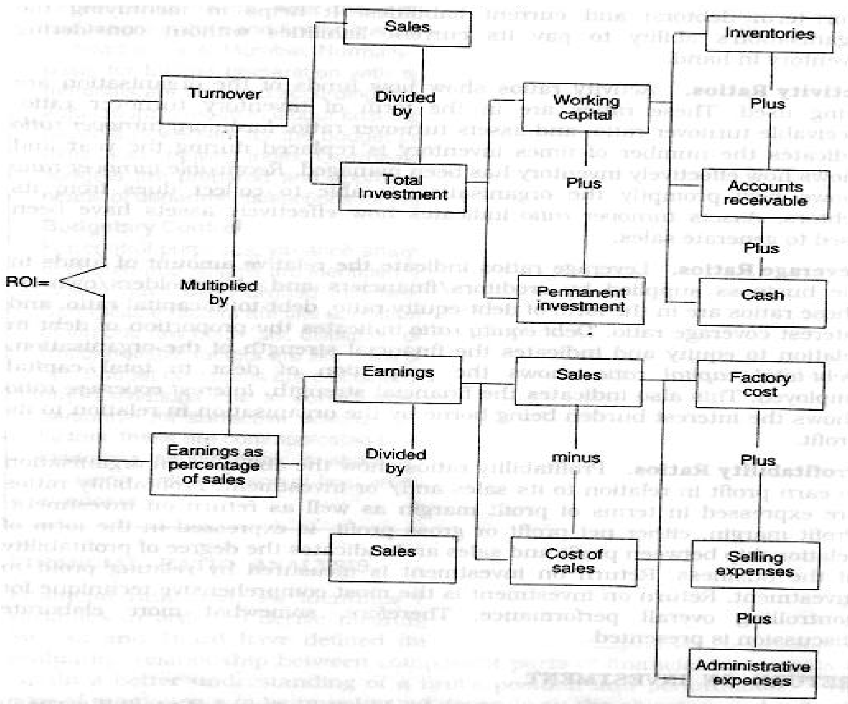


Figure: Relationship of factors affecting return on investment

The rate of return is calculated by dividing the profit by total investment. It can be computed in respect of historical data so as to reveal the rate of return realised or it may be applied to budgeted data to give a projected rate of return. In the Du Pont system, the investment includes total fixed and current assets without reducing liabilities or reserves. The basis is that such a reduction would result in fluctuations in operating investments as liabilities or reserves fluctuate, which would distort the rate of investment and render it meaningless.

On the other hand, many business organisations adopt a different view of investment. Accordingly, the amount of the investment should be taken by deducting depreciation from the assets. The argument is simple. Depreciation reserves represent a write-off of initial investment and that funds made available through such charges are reinvested in other fixed assets or used as working capital. The argument seems to be realistic as it puts heavier burden on return on new assets, as compared to old and obsolete assets. Moreover, the amount of investment thus calculated is further reduced by the amount of current liabilities.

Advantages

The return on investment is an integral part of the productivity and efficiency accounting. It gives following advantages:

1. The technique offers a sound basis for inter-organisation comparison. Such comparison can be made among the different divisions, departments, or products of the same organisation. It places high values on the effective and efficient use of organisational resources. It is a mirror which reflects the entire image of the operating activity. As such, suitable action can be taken for removing inefficiency.
2. It provides success to budgetary planning and control by putting restraint on the managers' demand for higher allocation of resources for their departments even if these are not actually needed. Thus, the resource allocation in an organisation is made on more rational basis.
3. This system is helpful in authority decentralisation. Each manager, incharge of a department or section, is responsible for earning certain rate of return, but enjoys complete freedom in running his department. Such autonomy gives additional incentive to managers for higher efficiency.
4. It can be treated as a total control system in the sense that rate of return reflects the objective of the organisation. If this rate is satisfactory, other control systems like budgetary, costing, ratios, reports may be taken as satisfactory.

Limitations

There are some limitations of the rate of return as a control tool:

1. The use of rate of return is associated with the fixation of a standard rate of return against which the actual is compared. What should be this standard return is often questionable. Comparisons of rates of return are hardly enough because they do not tell what the optimum rate of return should be.
2. Another problem comes in the way of valuation of investment. The question is at what cost the assets should be valued: at original cost, depreciated cost, or replacement cost. In an inflationary economy, the problem of price adjustment becomes more acute, whatever basis of valuation is adopted.
3. The rate of return on investment sometimes hampers diversification if it has no flexibility. This is because of the fact that the rate of return is determined by the amount of risk; higher the risk, higher the desirable rate of return.
4. Many times, the return on investment is followed so rigorously that expenditure such as research and development which can contribute to the profitability in the long run are curtailed to show impressive results in terms of rate of return. This practice, however, is detrimental to the organisation in the long run.
5. As is the case with any system of control based on financial data, return on investment can lead to excessive emphasis on financial factors. This emphasises that capital is the only scarce resource in the organisation leaving aside the role and

availability of competent managers, good industrial relations and good public relations.

Social Performance Control

Social responsibility is a part of overall business objectives of an organisation. Most of the organisations set their social objectives either explicitly or implicitly depending on organisational practices. Social performance control deals with assessing the extent to which an organisation is achieving its social objectives. This requires defining the basis on which social performance should be evaluated and identifying the degree to which social performance is effective. Thus, social performance control involves two aspects:

1. Approaches for measuring social performance and
2. Social audit.

Approaches for Measuring Social Performance

Measurement of social performance is quite fluid because of its qualitative nature. In order to overcome the problem of fluidity, a separate branch of accounting, known as social accounting, has been developed. Robert Elliot has defined *social accounting* as "systematic assessment and reporting on those parts of a company's activities that have a social impact-the impact of corporate decisions on environmental pollution, consumption of non-renewable resources, and ecological factors; the rights of individuals and groups; maintenance of public services; health, safety, education and many other social concerns."In social accounting, three approaches are used for measuring social performance:

1. Social cost-benefit analysis,
2. Social indicators, and
3. Social goal setting.

Social Cost-Benefit Analysis

Social cost-benefit analysis is based on evaluating benefits that accrue to the society and the costs through which these benefits accrue. While costs can be measured in terms of money, same is not the case with benefits. Since social benefits cannot be defined in monetary term, the concept of consumer surplus is applied to measure these. Consumer surplus is the difference between what a consumer would be willing to pay for a given product or service and the actual price charged. Thus, this willing price may be used for measuring social benefits. However, the willing price to be paid by a consumer is subjective and varies from situation to situation for the same consumer or may be interpreted differently by various persons. For exmple, what is the willing price to be paid by a consumer for a packet of food who has been derooted from his home due to natural calamity such as flood, earthquake, etc.

Cost-benefit analysis may be undertaken either on the existing price system or discounted rate of costs and benefits. In the latter case, social costs and benefits are discounted at social discount rate to determine the present value of net social benefits. Social-cost-benefit analysis, though suffers from the limitation of precise measurement, is useful in evaluating the alternative social programmes that an organisation can undertake.

Social Indicators

Social indicators approach of social performance measurement consists of developing social indicators and measuring an organisation's performance on these indicators. Brumet has prescribed five broad indicators in which the contribution of an organisation should be measured.These are as follows:

1. Net income contribution-earning enough to provide for the present and future costs of the organisation's continued existence but limited to legitimate socially desirable profit;
2. Human resource contribution-development of system of human resource accounting to measure the impact of the organisational decisions on human asset value.
3. Creation of jobs and providing employment opportunities to backward and socially handicapped population, contributing towards educational development, relief of people in distress caused by natural calamities, rural upliftment, etc.
4. Environmental contribution-environmental improvement through pollution abatement, conservation of scarce natural resources, maintenance of ecological balance, and so on.
5. Product or service contribution-ensuring quality, durability, safety and serviceability of products; customer satisfaction, truthfulness in advertising, etc.

Social indicators approach measures social performance of an organisation in the context of various factors. Many organisations follow this approach because it indicates the areas in which they have to work. However, one basic problem in this approach is the determination of expectations of various indicators and the way it can be fulfilled.

Social Goal Setting

Social goal setting approach emphasises on incorporating social concern in the objectives of an organisation which may be on a perpetual basis or on periodic basis. A combination of both can also be followed in which some social concerns can be undertaken on perpetual basis while others can be taken on project basis for specific period. For example, consumer satisfaction, environmental protection, etc. can be taken on perpetual basis while special projects for certain specific social cause like eliminating the impact of destruction caused by certain natural calamities can be taken on ad hoc basis. In the social goal setting approach, an organisation can identify the social concerns to be served on the basis of its own environmental analysis and choose those areas in which it believes it can contribute effectively by reducing the social costs or enhancing social benefits.

This approach is better in terms of providing areas of social concerns on which the organisation can focus in terms of the needs of the areas and its own capability to satisfy those needs, Thus, this approach can be well integrated with strategic management process.

Social Audit

When an organisation undertakes social activities, it must also evaluate the extent to which these activities are performed effectively. Social audit is primarily aimed to measure the effectiveness of these activities. Bauer and Fenn have defined social audit as follows:

"Social audit is a commitment to a systematic assessment of and reporting on some meaningful, definable domain of the company's activities that have social impact."

Problems in Social Audit

The idea of social responsibility of which social audit is a means of measurement is quite valid in business world and it has been recognised that business organisations have to fulfil their social obligations in their own long-term interests. Social audit is equally logical. Social audit, however, presents numerous problems. These problems are of two types: determining scope for social audit and measurement problem.

1. Scope of the Social Audit

If a social audit is to be made, the basic question is what activities should be covered. There may be various alternatives. *First*, all social activities being performed by an organisation may be taken for reporting. However, if the social audit is to catalogue all such activities, verify the costs involved and evaluate the benefits produced, it is very impractical to carry on the social audit and information may be too massive to be useful. The activities may be too large because it is very difficult to say which activities are not social. Thus, various activities which an organisation performs are social from one point of view because these provide some social benefits besides benefiting the organisation as well. *Second*, the various activities of clear social utility without prospect of profit may be taken into consideration. However, if only such activities are taken into account, the scope of social audit will be too limited to demonstrate the extent to which the organisation's social performance is fulfilled. The scope of social audit may be determined keeping in view the information requirements of various groups, such as, employees, customers, shareholders, general public and those who influence the shaping of public opinions.

2. Measurement Problems

Another major problem in social audit is related to the determination of yardsticks for measuring the costs and accomplishments of activities included in the social audit. Though costs can be measured easily, these are not the true reflection of social responsibility. These may not be the result of social involvement. The measurement of benefits is much more difficult because of lack of objective quantification of the outcome of any social activity. Moreover, how much an activity is benefiting to the society and to the organisation concerned is difficult to measure. It happens that an activity may contribute to both the society and the organisation.

Social Audit Report

In spite of the various problems involved in social audit, the organisations may think of it because a time may come when social audit, like financial audit, becomes compulsory. The validity of social audit report may be determined on the basis of well-established financial audit report, that is, uses to which information will be put should govern both the conceptual and procedural bases on which information is prepared and disseminated. Corson and Steiner have emphasised that a social audit report should contain *(i)* an enumeration of social expectations and the organisation's responses, *(ii)* a statement of corporation's social objectives and the priorities attached to specific activities, *(iii)* a description of the corporation's goals in each programme area of the activities it will conduct, *(iv)* a statement indicating the resources committed to achieve objectives and goals, and *{v}* a statement of the accomplishments and progress made in achieving each objective and goal.[14]

In India, The Tata Iron and Steel Company Limited (TISCO) conducted a social audit in *1979-80*. Exhibit presents major references and findings of social audit committee.

Exhibit

Social audit in TISCO

In October 1979, TISCO appointed a social audit committee consisting of Justice S.P. Kotval as chairman and Prof. Rajni Kothari and Prof. P.G. Mavalankar as members to "examine and report whether, and the extent to which the company has fulfilled the objectives contained in Clause 3A of its Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community." The committee submitted its report on July 9, 1980 which was subsequently published by the company. The report contained ten chapters which included various aspects of social and moral obligations being discharged by the

Social Audit Committee Report - Tisco, Mumbai, August 1980

Some of the major findings of the committee were as follows:

1. In respect to city development, TISCO has taken various measures such as housing, water supplies, sewerage, health and conservancy, medical services, etc.
2. In respect to workers, the company provided various facilities such as housing, health services, transportation, schools, and facilities for cultural and social activities.
3. The company has adopted adequate pollution control measures in its mines and plants.
4. The company has maintained harmonious employer-employee relations and not a single day was lost due to strike or lockout.
5. In respect to consumers, the company adhered to supply of its products as determined by the Government and took ample measures to ensure high quality.
6. In respect to shareholders, the company paid fair amount of dividend regularly. The dividend rate was reduced only under the scheme of restriction on dividend payment adopted by Government of India.
7. The company has undertaken various schemes for community development and social welfare services.
8. The company has undertaken various programmes for rural development.

In general, the committee members felt satisfied by the measures adopted by the company on those issues which were referred to the committee. The committee observed that "we are satisfied that the social performance of the company is of high order and in its magnitude, is perhaps unequalled in India. We are satisfied that the company has amply fulfilled the objectives contained in Clause 3A of its Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, the local community and society."

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