INTERMEDIATE (IPC) COURSE

PRACTICE MANUAL

PAPER: 7B

STRATEGIC MANAGEMENT

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

This Practice Manual has been prepared by the faculty of the Board of Studies. The objective of the practice manual is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions to make for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the practice manual has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

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A WORD ABOUT PRACTICE MANUAL

Businesses function in complex and dynamic environment. With the improvement in technology, the walls between the nations are receding and the world is fast becoming a single global village. In this era of globalization, businesses are moving across national boundaries to the different parts of the world. These changes have necessitated modifications in the business methods and strategies.

Further, on account of technological changes the business today is considerably different and much more complex than that it was earlier. Companies adopt different strategies to expand, grow, develop competencies, divest and compete with others. Accordingly, students of the subject can not restrict themselves to the matter given in the study materials. They should have an eye for the developments happening in the corporate world.

Students are advised to keep themselves updated with the latest changes in the contemporary business environment. They should regularly read students' journal – The Chartered Accountant Student and other publications such as members' journal and business magazines. It would be a very fruitful practice to read business newspaper on a daily basis. These steps will help you in gaining contemporary knowledge on the subject. It will also help you in answering questions and developing abilities to analyse and answer case studies problems.

This Practice Manual has been prepared to complement your desire to gain knowledge and improve your performance in the examinations. It should not be taken as guide or a set of questions expected in the examinations. Students need to study the subject comprehensively covering all aspects of the syllabus. Statement showing topic wise distribution of examination questions along with marks is also introduced in this edition.

The Practice Manual covers the subject matter in brief to help you in quickly revising the subject. It also covers a set of questions including those that have appeared in the previous examinations. The significant additions have been highlighted with bold and italics in the material. Some questions have also been included with hints or without answers to enable you to practice. This Practice Manual will provide useful guidance as to the manner of writing answers. You may write your own answers and then compare them with answers given in this Manual.

An activity has also been included at the end of each chapter. The idea is to make learning useful and also interesting. I am sure students will keep their level of enthusiasm high to do different activities and make learning practical.

In case you need any further clarification/guidance, please send your queries at ssuneja@icai.in and ruchi.gupta@icai.in.

Happy Reading and Best Wishes!

Paper – 7: Information Technology & Strategic Management

Section – B: Strategic Management

Statement showing topic-wise distribution of Examination Questions along with Marks

Examination	1. Business Environment		2. Business Policy and Strategic Management		3. Strategic Analysis		4. Strategic Planning		5 Formulation of Functional Strategy		6. Strategy Implementation and Control		7. Reaching Strategic Edge	
	Q	M	Q	M	Q	M	Q	M	Q	M	Q	M	Q	M
May, 2011	9(a)(i)	2	9(b)(ii)	1	8(i)*	3	8(iii)*	3	9(a)(ii)	2	10(v)	1	9(b)(i)	1
			10(i)	1	8(ii)*	3	8(iv)*	6	10(iii)	1	11(b)	3	10(vi)	1
			14(a)	4	10(ii)	1	9(b)(iii)	1	10(iv)	1	12(b)	3	12(a)	4
							10(vii)	1	11(a)	4	13(a)	4	13(b)	3
											14(b)	3		
Nov. 2011	8(a)	3	8(c)	3	8(e)	3	9(b)(iii)	1	8(d)	3	10(iii)	1	9(b)(ii)	1
	8(b)	3	9(b)(i)	1	11(a)	4	13(b)	3	9(a)(ii)	2	14(b)	3	14(a)	4
	9(a)(i)	2	10(v)	1					10(i)	1				
	13(a)	4	12(a)	4					10(ii)	1				
									10(iv)	1				
									10(vi)	1				
									10(vii)	1				
									11(b)	3				
									12(b)	3				

Examination	1. Business Environment		2. Business Policy and Strategic Management		3. Strategic Analysis		4. Strategic Planning		5 Formulation of Functional Strategy		6. Strategy Implementation and Control		7. Reaching Strategic Edge	
	Q	M	Q	M	Q	M	Q	M	Q	M	Q	M	Q	M
May, 2012	8(a)	**3**	8(b)	**3**	9(b)(ii)	**1**	9(b)(i)	**1**	10(i)	**1**	8(c)	**3**	8(d)	**3**
	14(b)	**3**	9(a)(i)	**2**	10(vi)	**1**	10(iv)	**1**	10(ii)	**1**	8(e)	**3**	9(a)(ii)	**2**
	12(b)	**3**			10(vii)	**1**	10(v)	**1**	10(iii)	**1**	11(b)	**4**	9(b)(iii)	**1**
					14(a)	**4**	13(b)	**3**			12(a)	**4**	11(a)	**3**
													13(a)	**4**
Nov 2012	8(a)	**3**	8(b)	**3**	9(a)(i)	**2**	8(c)	**3**	8(d)	**3**	8(e)	**3**	9(a)(ii)	**2**
	10(i)	**1**	9(b)	**3**	10(iii)	**1**	10(iv)	**1**	10(v)	**1**	10(ii)	**1**	10(vii)	**1**
	11(a)	**4**	12(a)	**4**	12(b)	**3**	13(b)	**3**	13(a)	**4**	10(vi)	**1**	11(b)	**3**
	14(b)	**4**									14(a)	**4**	14(b)	**3**
May 2013	8(a)	**3**	9(b)	**3**	8(d)	**3**	8(c)	**3**	8(b)	**3**	12(a)	**4**	8(e)	**3**
	10	**7**	14(b)	**3**	9(a)(i)	**2**	13(b)	**3**	14(a)	**4**	13(a)	**4**	9(a)(ii)	**2**
					11(a)	**4**					14(b)	**3**	11(b)	**3**
													12(b)	**3**
Nov 2013	8(a)	**3**	8(e)	**3**	11	**7**	12(a)(i)	**1**	8(d)	**3**	8(b)	**3**	8(c)	**3**
	9(b)	**3**	9(a)(i)	**2**	14(a)	**4**	12(a)(ii)	**1**	10	**7**	9(a)(ii)	**2**	14(b)	**3**
							12(a)(iii)	**1**	12(b)	**4**	13(b)	**3**		
							13(a)	**4**			14(b)	**3**		
May 2014	8(c)	**3**	8(a)	**3**	12(b)	**3**	9(a)(1)	**2**	8(b)	**3**	8(e)	**3**	9(a)(ii)	**2**
	12(a)	**4**	8(d)	**3**	14(a)	**4**	13(a)	**4**	11(b)	**3**	11(a)	**4**	10	**7**
			9(b)	**3**					13(b)	**3**	14(b)	**3**		
									14(b)	**3**				

Examination	1. Business Environment		2. Business Policy and Strategic Management		3. Strategic Analysis		4. Strategic Planning		5 Formulation of Functional Strategy		6. Strategy Implementation and Control		7. Reaching Strategic Edge	
	Q	M	Q	M	Q	M	Q	M	Q	M	Q	M	Q	M
Nov 2014	8(a)	3	8(b)	3	9(b)	3	9(b)	3	8(d)	3	8(e)	3	10	7
	8(c)	3	9(a)(i)	2	13(a)	4	13(a)	4	14(b)	3	11(a)	4		
	14(a)	4	11(b)	3	14(b)	3	14(b)	3			13(b)	3		
May 2015	8(a)	3	8(b)	3	8(c)	3	10	7	8(d)	3	8(e)	3	9(b)	3
	9(a)(i)	2	12(b)	3	11(a)	4	14(b)	3	9(a)(ii)	2	13(a)	4	12(a)	4
			13(b)	3	11(b)	3			14(b)	3				
					14(a)	4								
Nov 2015	8(a)	3	8(c)	3	8(b)	3	8(d)	3	8(e)	3	11(b)	3	9(a)(i)	2
	12(a)	4	12(b)	3	9(a)(ii)	2	11(a)	4	9(b)	3	13(a)	4	10	7
	13(b)	3	14(a)	4	14(b)	3					14(b)	3		

Note: 'Q' represents number of the question as they appeared in the question paper of respective examination. M represents the marks which each question carried.

The question papers of all the past attempts of IPCC can be accessed from the BOS Knowledge Portal on the Institute's website www.icai.org.

*** These questions are in the form of case studies. No case study is being presently being asked in the paper of strategic management from November, 2011 onwards.**

CONTENTS

1 Business Environment

Basic Concepts

The chapter on Business Environment aims to familiarize the student with the contemporary business environment. The environment is complex, dynamic, multi-faceted and has a far reaching impact on an organization. It can be divided into external and internal parts.

1. Introduction

Each business organization operates in its unique environment. Environment influence businesses and also gets influenced by it. No business can function free of interacting and influencing forces that are outside its periphery.

2. Meaning of Business

Business is society's organ of economic expansion, growth and change. A business for our purposes can be any activity consisting of purchase, sale, manufacture, processing, and/or marketing of products and/or services.

3. Objectives of a Business

The various objectives of business relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction, welfare, and so on. However, a critical purpose of business is to create customers. It is the customer who determines what a business is.

4. Environmental influences on Business

Business functions as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services.

4.1 Problems in understanding the environmental influences

Environmental forces are difficult to analyse and understand on account of complexity, diversity, uncertainty and limitations of managers.

4.2 Framework to understand the environmental influences

- Take an initial view on uncertainty.
- Audit of environmental influences to identify significant factors which are likely to affect the organization's development or performance.
- Focus towards an explicit consideration of the immediate environment of the organization.

5. Why Environmental Analysis?

In general, environmental analysis has three basic goals as follows:

- First, the analysis should provide an understanding of current and potential changes taking place in the environment.
- Second, environmental analysis should provide inputs for strategic decision making.
- Third, environment analysis should facilitate and foster strategic thinking in organizations.

6. Characteristics of Business Environment

Business environment exhibits many characteristics such as complexity, dynamism, multi-faceted and far reaching impact.

7. Components of Business Environment

The environment in which an organization exists could be broadly divided into two parts the external and the internal environment.

The *external environment* includes all the factors outside the organization which provide opportunity or pose threats to the organization.

The *internal environment* refers to all the factors within an organization which impart strengths or cause weaknesses of a strategic nature.

8. Relationship between Organization and its Environment

The relationship between the organization and its environment may be discussed in terms of interactions between them in several major areas like exchange of information, exchange of resources, exchange of influence and power etc.

9. The Micro and Macro Environment

Micro-environment is related to small area or immediate periphery of an organization. It influences an organization regularly and directly. It consist suppliers, consumers, marketing intermediaries, competitors, organization, market etc. Macro-environment has broader dimensions. It consist demographic, economic, Government, legal, political, cultural, technological, global environment, etc.

10. Environmental Scanning

Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions. It is the process of gathering information regarding company's environment, analysing it and forecasting the impact of all predictable environmental changes. It helps the managers to decide the future path of the organization.

11. Elements of Micro Environment

11.1 Consumers: Customers are the people who pay money to acquire an organization's products. A consumer occupies the central position in the marketing environment. The marketer has to closely monitor and analyse changes in consumer tastes and preferences and their buying habits.

11.2 Competitors: Competitors are the other business entities that compete for resources as well as markets. A study of the competitive scenario is essential for the marketer, particularly threats from competition.

11.3 Organization: An organization has several non-specific elements that may affect its activities. This consists of specific organizations or groups that are likely to influence an organization.

11.4 Market: The market is to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market.

11.5 Suppliers: Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry.

11.6 Market Intermediaries: Intermediaries exert a considerable influence on the business organizations.

12. Elements of Macro Environment

12.1 Demographic Environment: The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.

12.2 Economic Environment: The economic environment refers to the nature and direction of the economy in which a company competes or may compete. The economic environment includes general economic situation in the region and the nation, conditions in resource markets (money, manpower, raw material and so on) which influence the supply of inputs to the enterprise, their costs, quality, availability and reliability of supplies.

12.3 Political-Legal Environment: There are three important elements in political-legal environment:

(a) Government: Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business:

(b) Legal: Business organizations prefer to operate within a sound legal system. Legal environment consists of laws governing business.

(c) Political: Political pressure groups influence and limit organizations. Apart from internal politics special interest groups put pressure on organizations for consumer's rights or other social issues.

12.4 Socio-Cultural Environment: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms of a society determine how individuals and organizations should be interrelated.

12.5 Technological Environment: Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage.

12.6 Global Environment: In simple economic terms, globalization refers to the process of integration of the world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries, and (b) it also means ability to compete in domestic markets with foreign competitors.

13. PESTLE Analysis

The term PESTLE is used to describe a framework for analysis of macro environmental factors. PESTLE analysis involves identifying the political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy.

14. Strategic Responses to the Environment

It is difficult to determine exactly what business should do in response to a particular situation in the environment. Strategically, the businesses should make efforts to exploit the opportunity and nullify or reduce the impact of threats.

Organizations may follow different approaches as follows:

(i) Least resistance: Some businesses just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units.

(ii) Proceed with caution: At the next level, are the businesses that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in the environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength.

(iii) **Dynamic response:** At a still higher sophisticated level, are those businesses that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful.

15. Competitive Environment

The nature and extent of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare. Businesses have to consider competitors' strategies, profits levels, costs, products and services when preparing and implementing their own business plans. While formulating strategies, organizations have to separately identify and concentrate on the competitors who are significantly affecting the business.

Cooperation in a Competitive Environment: Some organizations within the same industry may form cartels. Organizations instead of competing may join together to decide explicit or tacit arrangements not known to general public. Cooperation may also be witnessed in highly competitive business environment. The benefits of cooperation also seen in Japan, where large cooperative networks of businesses are known as kieretsu. These are formed in order to enhance the abilities of individual member businesses to compete in their respective industries. A kieretsu is a loosely-coupled group of companies, usually in related industries.

Cooperation on account of family ownership: Theoretically, cooperation generates automatically in businesses owned by a same family. However, several times internal strife and feuds creates problems for the business.

16. Porter's Five Forces Model - Competitive Analysis

This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market maneuvering and jockeying for buyer patronage that goes on among **rival sellers** in the industry.
- Competitive pressures associated with the **threat of new entrants** into the market.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own **substitute products**. Competitive pressures **stemming from supplier** bargaining power and supplier-seller collaboration.
- Competitive pressures **stemming from buyer** bargaining power and seller-buyer Collaboration.

Very Short Answer Type Questions

Question 1

Explain the meaning of Demographic Environment.

Answer

Demographic Environment: The term demographics denote characteristics of population in an area, district, country or in world. Some of the demographic factors have great impact on the business. Factors such as general age profile, sex ratio, income, education, growth rate affect the business with different magnitude.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) Businesses function in isolation.

(b) Environmental constituents exist in isolation and do not interact with each other.

(c) The basic objective of a business enterprise is to monitor the environment.

(d) "Profit may not be a universal objective but business efficiency is definitely an objective common to all business".

(e) Managers must list and analyse all environmental influences for proper strategic understanding.

(f) There is both opportunity and challenge in changes happening in environment

(g) Changes in strategy may lead to changes in organizational structure.

(h) A business, even if it continually remains passive to the relevant changes in the environment, would still grow and flourish.

(i) "Changes of any type are always disquieting, sometimes they may be threatening."

(j) The rate and magnitude of changes that can affect organisations are decreasing dramatically

(k) Strategic actions are always in reaction to the changes in environment.

(l) Successful businesses have to recognize different elements of environment.

(m) Socio-cultural environment consists of factors related to government and politics.

(n) The benefit of competition is also enjoyed by the customers.

(o) Competition is bad for the organizations.

(p) Porter's five forces model considers new entrants as a significant source of competition.

(q) Globalization means different things to different people.

(r) The term PESTLE analysis is used to describe a framework for analyzing the micro-environmental factors.

(s) The process of strategy avoids matching potential of the organization with the environment opportunities.

(t) The PESTLE framework is used for analyzing both macro and micro environment.

Answer

(a) Incorrect: Businesses do not function in an isolated manner. They function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business which continually remains passive to the relevant changes in the environment is destined to gradually decline.

(b) Incorrect: Environmental constituents such as economic, legal, society, technology and other macro and micro elements are interwoven through complex and haphazard linkages. These constituents comprise of multitude of forces that are inter-related and inter-dependent. They are termed as environment as they are outside the main periphery of business but may affect its functioning directly or indirectly.

(c) Incorrect: Monitoring environment is ancillary to basic objectives of a business enterprise. It is imperative for organisations to create and retain customers. Organisational objectives may include survival, stability, growth, profitability and like. Organisations monitor the changes in the environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength.

(d) Correct: It is generally asserted that business enterprises are primarily motivated by the objective of profit. Organizations pursue multiple objectives rather than a single objective in which business efficiency is a very useful operational objective. Many organizations, particularly charitable and non-government do not aim for making profits. But in general, all organizations aim for optimum utilization of resources and economy in operational costs.

(e) Incorrect: The environment encapsulates many different influences. The difficulty is in making sense of this diversity in a way which can contribute to strategic decision-making. Listing all conceivable environmental influences may be possible, but it may not be of much use.

(f) Correct: It is said that change is inevitable, especially in the context of business environment. Changes in the business environment from time to time throw up new issues before businesses. A right perspective of such new issues is to view them both as challenges and opportunities - challenge because appropriate action is called for and, opportunity because it opens up new potentials for the future plans that would lead to prosperous business.

(g) Correct: Changes in strategy may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.

(h) **Incorrect:** Businesses function within a whole gamut of relevant environment and have to negotiate their way through it. A successful business has to identify appraise and respond to various opportunities and threats in its environment. The extent to which the business thrives depends upon the manner in which it interacts with environmental situations or constraints. A business remaining passive to changes in its environment is destined to gradually fade away into oblivion.

(i) **Incorrect:** Favourable changes either in the external environment or internal environment are not threatening and/or disquieting. Changes that are initiated by the management to bring improvements in its working are not always disquieting. However, sometimes changes can be threatening especially for old and weak organizations with risk averse and stodgy managers.

(j) **Incorrect:** No, the reality is just the other way round. Business environment especially after globalisation and liberalisation is witnessing changes that are fast paced and have far-reaching implications for businesses. This is true for economic, political, technological, legal, and socio-cultural factors. This has created strong pressures on organization for proactive adaptation to environmental changes for survival growth and competitive edge.

(k) **Incorrect**: Strategic actions are typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions and developments.

(l) **Correct**: To be successful businesses have to recognise different elements of the environment. They have to also respect, adapt to or have to manage and influence them. Businesses must continuously monitor and adapt to the environment to survive and prosper.

(m) **Incorrect**: Socio-cultural environment consist of factors related to human relationships and the impact of social attitudes and cultural values which has bearing on the business of the organization. The beliefs, values and norms and general fabric of society determine how individuals and organizations should be interrelated.

(n) **Correct:** The benefit of competition are enjoyed by the society and the markets in which organisations operate. The customers are able to get products at lower costs and of better quality. They are able to get better value of their money because of competition.

(o) **Incorrect:** All organizations have competition that makes their working challenging. However, competition is neither a coincidence nor bad luck. The nature and extent of competition that a business is facing in the market is one of the major factors affecting the rate of growth, income distribution and consumer welfare. Competition makes them work harder, brings innovation and cost economies. The benefit of competition is also enjoyed by the society and the markets in which organisations operate.

(p) **Correct**: Porter's five forces model considers new entrants as major source of competition. The new capacity and product range that the new entrants bring in throw up new competitive pressure. The bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.

(q) **Correct:** Globalization refers to the process of integration of the world into one huge market. Such unification calls for removal of all trade barriers among countries. Globalization is an opportunity for organizations to expand their markets and reach out to different customers. Globalization can also have other meanings. For some it is a new paradigm - a set of fresh beliefs, working methods, and economic, political and socio-cultural realities in which the previous assumptions are no longer valid. For developing countries, it means integration with the world economy.

(r) **Incorrect:** The term PESTLE Analysis is used to describe a framework for analysis of macro environmental factors. It involves identification of political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

(s) **Incorrect:** In the process of strategic management an organisation continuously scan its relevant environment to identify various opportunities and threats. Organisations keen to grow and expand often look for promising opportunities that match their potential. Such opportunities become a good stepping stone for achieving the goals of the organisation.

(t) **Incorrect:** PESTLE Analysis is used in analysis of macro environmental factors and not micro environment. It involves identification of political, economic, socio-cultural, technological, legal and environmental influences on an organization and providing a way of scanning the environmental influences that have affected or are likely to affect an organization or its policy. The advantage of this tool is that it encourages management into proactive and structured thinking in its decision making.

Question 3

Briefly answer the following questions:

(a) Discuss profit as business objective as per Peter F Drucker.

(b) What do you understand by ethnic mix?

(c) Can a change in the elected government affect the business environment? Explain.

(d) What is Kieretsus?

(e) Elaborate the characteristics of Business Environment with reference to Decision Making.

(f) *Industry is a composite of competitive pressures in five areas of the overall market. Briefly explain the competitive pressures.*

(g) *Distinguish between Micro Environment and Macro Environment.*

(h) *"Environment is the sum of several External and Internal forces that affect the functioning of business." Explain.*

(i) *Write short notes on Role of Global Industries.*

(j) *Describe two environmental changes that you expect to have a major impact on the industry:*

   (i) *Retail Industry*

   (ii) *Automobile Industry*

   (iii) *Education Industry*

(k) *Explain the factors that affect the strength of competitive pressures from substitute products.*

(l) *How would you analyse the meaning and importance of Efficiency and Profitability as objectives of business?*

(m) *Write short notes on Characteristics of a Global Company.*

(n) *"A business enterprise is a sub-system of the larger environmental system."Discuss the relationship between the organization and its business environment.*

(o) *"Business environment exhibits many characteristics." Explain.*

(p) *A global company has three characteristics. Explain.*

(q) *Assume that you are an entrepreneur who has an intense desire to get into the business. What types of information relating to macro environment would you need to determine external opportunities and threats?*

(r) *You have been hired as a consultant by a company to advise it on factors it need to consider for environmental scanning. Explain briefly these factors.*

(s) *In your view what are the Key Success Factors for operating in a competitive market place?*

(t) *How would you argue that modern enterprises pursue multiple objectives and not a single objective?*

(u) *Analyse the following cases in the context of Michael Porter's Five Forces Model:*

   (i) *A supplier has a large base of customers.*

   (ii) *A manufacturer of sports goods has the advantage of economies of large scale production.*

(iii) Products offered by competitors are almost similar.

(v) The environment has many different influences, but it is very difficult for the managers to make sense of these influences. Why?

(w) Can a business succeed in the long run by focusing only on profit as its primary objective? What are other objectives of a business?

Answer

(a) Peter F Drucker was of the view that businesses cannot be explained in terms of profit. The economic criterion of maximising profits for a firm has little relevance in the present times. Profit maximization, in simple terms is selling at a higher price than the cost. Profit maximization is subject to the long-term perspective and includes development of wealth and several non-financial factors such as goodwill, societal factors, relations and so on.

(b) Ethnic mix reflects the changes in the ethnic make-up of a population and has implications both for a company's potential customers and for the workforce. Issues that should be addressed include:

- What do changes in the ethnic mix of the population imply for product and service design and delivery?
- Will new products and services be demanded or can existing ones be modified?
- Managers prepared to manage a more culturally diverse workforce?

How can the company position itself to take advantage of increased workforce heterogeneity?

(c) The type of government running a country is a powerful influence on business. Businesses are highly guided and influenced by government actions. Change in the elected government relates to the change in political environment. To an extent, even legal environment may change with the changes in the Government. It has a strong bearing on the conduct of business as it leads to significant changes in the economic policies and the regulatory framework. It generally reflects the political ideology of the political party or alliances. The government's policy of promoting select sectors further impacts the functioning of business organizations.

Businesses are affected by the factors such as political stability, the political ideology and practices of the ruling party, the purposefulness and efficiency of governmental agencies, the extent and nature of governmental intervention in the economy and the industry, Government policies (fiscal, monetary, industrial, labour and export-import policies), specific legal enactments and framework and so on.

(d) *Kieretsus* is a loosely-coupled group of companies, usually in related industries. It is a Japanese term which is used for large cooperative networks of businesses. *Kieretsus* members are peers and may own significant amounts of each other's stock and have many board members in common.

(e) Decision making is a managerial process and function which is greatly influenced by the broad characteristics of business environment. These characteristics are:

- Environment is complex: The environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once the factors constituting a given environment. All in all, environment is a complex that is somewhat easier to understand in parts but difficult to grasp in totality.
- Environment is dynamic: The environment is constantly changing in nature. Due to the several varied influences operating; there is dynamism in the environment causing it to continuously change its shape and character.
- Environment is multi-faceted: What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.
- Environment has a far reaching impact: The environment has a far reaching impact on organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environment change has an impact on the organization in several different ways.

(f) A popular tool for systematically diagnosing the significant competitive pressures in a market is Porter's five-forces model of competition. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Threat of new entrants: New entrants with their extra capacity and new product range bring new competitive pressures.
- Bargaining power of customers: The bargaining power of the buyers influences not only the prices that the producer can charge but also influences costs and investments.
- Bargaining power of suppliers: The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry.
- Rivalry among current players: Rivalry or competition leads to actions taken by different players to get an edge over other players.
- Threats from substitutes: Substitute products are a latent source of competition in an industry. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

(g) The business environment consists of both the macro environment and the micro environment. Following are the differences between the two:

- The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment.
- Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. Whereas macro environment includes demography, economy, natural forces, technology, politics, legal and socio-cultural.
- The elements of micro environment are specific to the said business and affects it's working on short term basis. The elements of macro environment are general environment and affect the working of all the firms in an industry.

(h) Business environment in which an organization exists can be broadly divided into two parts: the external and the internal. Since the environment is complex and has multiple elements of it helps to understand it better. External environmental factors are largely beyond the control of individual enterprise and are dynamic in the sense that they keep on changing. These are technological, physical, political and socio-cultural. Internal environment is the environment that has a direct impact on the business and is within the control of the entrepreneurs. These are internal management, machinery, methods of production, etc.

(i) The term global industry specifically means an industry where a firm's competitive position in one country is affected by its position in other countries. A global industry is one that by operating in more than one country gains R&D, production, marketing and financial advantages in its costs and reputation that are not available to purely domestic competitors. The global business organisation views the world as one market, minimises the importance of national boundaries, sources material, raises capital and markets wherever it can do the job best. The industries reveals global pattern in today's world include automobiles, television sets, commercial aircrafts and boats, sporting equipment, watches, clothing, semiconductors, copiers and also the transfer of funds.

(j) All the environmental forces impact industries in varying degree. Over a period of time these may change and oscillate between dominant factors and insignificant factors.

(a) Retail Industry

- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political.
- Rapid change in production process and product innovation.
- Foreign Direct Investment and policies thereon.
- Changes in Direct and indirect taxes
- Inflation, interest rates.
- Changes in employment / labour laws.

- Change in attitude towards health.
- Developments in IT can help in support supply chain management, logistics and transportation.

(b) Automobile Industry

- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political.
- New research and development.
- Anti- pollution pressures. Use of eco-friendly cars.
- Use of alternative fuels.
- Population growth and age mix
- Rural urban ratio.
- Changes in family structure.
- Changes in income levels.
- Changes in Import & Excise Duties.
- Foreign Direct Investment.
- Financing facilities at low interest rates.

(c) Education Industry

- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political.
- Changes in government policies. Proposed Higher Education and Research outlays.
- Privatization of Higher Education.
- Availability of soft loans for higher / professional education.
- Attitude towards education.
- Mobility of students.
- Income.
- Job opportunities.

(k) Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. With regards to substitute products, factors such as prices, easy availability, and how best they are able to satisfy the needs of customers, determine the amount of competition through them. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

(l) Enterprises pursue multiple objectives rather than a single objective. In general, we may identify a set of different business objectives pursued by a large cross-section of enterprises. Efficiency and profitability are two of the important objectives of any business. Efficiency is the relationship between input and output whereas profitability is the relationship between profits and investments.

- *Efficiency*: Business enterprise seek efficiency in rationally choosing appropriate means to achieve their goals, doing things in the best possible manner and utilising resources in a most suitable combination. In a sense, efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective.
- *Profitability*: It is generally asserted that private enterprises are primarily motivated by the objective of profit. Some may go even further and emphasise that profit is the sole motive of business enterprises. All other objectives are facilitative objectives and are meant to be serve the profit motive. It is pointed out that private business enterprises are operated on behalf of and for the benefit of the owners who have assumed the business risk of investing their funds.

(m) In simple economic terms, globalization refers to the process of integration of world into one huge market. At the company level, globalization means two things: (a) the company commits itself heavily with several manufacturing locations around the world and offers products in several diversified industries and (b) it also means ability to compete in domestic markets with foreign competitors.

The global company views the world as one market minimizing the importance of national boundaries. A global company has three attributes:

(i) It is a conglomerate of multiple units located in different parts of the globe but all linked with common ownership.

(ii) Multiple units draw a common pool of resources such as money, credit, patents, trade name, etc.

(iii) The units respond to common strategy.

(n) A business does not function in isolation, rather, it acts as a sub-system of its environment consisting of society, economy, laws, competitors and so on. Business draws certain inputs from environment in form of resources and information and transforms them into outputs. The relationship between the organization and its environment may be discussed in terms of interactions between them that can be broadly outlined as below:

Exchange of information: The organization scans the external environmental variables, their behaviour and changes, generates important information and uses it for its planning, decision-making and control purposes.

On the other hand, the organization itself transmits information to several external agencies either voluntarily, inadvertently or legally.

Exchange of resources: The organization receives inputs — finance, materials, manpower, equipment etc., from the external environment. It sustains itself by employing the above inputs for involving or producing output of products and services.

The organization is also dependent on the external environment for disposal of its output of products and services to a wide range of clientele.

Exchange of influence and power: The external environment holds considerable power over the organization both by virtue of its being more inclusive as also by virtue of its command over resources, information and other inputs. The external environment is also in a position to impose its will over the organization. Governmental control, competitors, customers, suppliers, investors etc., exercise considerable power and influence over the organization.

In turn, the organization itself is sometimes in a position to wield power and influence over the external environment by virtue of its command over resources and information.

(o) Business environment exhibits many characteristics as follows:

- **Environment is complex:** The environment consists of a number of factors, events, conditions and influences arising from different sources and is complex because it is somewhat easier to understand in parts but difficult to grasp in totality.
- **Environment is dynamic:** The environment is constantly changing in nature. Due to the many and varied influences operating; there is dynamism in the environment causing it to continuously change its shape and character.
- **Environment is multi-faceted:** What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers, i.e. as an opportunity for one company and a threat for another.
- **Environment has a far reaching impact:** The growth and profitability of an organization depends critically on the environment in which it exists. And thus any environmental change has an impact on the organization in several different ways.

(p) The global company views the world as one market minimizing the importance of national boundaries. It has three attributes:

(i) It is a conglomerate of multiple units located in different parts of the globe but all linked with common ownership.

(ii) Multiple units draw a common pool of resources such as money, credit, patents, trade name, etc.

(iii) The units respond to common strategy.

(q) Macro environment mainly consists of economic, technological, political, legal and socio-cultural elements. For an entrepreneur it is important to identify those factors that are likely to affect the new business. Each of the elements can have a bearing on the opportunities and the threats.

Particularly, he should scan the relevant changes that have happened in recent past that can provide competitive edge. For example, a technological innovation in the production process can be opportunity. Incentives such as cheaper land, tax free periods can be other form of opportunities. Entrepreneur has to identify such opportunities that can be capitalized to enter markets or provide an edge over the competitors. Entrepreneur has to also take care as these opportunities can also act as threats when competitors are able to exploit them.

(r) Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. The factors that need to be considered are explained below:

Events: Events are important and specific happenings in the internal or external organisational environment which can be observed and tracked.

Trends: Trends are grouping of similar or related events that tend to move in a given direction, increasing or decreasing in strength of frequency of observation.

Issues are the current concerns that arise in response to events and trends. Identifying an emerging issue is more difficult.

Expectations are the demands made by interested groups in the light of their concern for issues.

(s) KSFs are the rules that shape whether a company will be financially and competitively successful. Important key success factors for operating in competitive markets are:

- Cost structure of the market.
- The price sensitivity of the market.
- Technological structure of the market.
- The existing distribution system of the market.
- Is the market mature?

(t) Objectives are organizations performance targets – the results and outcomes it wants to achieve. They function as yardstick for tracking an organizations performance and progress.

Today, organizations are capable of achieving multiple objectives and they focus on different objectives rather than a single objective. In general, we may identify a set of business objectives being pursued by the business. These may relate to profitability, productive efficiency, growth, technological dynamism, stability, self-reliance, survival, competitive strength, customer service, financial solvency, product quality, diversification, employee satisfaction and welfare, and so on. Organizations need to balance these objectives in an appropriate manner.

(u) *(i)* ***Large base of customers of an organization (supplier) may increase its bargaining power in comparison to the bargaining power of the customer.***

(ii) ***The manufacturer of sports goods would be in better position amongst existing competitors since it has advantage of economies of scale. Even the threat of new entrants gets reduced.***

(iii) ***Similar products will reduce the bargaining power of the rivals, i.e., competitors. In other words the bargaining power of the customer will be more.***

(v) ***The environment consists of several micro and macro factors that influence business enterprises. Some of these factors may directly impact business, while others may have insignificant or far-fetched influence. In spite of best of resources and capabilities it may not be possible for managers to make sense of all these influences due to limitations of human mind at one end and diversity, uncertainly and complexity of the environment on the other hand. These can be explained as follows:***

Diversity: On account of diversity listing of all conceivable environmental influences may not be possible.

Uncertainty: It is difficult to predict and understand future external influences on an organization.

Complexity: Managers, like other individuals, may tend to simplify complexity by focusing on aspects of the environment that may confirm their prior views or are historically important.

(w) ***Business enterprises pursue multiple objectives rather than a single objective, however it is generally asserted that private enterprises are primarily motivated by the objective of profit. All other objectives are facilitative objectives and are meant to be subservient to the profit motive. However, profits cannot remain primary objective in long run. Although some profits are necessary, organizations need to pursue other objectives such as survival, stability, growth and like. These objectives also change with the changes in the environment. Organisations monitor the changes in the environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies. In general, all organizations aim for optimum utilization of resources and economy in***

operational costs. Some of the other important objectives of a business are as follows:

- ***<u>Survival</u>: Survival is a basic, implicit objective of most organizations. While survival is an obvious objective, it gains more value and prominence during the initial stage of the establishment of the enterprise and during general economic adversity. The ability to survive is a function of the nature of ownership, nature of business competence of management, general and industry conditions, financial strength of the enterprise and so on.***
- ***<u>Stability</u>: Another important objective of business enterprises is stability. It is a cautious, conservative objective that is often employed when things are not very conducive. It is a strategy of least resistance in a hostile external environment.***
- ***<u>Growth</u>: This is a promising and popular objective which is equated with dynamism, vigor, promise and success. Enterprise growth may take one or more of the forms like increase in assets, manufacturing facilities, increase in sales volume and so on. Growth may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls.***
- ***<u>Efficiency</u>: Business enterprises seek efficiency in rationally choosing appropriate means to achieve their goals. In a sense, efficiency is an economic version of the technical objective of productivity – designing and achieving suitable input output ratios of funds, resources, facilities and efforts. Efficiency is a very useful operational objective.***

Questions with Descriptive Answers

Question 4

What do you mean by micro environment of business? Explain its elements.

Answer

The environment of business can be categorised into two broad categories micro-environment and macro-environment. Micro-environment is related to small area or immediate periphery of an organization. Micro-environment influences an organization regularly and directly. Developments in the micro environment have direct impact on the working of organizations. Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. The elements of micro environment are specific to the said business and affects its working on short term basis.

- **Consumers / Customers:** Customers who may or may not be consumers are the people who pay money to acquire organisational products and services. Consumer is the one who ultimately consumes or uses the product or services. The marketer has to closely monitor and analyse the changes in the consumer tastes and preferences and their buying habits. Consumer occupies the central position in the market.

- **Competitors:** Competitors are the other business entities that compete for resources as well as markets. A study of the competitive scenario is essential for the marketer, particularly threats from competition.
- **Organization:** Individuals occupying different positions or working in different capacities in organizations consists of individuals who come from outside. They have different and varied interests. An organization has several non-specific elements in form of individuals and groups that may affect its activities. Owners, board of directors and employees form part of organisation.
- **Market:** The market is larger than customers. The market is to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market.
- **Suppliers:** Suppliers form an important component of the micro environment. The suppliers provide raw materials, equipment, services and so on. Suppliers with their own bargaining power affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry.
- **Market Intermediaries:** Intermediaries bridge the gap between the organisations and customers. They are in form of stockist, wholesalers and retailers. They exert considerable influence on the business organizations. In many cases the consumers are not aware of the manufacturer of the products they buy. They buy product from the local retailers or big departmental stores.

Question 5

Explain briefly different strategic approaches for Globalisation by a company.

Answer

Strategic approaches: International economic dynamics accompanied by geographical changes have changed the paradigm of global business. A firm / company which wishes to go global will be guided by the following four types of strategies:

(i) **Multi-domestic strategy:** A multi-domestic strategy focuses on competition within each country in which the firm operates. This Strategy is adopted when a company tries to achieve a high level of local responsiveness by matching their products and services offerings to national conditions prevailing in the countries they operate in. The organization attempts to extensively customize their products and services according to the local conditions of different countries.

(ii) **Global strategy:** A global strategy assumes more standardization of products across country boundaries. Under this strategy, the company tries to focus on a low cost structure by leveraging their expertise in providing certain products and services and concentrating the production of these standard products and services at a few favourable locations around the world. Competitive strategy is centralized and controlled by the home office.

(iii) Transnational strategy: Many large multinational firms, particularly those with many diverse products, may use a multi-domestic strategy with some product lines and a global strategy with others. A transnational strategy seeks to combine aspects of both multi-domestic and global strategies. Thus there is emphasizes on both local responsiveness and global integration and coordination. Although the transnational strategy is difficult to implement, environmental trends are causing multinational firms to consider the needs for both global efficiencies and local responsiveness.

When a firm adopts one or more of the above strategies, the firm would have to take decisions on the manner in which it would commence international operations. The decision as to how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved through following options:

- Exporting.
- Licensing/ Franchising.
- Joint Venture.
- Foreign Direct Investment.

Question 6

Write a short note on the strategic responses to business environment.

Answer

A business organization and its many environments have innumerous interrelationship that at times it becomes difficult to determine exactly where the organization ends and where its environment begins. It is also difficult to determine exactly what the business organisation should do in response to a particular situation in the environment. Strategically, the business organisations should make efforts to exploit the opportunities and avoid the threats.

In this context following are the possible strategic responses of an organisation to its business environment:

(i) **Least resistance:** Some organisations just manage to survive by way of coping with their changing external environments. They are simple goal-maintaining units. They are very passive in their behaviour and are solely guided by the signals of the external environment. They are not ambitious but are content with taking simple paths of least resistance in their goal-seeking and resource transforming behaviour.

(ii) **Proceed with caution:** At the next level, are the organisations that take an intelligent interest to adapt with the changing external environment. They seek to monitor the changes in that environment, analyse their impact on their own goals and activities and translate their assessment in terms of specific strategies for survival, stability and strength. This is a sophisticated strategy than to wait for changes to occur and then take corrective-adaptive action.

(iii) **Dynamic response:** At a still higher sophisticated level, are those organisations that regard the external environmental forces as partially manageable and controllable by their actions. Their feedback systems are highly dynamic and powerful. They not merely recognise and ward off threats; they convert threats into opportunities. They are highly conscious and confident of their own strengths and the weaknesses of their external environmental 'adversaries'. They generate a contingent set of alternative courses of action to be picked up in tune with the changing environment.

Question 7

What are the five competitive forces in an industry as identified by Michael Porter?

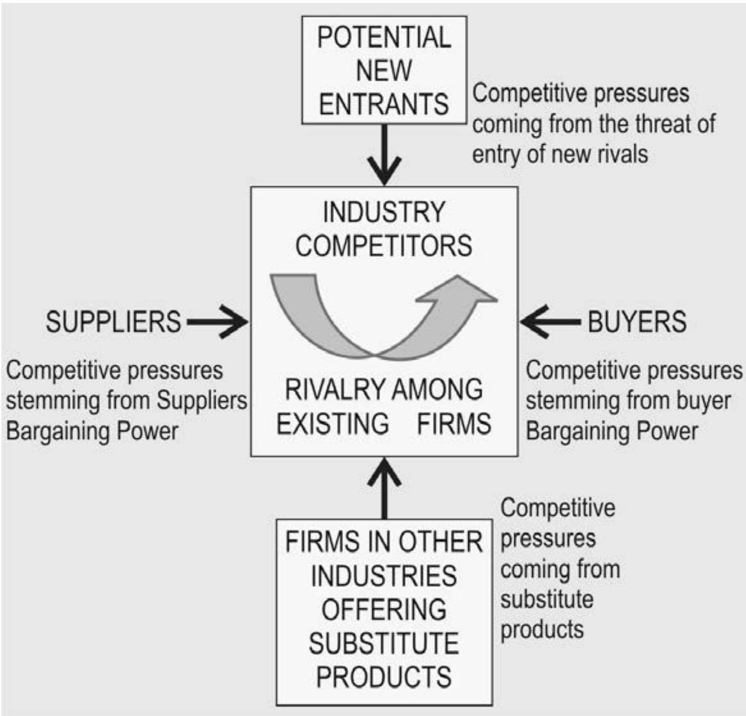
Answer

Five forces model of Michael Porter is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in the market and assessing their strength and importance. The model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the over all market. These five forces are:

1. **Threat of new entrants:** New entrants are always a powerful source of competition. The new capacity and product range they bring in throw up new competitive pressure. And the bigger the new entrant, the more severe the competitive effect. New entrants also place a limit on prices and affect the profitability of existing players.
2. **Bargaining power of customers:** This is another force that influences the competitive condition of the industry. This force will become heavier depending on the possibilities of the buyers forming groups or cartels. Mostly, this is a phenomenon seen in industrial products. Quite often, users of industrial products come together formally or informally and exert pressure on the producer. The bargaining power of the buyers influences not only the prices that the producer can charge but also influences in many cases, costs and investments of the producer because powerful buyers usually bargain for better services which involve costs and investment on the part of the producer.
3. **Bargaining power of suppliers:** Quite often suppliers, too, exercise considerable bargaining power over companies. The more specialised the offering from the supplier, greater is his clout. And, if the suppliers are also limited in number they stand a still better chance to exhibit their bargaining power. The bargaining power of suppliers determines the cost of raw materials and other inputs of the industry and, therefore, industry attractiveness and profitability.
4. **Rivalry among current players:** The rivalry among existing players is quite obvious. This is what is normally understood as competition. For any player, the competitors influence strategic decisions at different strategic levels. The impact is evident more at functional level in the prices being changed, advertising, and pressures on costs, product and so on.

5. **Threats from substitutes:** Substitute products are a latent source of competition in an industry. In many cases they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry. And they can bring it about all of a sudden. For example, coir suffered at the hands of synthetic fibre. Wherever substantial investment in R&D is taking place, threats from substitute products can be expected. Substitutes, too, usually limit the prices and profits in an industry.

   The five forces together determine industry attractiveness/profitability. This is so because these forces influence the causes that underlie industry attractiveness/ profitability. For example, elements such as cost and investment needed for being a player in the industry decide industry profitability, and all such elements are governed by these forces. The collective strength *of* these five competitive forces determines the scope to earn attractive profits. The strength *of* the forces may vary from industry to industry.



Five Forces Model of Competition

Questions with Hints

Question 8

Explain the need for a business organization to scan the environment on a continuous basis. Discuss the contemporary developments in the business environment.

Answer

Environmental analysis helps strategists to develop an early warning system to prevent threats or to develop strategies which can turn a threat to the firm's advantage. Because of the difficulty in assessing the future and its dynamism, all future events can not be anticipated. However, some future events can be and are anticipated. The extent to which a few or more events are anticipated through the process of the analysis and diagnosis, will reflect in the quality of managerial decisions. The managers can also concentrate on a few major events, instead of dealing with all the environmental influences. In general, environmental analysis has three basic goals as follows:

1. The analysis should provide an understanding of current and potential changes taking place in the environment.
2. Environmental analysis should provide inputs for strategic decision making.
3. Environment analysis should facilitate and foster strategic thinking in organizations-typically a rich source of ideas and understanding of the context within which a firm operates.

A lot of changes are occurring within India and across the globe affecting the business. Students should list out different elements of macro environment and discuss the contemporary developments in each of the area. They may develop their answers to cover different elements of environment.

For example in the economic environment, students may briefly list out the impact of the global recession on the Indian Business. They may list different factors such as difficulty in financing through primary market, inflation, low demand in certain sectors such as real estate etc. As far as social environment is concerned a new culture is evolving in the country on account of increased global interaction and impact of mass media. There is also increase in awareness. The developments in the legal environment including introduction of new direct tax code, limited liability partnership, GST, etc. have their own bearing on the business.

Question 9

What is Environment? Briefly explain macro environmental factors that affect an organization's strategy.

Answer

Environment is sum of several external and internal forces that affect the functioning of business. Businesses function as a part of broader environment. The inputs in the form of human, physical, financial and other related resources are drawn from the environment. The business converts these resources through various processes into outputs of products and/or services. The latter are partly exchanged with the external client groups, say customers. The extent to which the business thrives depends on the manner in which it interacts with its environment. Macro environment is explained as one which is largely external to the enterprise and thus beyond the direct influence and control of the organization, but which exerts powerful influence over its functioning. Important elements of macro environment are:

- Demographic environment.
- Economic environment.
- Political-Legal Environment.
- Socio-Cultural environment.
- Technological environment.
- Global environment.

Students may briefly explain the above.

Question 10

Explain how technological factors present an opportunity as well as threat to a particular business organization.

Answer

Technology is the most dynamic of all the environmental factors. An individual enterprise is concerned with the dynamics of its product and process technology, research and development activities in the industry and elsewhere, innovations in products and processes, technological obsolescence and so on. Changes in technology vitally affect the enterprise's costs, profitability, plant location decisions, product lines, growth and development.

The technology and business are highly interrelated and interdependent also. Technology is patronized by business. Technology also drives business and makes a total change on how it is carried out.

Technology can act as both opportunity and threat to a business. It can act as opportunity as business can take advantage of adopting technological innovations to their strategic advantage. However, at the same time technology can act as threat if organisations are not able to adopt it to their advantage. For example, an innovative and modern production system can act as weakness if the business is not able to change their production system. New entrants or existing competitors can always use availability of technological improvements in products or production methods that can be a threat to a business.

Technological opportunities and threats are not limited to the product or production. Technology permeates whole gambit of business. It can transform how a business acts and functions.

Question 11

Do you think that competition is always bad for organisations? Explain Porter's five forces model as to how businesses can deal with the competition.

Answer

Although competition makes organizations work harder, intense competition is neither a coincidence nor bad luck. All organizations have competition. The benefit of competition is also enjoyed by the markets in which organisations operate. The customers are able to get products at lower costs and better quality. They get better value of their money because of competition.

To gain a deep understanding of a company's industry and competitive environment, managers do not need to gather all the information they can find and waste a lot of time digesting it. Rather, the task is much more focused. A powerful and widely used tool for systematically diagnosing the significant competitive pressures in a market and assessing the strength and importance of each is the Porter's five-forces model of competition. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market manoeuvring and jockeying for buyer patronage that goes on among rival sellers in the industry.
- Competitive pressures associated with the threat of new entrants into the market.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

Questions for Practice

1. What is the concept of environment in strategic management?
2. Up to what extent global environment affects the business environment?
3. Define environmental scanning.
4. How the new entrant affects the competition?

Activity

Take a case of specific industry and evaluate the impact of five forces that drive competition in that industry. Use annual reports, Journals and Internet for sources of information.

2 Business Policy and Strategic Management

Basic Concepts

The chapter attempts to broadly explain the basic concepts of strategic management, generic strategic alternatives and its process. It also introduces the vision, mission and objectives along with the strategic levels in organizations.

1. Introduction

With the increased competition, the management of businesses has acquired strategic dimensions. All professionals working towards growth of their businesses must possess sound knowledge of strategic management.

2. Business Policy as a Discipline

Business Policy tends to emphasize on the rational-analytical aspect of strategic management. It presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities.

3. Meaning and the Nature of Management

Management refers to an integrated set of functions and processes designed to initiate and unify group efforts in a meaningful manner directed towards pursuing certain goals. Management involves mobilisation and utilisation of physical human and other needed resources in judicious manner through certain skills, techniques, and activities.

4. What is a Strategy

A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organizational objectives. According to William F. Glueck "A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved." In general, corporate strategies have distinct characteristics such as they are long-range, action oriented, multipronged and integrated. They are also flexible and dynamic to cope up with uncertainty. Formulated at the top management level, they flow out of the goals and objectives of the enterprise.

5. Corporate Strategy

Corporate strategy is basically the growth design of a company; it spells out the growth objective of the company - the direction, extent, pace and timing of the company's growth. It also spells out the strategy for achieving the growth.

5.1 Nature, scope and concerns of corporate strategy

Corporate strategy is basically concerned with the choice of businesses, products and markets. The following points will clarify the corporate strategy.

- It can also be viewed as the objective-strategy design of the company.
- It is the design for filling the company's strategic planning gap.
- It is concerned with the choice of the company's products and markets; it actually denotes the changes / additions / deletions in the company's existing product-market postures. It spells out the businesses in which the company will play, the markets in which it will operate and the customer needs it will serve.
- It ensures that the right fit is achieved between the company and its environment.
- It helps build the relevant competitive advantages for the company.
- Corporate objectives and corporate strategy together describe the company's concept of business.

5.2 What does corporate strategy ensure?

Corporate strategy in the first place ensures the growth of the company and ensures the correct alignment of the company with its environment. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages

5.3 Strategy is partly proactive and partly reactive

A company's strategy is typically a blend of (1) proactive actions on the part of managers to improve the company's market position and financial performance and (2) as needed reactions to unanticipated developments and fresh market conditions.

6. The Dynamics of Competitive Strategy

Strategic thinking involves orientation of the company's internal environment with the changes of the external environment. The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organization and also closing threats. Similarly the broader expectation of the society in which the organization operates is again an important factor to determine the competitive strategy. The strengths and weaknesses of organizations are the internal factors, which determine the corporate strategy.

7. Strategic Management

The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over a period of time initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate. The overall objective of strategic management is two fold:

(a) To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.

(b) To guide the company successfully through all changes in the environment.

7.1 Framework

The basic framework of strategic process can be described in a sequence of five stages which are as follows:

- Stage one - Where are we now? (Beginning)
- Stage two: - Where are we want to be? (Ends)
- Stage three - How might we get there? (Means)
- Stage four - Which way is best? (Evaluation)
- Stage five - How can we ensure arrival? (Control)

7.2 Importance of Strategic Management

The major benefits of strategic management are:

- It helps organisations to be more proactive instead of reactive in shaping its future.
- It is concerned with ensuring a good future for the organisation.
- It serves as a corporate defence mechanism against mistakes and pitfalls.
- It provides framework for all the major business decisions of an enterprise.
- Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages.

8. Strategic Decision Making

Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. The major dimensions of strategic decisions are given below:

- Strategic issues require top-management decisions.
- Strategic issues involve the allocation of large amounts of company resources.
- Strategic issues are likely to have a significant impact on the long term prosperity of the firm.
- Strategic issues are future oriented.
- Strategic issues usually have major multifunctional or multi-business consequences.
- Strategic issues necessitate consideration of factors in the firm's external. Environment.

9. Strategic Management Model

The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests. Strategists do not go through the process in lockstep fashion.

Every organization has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organization is going can be determined largely by where the organization has been.

10. Vision, Mission and Objectives

10.1 A strategic ***vision*** is a road map of a company's future providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

10.2 A company's ***mission*** statement is typically focused on its present business scope – "who we are and what we do"; mission statements broadly describe an organization's present capabilities, customer focus, activities, and business makeup.

10.3 *Objectives* are organizations performance targets–the results and outcomes it wants to achieve. They function as yardsticks for tracking an organizations performance and progress.

11. Strategic Levels in Organizations

An organization is divided into several functions and departments that work together to bring a particular product or service to the market. There are three main levels of management: corporate, business, and functional.

The ***corporate level*** of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the organization.

Business-level general managers are concerned with strategies that are specific to a particular business. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity.

Very Short Answer Type Questions

Question 1

Explain the meaning of the following concepts:

(a) Corporate Strategy

(b) Strategic Vision

Answer

(a) Corporate strategy is basically the growth design of the firm; it spells out the growth objective - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages.

(b) A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) Strategies provide an integral framework for management to negotiate its way through a complex and turbulent external environment.

(b) Strategic management is not needed in non-profit organisations.

(c) Strategy is a substitute for sound, alert and responsible management.

(d) Strategies are perfect, flawless and optimal organisational plans.

(e) Strategic management is a bundle of tricks and magic.

(f) Corporate strategy is basically the growth design of the firm.

(g) All strategies emerge from corporate vision

(h) For a small entrepreneur vision and mission are irrelevant.

(i) Control systems run parallel with strategic levels.

(j) A company's strategy has always to be proactive in nature.

(k) Developing annual objectives & short-term strategies that are compatible with the selected set of long-term objectives are one of the major task of strategic management.

(l) Strategic vision and mission statements are needed only by large business houses.

Answers

(a) Correct: Strategies are meant to fill in the need of enterprises for a sense of direction, focus and coherent functioning. They provide a systematic basis for the enterprise to stand its ground in the face of challenge and change as also quickly adjust to them. They obviate the occasions for impulsive and crisis decisions, false starts, misdirected moves, wasted resource uses and the like.

(b) Incorrect: Strategic management applies equally to profit as well as non-profit organizations. Though non-profit organizations are not working for the profit, they have to have purpose, vision and mission. They also work within the environmental forces and need to manage strategically to stay afloat to accomplish their objectives. For the purpose of continuity and meeting their goals, they also need to have and manage funds and other resources just like any other for profit organization.

(c) Incorrect: Strategy is not a substitute for sound, alert and responsible management. Strategy can never be perfect, flawless and optimal. Strategies are goal-directed decision and actions in which capabilities and resources are matched with the opportunities and threats in the environment. A good management at the top can steer the organizations by adjusting its path on the basis of the changes in the environment.

(d) Incorrect: Strategy can never be perfect, flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated external events.

(e) Incorrect: No, Strategic management is not a bundle of tricks and magic. It is much more serious affair. It involves systematic and analytical thinking and action. Although, the success or failure of a strategy is dependent on several extraneous factors, it cannot be stated that a strategy is a trick or magic. Formation of strategy requires careful planning and requires strong conceptual, analytical, and visionary skills.

(f) Correct: Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment. It serves as the design for filling the strategic planning gap. It also helps to build the relevant competitive advantages.

(g) Correct: Vision explains where the organization is headed, so as to provide long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organization with a sense of purpose. All strategies need to be drawn in the light of corporate vision, which is what the firm ultimately wants to become.

(h) Incorrect: Entrepreneur, big or small has to function within several influences external forces. Competition in different form and different degree is present in all kind and sizes of business. Even entrepreneur with small businesses can have complicated environment. To grow and prosper they need to have clear vision and mission.

(i) **Correct:** There are three strategic levels – corporate, business and functional. Control systems are required at all the three levels. At the top level, strategic controls are built to check whether the strategy is being implemented as planned and the results produced by the strategy are those intended. Down the hierarchy management controls and operational controls are built in the systems. Operational controls are required for day-to-day management of business.

(j) **Incorrect:** A company's strategy is a blend of proactive actions and reactive actions by the management. Reactive actions are required to address unanticipated developments and environmental conditions. Thus, not every strategic move is the result of proactive and deliberate management actions. At times, some kind of strategic reaction or adjustments are required.

(k) **Correct:** A strategic manager has to set the long term objectives, future oriented plans by appreciating the competitive environment. Without bifurcating grand strategies and long-term objectives into annual objectives and short-term strategies, implementation of the strategies is not possible. Dividing objectives, into annual plans help to move forward in a systematic manner.

(l) **Incorrect:** Every organization whether it is large or small requires strategic vision and mission statements. Organisations irrespective of their size face similar business environment and have to sail through competition. Small organizations have to plan strategies for their survival in the market where large organizations are also present.

Question 3

Briefly answer the following questions:

(a) What is strategic decision making?

(b) What is strategic vision?

(c) What is a mission statement? State the points that may be considered while writing a mission statement of a company.

(d) Briefly explain 'shared vision' and 'vision shared'.

(e) What tips can you offer to write a 'right' Mission Statements?

(f) Distinguish between The Three Levels of Strategy Formulation.

(g) You are appointed as a Strategic Manager by XYZ Co. Ltd. Being a Strategic Manager what should be your tasks to perform?

(h) Write short note on Importance of Strategic Management.

(i) What is Strategic Decision Making? Briefly explain the major dimensions of strategic decisions.

(j) "Strategy is partly proactive and partly reactive." Do you agree? Give reasons for your answer.

OR

Quite often strategies of most business organizations are a combination of planned strategies and reactive strategies. Explain with reasons.

(k) State the three elements of a strategic vision.

(l) What is Corporate Strategy? How would you argue that 'corporate strategy' ensures the correct alignment of the firm with its environment'?

(m) Mission statement of a company focuses on the question: 'who we are' and 'what we do'. Explain briefly.

(n) What does corporate strategy ensure? Explain.

(o) What are the major stages in the strategic management process?

(p) "A strategic vision is a roadmap of a company's future." Comment. Draft a strategic vision statement of any well known national level Educational Institution you are familiar with.

(q) How strategic decisions differ in nature from other routine decisions taken in day-to-day working of an organization? Explain.

(r) In your view, what is the role of Corporate level managers in Strategic management?

(s) "A company should focus on external perspective to define its mission". Support this statement with reasons.

(t) 'Organizations sustain superior performance over a long period of time, inspite of the rapid changes taking place continually in its competitive environment if they implement strategic management successfully.' Discuss.

Answers

(a) Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Decisions are routine, tactical or strategic in nature. Strategic decisions are different from other decisions that are taken at various levels of the organization during day-to-day working of the organizations. They have long term implications, steer organisation to its future path and have organisation wide implications and so on. These decisions are taken considering different internal and external factors. They are also taken with partial or no definite knowledge of different factors affecting the decision situation.

(b) A strategic vision delineates organisation's aspirations for the business, providing a panoramic view of the position where the organisation is going. A strategic vision points an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. A Strategic vision is a road map of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

(c) Mission statement is an answer to the question "Who we are and what we do" and hence has to focus on the organisation's present capabilities, focus activities and business makeup. An organisation's mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organisation.

A company's mission statement is typically focused on its present business scope—"who we are and what we do"; mission statements broadly describe an organizations present capabilities, customer focus activities and business makeup.

The following points must be considered while writing a mission statement of a company.

(i) To establish the special identity of the business - one that typically distinct it from other similarly positioned companies.

(ii) Needs which business tries to satisfy, customer groups it wishes to target and the technologies and competencies it uses and the activities it performs.

(iii) Good mission statements should be unique to the organisation for which they are developed.

(iv) The mission of a company should not be to make profit. Surpluses may be required for survival and growth, but cannot be mission of a company.

(d) Individuals in organisations relate themselves with the vision of their organisations in different manner. When the individuals are able to bring organisational vision close to their hearts and minds they have "shared vision". Shared vision is a force that creates a sense of commonality that permeates the organization and gives coherence to diverse activities. However, 'vision shared' shows imposition of vision from the top management. It may demand compliance rather than commitment. For success of organisations having shared vision is better than vision shared.

(e) Mission statements broadly describe an organizations present capabilities, customer focus, activities, and business makeup. Following points are useful while writing mission of a company:

- Good mission statements are highly personalized – unique to the organization for which they are developed.
- One of the roles of a mission statement is to give the organization its own special identity, business emphasis and path for development.
- A company's business is defined by what needs it is trying to satisfy, customer groups it is targeting, technologies and competencies it uses and the activities it performs.
- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- The mission should not be to make profit.

(f) A typical large organization is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three levels of strategy in management of business - corporate, business, and functional.

The corporate level of management consists of the chief executive officer and other top level executives. These individuals occupy the apex of decision making within the organization. The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and so on rests at the Corporate Level.

The development of strategies for individual business areas is the responsibility of the general managers in these different businesses or business level managers. A business unit is a self-contained division with its own functions - for example, finance, production, and marketing. The strategic role of business-level manager, head of the division, is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.

Functional-level managers are responsible for the specific business functions or operations such as human resources, purchasing, product development, customer service, and so on. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division.

(g) The primary task of the strategic manager is conceptualizing, designing and executing company strategies.

For this purpose, his tasks will include:

- Defining the mission and goals of the organization.
- Determining what businesses it should be in.
- Allocating resources among the different businesses.
- Formulating and implementing strategies that span individual businesses.
- Providing leadership for the organization.

(h) Importance of Strategic Management: Strategic Management is very important for the survival and growth of business organizations in dynamic business environment. Other major benefits of strategic management are as follows:

- It helps organizations to be more proactive rather than reactive in dealing with its future. It facilitates the organisations to work within vagaries of environment and remains adaptable with the turbulence or uncertain future. Therefore, they are able to control their own destiny in a better way.
- It provides better guidance to entire organization on the crucial point – what it is

trying to do. Also provides framework for all major business decisions of an enterprise such a decision on businesses, products, markets, organization structures, etc.

- It facilitates to prepare the organization to face the future and act as pathfinder to various business opportunities. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.
- It serves as a corporate defence mechanism against mistakes and pitfalls. It helps organizations to avoid costly mistakes in product market choices or investments.
- Over a period of time, strategic management helps organizations to evolve certain core competencies and competitive advantages that assist in the fight for survival and growth.

(i) Decision making is a managerial process and a function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organizational goals. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during their day-to-day working. The major dimensions of strategic decisions are given below:

- Strategic issues require top-management decisions: Strategic issues involve thinking in totality of the organizations and also there is lot of risk involved.
- Strategic issues involve the allocation of large amounts of company resources: It may require huge financial investment to venture into a new area of business or the organization may require huge manpower with new set of skills in them.
- Strategic issues are likely to have a significant impact on the long term prosperity of the firm: Generally the results of strategic implementation are seen on a long term basis and not immediately.
- Strategic issues are future oriented: Strategic thinking involves predicting the future environmental conditions and how to orient for the changed conditions.
- Strategic issues usually have major multifunctional or multi-business consequences: As they involve organization in totality they affect different sections of the organization with varying degree.
- Strategic issues necessitate consideration of factors in the firm's external environment: Strategic focus in organization involves orienting its internal environment to the changes of external environment.

(j) Yes, strategy is partly proactive and partly reactive. In proactive strategy, organizations will analyze possible environmental scenarios and create strategic framework after proper planning and set procedures and work on these strategies in a predetermined manner. However, in reality no company can forecast both internal and external environment exactly. Everything cannot be planned in advance. It is not possible to anticipate moves of rival firms, consumer behaviour, evolving technologies and so on.

There can be significant deviations between what was visualized and what actually happens. Strategies need to be attuned or modified in the light of possible environmental changes. There can be significant or major strategic changes when the environment demands. Reactive strategy is triggered by the changes in the environment and provides ways and means to cope with the negative factors or take advantage of emerging opportunities.

(k) A strategic vision steers an organization in a particular direction, charts a strategic path for it to follow in preparing for the future, and moulds organizational identity. The three elements of a strategic vision are:

1. Coming up with a mission statement that defines what business the company is presently in and conveys the essence of "Who we are and where we are now?"
2. Using the mission statement as basis for deciding on a long-term course making choices about "Where we are going?"
3. Communicating the strategic vision in clear, exciting terms that arouse organization wide commitment.

(l) Corporate strategy helps an organisation to achieve and sustain success. It is basically concerned with the choice of businesses, products and markets. It is often correlated with the growth of the firm.

Corporate strategy in the first place ensures the growth of the firm and its correct alignment with the environment. Corporate strategies are concerned with the broad and long-term questions of what businesses the organization is in or wants to be in, and what it wants to do with those businesses. They set the overall direction the organization will follow. It serves as the design for filling the strategic planning gap. It also helps to build the relevant competitive advantages. A right fit between the organisation and its external environment is the primary contribution of corporate strategy. Basically the purpose of corporate strategy is to harness the opportunities available in the environment and countering the threats embedded therein. With the help of corporate strategy, organizations match their unique capabilities with the external environment so as to achieve its vision and mission.

(m) A company's mission statement is typically focused on its present business scope — "who we are and what we do"; mission statements broadly describe an organizations present capabilities, customer focus activities and business makeup. An organisation's mission states what customers it serves, what need it satisfies, and what type of product it offers. It is an expression of the growth ambition of the organisation. It helps organisation to set its own special identity, business emphasis and path for development. Mission amplifies what brings the organisation to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business organisation.

In other words, the mission serves as a justification for the firm's very presence and existence; it legitimizes the firm's presence.

(n) Corporate strategy in the first place ensures the growth of the organisation and ensures the correct alignment of the organization with its environment. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages. It works out the right fit between the organization and its external environment. Basically the purpose of corporate strategy is to harness the opportunities available in the environment, countering the threats embedded therein.

Corporate strategy brings methodical responses to the environment. Strategy is the opposite of adhoc responses to the changes in the environment in competition, consumer tastes, technology and other variables. It amounts to long-term, well thought-out and prepared responses to the various environment forces.

(o) The major stages in the strategic management process are:

(i) Develop vision and mission statements

(ii) Perform internal and external audit (environmental scanning)

(iii) Establish long-term objectives

(iv) Generate, evaluate, and select strategies

(v) Implement strategies considering management issues

(vi) Implement strategies marketing, finance, accounting, R&D, MIS issues

(vii) Measure and evaluate performance

(p) A Strategic vision is a roadmap of a company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

The vision of ICAI is - World's leading accounting body, a regulator and developer of trusted and independent professionals with world class competencies in accounting, assurance, taxation, finance and business advisory services.

(q) Strategic decisions are different in nature than all other decisions which are taken at various levels of the organization during day-to-day working of the organizations. The major dimensions of strategic decisions are given below:

- Strategic issues require top management decisions.
- Strategic issues involve the allocation of large amounts of company resources.
- Strategic issues are likely to have a significant impact on the long term prosperity of the organisation.
- Strategic issues are future oriented.
- Strategic issues usually have major multifunctional or multi-business consequences.
- Strategic issues necessitate consideration of factors in the organisation's external environment.

(r) There are three main levels of management in a typical organisation: corporate, business, and functional. The corporate level of management consists of the chief executive officer (CEO), other senior executives, the board of directors, and corporate staff. These individuals occupy the apex of decision making within the organization and broadly have following roles:

1. *Oversee the development of strategies for the whole organization.*
2. *Defining the mission and goals of the organization.*
3. *Determining what businesses it should be in.*
4. *Allocating resources among the different businesses.*
5. *Formulating and implementing strategies that span individual businesses.*
6. *Providing leadership for the organization.*
7. *Provide a link between the people who oversee the strategic development of a firm and those who own it.*

(s) A business organization is a part of overall structure of society and functions within wide external environmental factors. It draws its resources from its external environment, processes them and provides output in the form of goods and services. Therefore, it is correct to say that a business enterprise should focus on external perspective to define its mission although enterprise's internal situation cannot be delinked while doing so. Bringing an external perspective justifies the very existence of company. The mission statement is a message designed to be inclusive of the expectations of all stakeholders for the performance of an enterprise / company over the long run. Some of the questions addressed by mission statement are: Why is the firm in business? What are the economic goals? What is the operating philosophy in terms of quality, firm's image and self-concept? What are the core competencies and competitive advantages? What customers do and can a company serve? How does enterprise / company view its responsibilities to stockholders, employees, communities, environment, social issues or competitors?

(t) Business organizations function within dynamic environment. The environment may vary from being conducive to hostile. Whatever be the conditions, implementation of strategic management is very important for the survival and growth of business organizations. Strategy implementation helps in improving the competence with which it is executed and helps organizations to sustain superior performance in following manner:

- *Strategic management helps organizations to be more proactive rather than reactive in dealing with its future.*
- *It provides better guidance to entire organization on the crucial point – what it is trying to do.*

- ***It facilitates to prepare the organization to face the future. Organizations are able to identify the available opportunities and identify ways and means as how to reach them.***
- ***It serves as a corporate defense mechanism against mistakes and pitfalls.***
- ***Over a period of time strategic management helps organization to evolve certain core competencies and competitive advantages.***

Questions with Descriptive Answers

Question 4

What is Strategic Management? What benefits accrue by following a strategic approach to managing?

Answer

In a highly competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must have a system of managing strategically.

Strategic management starts with developing a company mission (to give it a direction), objectives and goals (to give it means and methods for accomplishing its mission), business portfolio (to allow management to utilise all facets of the organisation), and functional plans (plans to carry out daily operations from the different functional disciplines).

The overall objective of strategic management is two fold:

- To create competitive advantage, so that the company can outperform the competitors in order to have dominance over the market.
- To guide the company successfully through all changes in the environment.

The following are the benefits of strategic approach to managing:

- Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner. It helps them in working within vagaries of environment and shaping it, instead of getting carried away by its turbulence or uncertainties.
- Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point - what it is trying to do.
- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business

opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.

- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It help organisations to avoid costly mistakes in product market choices or investments. Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

Questions with Hints

Question 5

Explain the evolution and importance of business policy and strategic management.

Answer

The origins of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability. This course was based on interactive case studies which had been in use at the school for instructional purposes since 1908. The course was intended to enhance general managerial capability of students. However, the introduction of business policy in the curriculum of business schools/management institutes came much later.

Business policy tends to emphasise on the rational analytical aspect of strategic management. It presents a framework for understanding strategic decision making. Such a framework enables a person to make preparations for handling general management responsibilities.

Strategic Management enables an organisation to develop and maintain competitive a advantage so that it can outperform its competitors and to have dominant role in the market. Strategic Management guides the company successfully through all charges in the environment.

Question 6

Explain in detail the term corporate strategy with its characteristics.

Answer

The term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position. Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of the business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.

In general, a corporate strategy has the following characteristics:

- It is generally long-range in nature, though it is valid for short-range situations also and has short-range implications.
- It is action oriented and is more specific than objectives.
- It is multi-pronged and integrated.
- It is flexible and dynamic.
- It is formulated at the top management level, though middle and lower level managers are associated in their formulation and in designing sub-strategies.
- It is generally meant to cope with a competitive and complex setting.
- It flows out of the goals and objectives of the enterprise and is meant to translate them into realities.
- It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them. It is also concerned with deployment of limited organizational resources in the best possible manner.
- It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities.
- It provides unified criteria for managers in function of decision making.

Question 7

What do you understand by strategic management? Discuss its framework.

Answer

The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

The basic framework of strategic process can be described in a sequence of five stages as follows:

Stage one - Where are we now? (Beginning)

Stage two: - Where are we want to be? (Ends)

Stage three - How might we get there? (Means)

Stage four - Which way is best? (Evaluation)

Stage five - How can we ensure arrival? (Control)

Question 8

Briefly discuss the difference between vision and mission.

Answer

A Mission statement tells you the fundamental purpose of the organization. It concentrates on the present. It defines the customer and the critical processes. It informs you of the desired level of performance. On the other hand, a Vision statement outlines what the organization wants to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. Following are the major differences between vision and mission:

1. The vision describes a future identity while the Mission serves as an ongoing and time-independent guide.

2. The vision statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided the vision is specific, measurable, achievable, relevant and time bound. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.

3. A mission statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well while a vision statement is more specific in terms of both the future state and the time frame. Vision describes what will be achieved if the organization is successful.

Questions for Practice

1. Write a short note on business policy.
2. How are conventional and strategic decision making similar and dissimilar.
3. Write an explanatory note on the following: (a) Vision, (b) Mission, (c) Objectives and Goals.
4. Explain in brief the levels of strategic management.
5. Strategy is partly proactive and partly reactive. Discuss.

Activity

Browse internet and compile mission and vision statements of at least five companies. Discuss and analyze them with other students in a group.

3 Strategic Analysis

Basic Concepts

The basic purpose of the chapter is to learn the importance of strategic analysis, situational analysis, SWOT analysis, TOWS matrix and to know the methods used in Portfolio analysis etc.

1. Introduction

The strategic management process, after deciding the vision, mission, goals and objectives of the organization, turns its focus to scanning of environment and such environmental scanning covers both scanning of external environment and internal environment.

2. Strategic Analysis

Judgments about what strategy to pursue need to flow directly from solid analysis of a company's external environment and internal situation. The two most important situational considerations are (1) industry and competitive conditions and (2) a company's own competitive capabilities, resources, internal strengths and weaknesses, and market position.

3. Situational Analysis

A company's macro environment includes all relevant factors and influences outside the company's boundaries; by relevant, we mean important enough to have a bearing on the decisions the company ultimately makes about its direction, objectives, strategy, and business model. For the most part, influences coming from the outer ring of the macro environment have a low impact on a company's business situation and shape only the edges of the company's direction and strategy. There are notable exceptions, though. There are enough strategically relevant trends and developments in the macro environment to justify a watchful eye. As company managers scan the external environment, they must watch for potentially important environmental forces, assess their impact and influence, and adapt the company's direction and strategy as needed.

4. The Methods of Industry and Competitive Analysis

Industry and competitive analysis provides a way of thinking strategically about any industry's overall situation and drawing conclusions about whether the industry represents an attractive investment for the funds of the company. Industry and competitive analysis aims at developing insight on several issues. The issues are:

- Dominant economic features of the industry.
- Nature and strength of competition.
- Triggers of change.
- Identifying the companies that are in the strongest/weakest positions.
- Likely strategic moves of rivals.
- Key factors for competitive success.
- Prospects and financial attractiveness of industry.

5. SWOT Analysis

The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as a SWOT analysis.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.

Weakness: A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.

Threat: A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

6. TOWS Matrix

Heinz Weihrich has developed a matrix called TOWS matrix by comparing strengths and weaknesses of organization with that of market opportunities and threats, a variant of SWOT. It has been criticized that after conducting the SWOT Analysis managers frequently fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this, Piercy argues for the TOWS Matrix, which, while using the same inputs (Threats, Opportunities, Weakness and Strengths) reorganizes them and integrates them more fully into the strategic planning process.

7. Portfolio Analysis

Portfolio analysis can be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi product and multi business firms.

There are three important concepts, the knowledge of which is a prerequisite to take portfolio analysis:

Strategic business unit: Analysing portfolio may begin with identifying key businesses also termed as strategic business unit (SBU). SBU is a unit of the company that has a separate mission and objectives and which can be planned independently from other businesses of the company.

Experience Curve: Experience curve is an important concept used for applying a portfolio approach. The concept is akin to a learning curve.

Product Life Cycle: Product Life Cycle (PLC) is an useful concept for guiding strategic choice. Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction (slow sales growth), growth (rapid market acceptance) maturity (slow down in growth rate) and decline (sharp downward drift).

7.1 Boston Consulting Group (BCG) Growth-share Matrix

Using the BCG approach, a company classifies its different businesses on a two-dimensional growth-share matrix. In the matrix:

- The vertical axis represents market growth rate.
- The horizontal axis represents relative market share.

Using the matrix, organisations can identify four different types of products or SBUs as follows:

- **Stars** are products or SBUs that are growing rapidly.
- **Cash Cows** are low-growth, high market share businesses or products.
- **Question Marks,** sometimes called problem children or wildcats, are low market share business in high-growth markets.
- **Dogs** are low-growth, low-share businesses and products.

7.2 Ansoff's Product Market Growth Matrix

The product/market growth matrix is a portfolio-planning tool for identifying company growth opportunities.

Market Penetration: Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets.

Market Development: Market development refers to a growth strategy where the business seeks to sell its existing products into new markets.

Product Development: Product development refers to a growth strategy where business aims to introduce new products into existing markets.

Diversification: Diversification refers to a growth strategy where a business markets new products in new markets.

7.3 ADL Matrix

The ADL matrix, which has derived its name from Arthur D. Little, is a portfolio analysis method that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position.

The competitive position of a firm is based on an assessment of the following criteria:

Dominant: This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.

Strong: By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitions.

Favourable: This position, which generally comes about when the industry is fragmented and no single competitor stand out clearly, results in the market leaders a reasonable degree of freedom.

Tenable: Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.

Weak: The performance of firms in this category is generally unsatisfactory although the opportunity for improvement does exist.

7.4 The General Electric Model

The General Electric Model (developed by GE with the assistance of the consulting firm McKinsey & Company) is similar to the BCG growth-share matrix. However, there are differences. Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness, and includes a broader range of factors other than just the market growth rate. Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

Very Short Answer Type Questions

Question 1

(i) Explain the meaning of the Strategic Group Mapping.

(ii) Explain the meaning of Market Penetration.

(iii) Explain the meaning of ADL Matrix.

Answer

(i) Strategic group mapping is a technique for displaying the different markets or competitive positions that rival firms occupy in the industry. A strategic group is a cluster of firms in an industry with similar competitive approaches and market positions. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. It involves plotting firms on a two-variable map using pairs of differentiating characteristics such as price/quality range; geographic coverage and so on.

(ii) Market penetration is a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Penetration might require greater spending on advertising or personal selling.

(iii) ADL Matrix: The ADL matrix which has derived its name from Arthur D. Little is a portfolio analysis method that is based on product life cycle. The approach forms a two dimensional matrix based on stage of industry maturity and the firms competitive position, environmental assessment and business strength assessment.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) "Industry is a grouping of dissimilar firms".

(b) A strength is an inherent capacity of an organization.

(c) The purpose of SWOT analysis is to rank organizations.

(d) SWOT analysis merely examines internal environment of an organization.

(e) "B" in BCG Matrix stands for balance.

(f) Growth share matrix is popularly used for resource allocation.

(g) Portfolio analysis helps the strategists in identifying and evaluating various businesses of a company.

(h) A strategic group consists of rival firms with similar competitive approaches and positions in the market.

(i) An industry can have more than one strategic group.

Answer

(a) Incorrect: Industry is a consortium of firms whose products or services have homogenous attributes or are close substitutes such that they compete for the same buyer. For example, all paper manufacturers constitute the paper industry.

(b) Correct: Strength is an inherent capacity which an organization can use to gain strategic advantage over its competitors. An example of strength is superior research and development skill which can be used for continuous product innovation or for new product development so that the company gains competitive advantage.

(c) Incorrect: SWOT analysis stands for the analysis of strengths, weaknesses opportunities, and threats. It is not used for ranking of organizations. It is a tool for organizational and environmental appraisal necessary for formulating effective strategies.

(d) Incorrect: SWOT analysis presents the information about both external and internal environment in a structured form to compare external opportunities and threats with internal strengths and weaknesses. This helps in matching external and internal environments so that strategic decision makers in an organisation can come out with suitable strategies by identifying patterns of relationship and develop suitable strategies.

(e) Incorrect: The acronym BCG stands for Boston Consulting Group, an organization that developed a matrix to portray an organizational corporate portfolio of investment. This matrix depicts growth of business and the business share enjoyed by an organization. The matrix is also known for its cow and dog metaphors and is popularly used for resource allocation in a diversified company.

(f) Correct: Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. Primarily it categorises organisations/products on the basis two factors consisting of the growth opportunities and the market share enjoyed.

(g) Correct: A business portfolio is a collection of businesses and products that make up the organisation. Portfolio analysis is a tool by which management identifies and evaluates its various businesses. In portfolio analysis top management views its product lines and business units as a series of investments from which it expects returns. The best business portfolio is the one that best fits its strengths and weaknesses to the opportunities and threats in the environment. Through portfolio analysis, organisations are able to compare its various businesses and categorize them in various strata according to their prospect.

(h) Correct: A strategic group consists of those rival firms that have similar competitive approaches and positions in the market. Organisations in the same strategic group can resemble one another in any of the several ways: they may have comparable product-line breadth, sell in the same price/quality range, emphasize the same distribution channels, use essentially the same product attributes to appeal to similar types of buyers, depend on identical technological approaches, or offer buyers similar services and technical assistance.

(i) Correct: An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the marketplace.

Question 3

Briefly answer the following questions:

(a) Write a short note on Industry.

(b) Explain 'Strategic groups'.

(c) What do you understand by Key Success Factors?

(d) What is an opportunity?

(e) Write a short note on SWOT analysis.

(f) Discuss the relevance of Tows Matrix in strategic planning process.

(g) In B.C.G. matrix for what the metaphors like stars, cows and dogs are used?

(h) Discuss 'dogs' in BCG Matrix.

(i) Explain the term 'star' in the context of BCG matrix.

(j) Growth phase of product life cycle.

(k) In the light of BCG Growth Matrix state the situation under which the following strategic options are suitable:

- *(i) Build*
- *(ii) Hold*
- *(iii) Harvest*
- *(iv) Divest*

(l) Write short notes on elements considered for Situational Analysis.

(m) Explain the concept of Experience Curve and highlight its relevance in strategic management.

(n) Write a short note on Product Life Cycle (PLC) and its significance in portfolio diagnosis.

(o) To which industries the following developments offer opportunities and threats?

"Increasing trend in India to organize IPL (Cricket) type of tournaments in other sports also."

(p) What does the concept of 'question marks' in the context of BCG Growth-share matrix signify? What strategic options are open to a business firm which has some 'question marks' in the portfolio of its businesses?

(q) To which industries the following environmental changes will offer opportunities and pose threats (name any two industries in each case). Give reasons for your answer.

- ***(i) Significant reduction in domestic air-fares spanning over a long period.***
- ***(ii) Cut in interest rates by banks.***

(r) What steps would you take to construct a "Strategic Group Map' for an industry?

(s) Key Success Factors (KSFs) are the rules that shape whether a company will be financially and competitively successful? Do you agree with this statement? How to identify an industry's key success factors?

Answer

(a) Industry is a consortium of firms whose products or services have homogenous attributes or are close substitutes such that they compete for the same buyer. For example, all paper manufacturers constitute the paper industry.

(b) Strategic groups are clusters of competitors that share similar strategies and therefore compete more directly with one another than with other firms in the same industry. Strong economic compulsions often constrain these firms from switching one competitive posture to another. An industry contains only one strategic group when all firms essentially have identical strategies and have comparable market positions. At the other extreme, there are as many strategic groups as there are competitors when each rival pursues a distinctively different competitive approach and occupies a substantially different competitive position in the market place.

(c) Key Success Factors (KSFs) are those things that most affect industry members' ability to prosper in the marketplace - the particular strategy elements, product attributes, resources, competencies, competitive capabilities, and business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.

(d) An opportunity is a favourable condition in the organization's environment which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides.

(e) SWOT analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.

Strength: Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.

Weakness: A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.

Opportunity: An opportunity is a favourable condition in the external environment which enables it to strengthen its position.

Threat: An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

(f) The TOWS matrix illustrates how the external opportunities and threats facing a particular corporation can be matched with company's internal strengths and weaknesses to result in possible strategic alternatives to be competitive. It is a good way to use brainstorming and to create alternative strategies that might not otherwise be considered. It forces strategic managers to design various growth, stability or retrenchment strategies. It can be used to generate corporate as well as business strategies.

Moreover, TOWS Matrix is very useful for generating a series of alternatives that the decision makers of a company or business unit might not otherwise have considered. Nevertheless, the TOWS Matrix is only one of the many ways to generate alternative strategies.

In a way TOWS is considered to be an improvement over the SWOT. However, it is not undermining the SWOT analysis.

(g) The BCG growth-share matrix is a popular way to depict different types of products or SBUs as follows:

- Stars are products or SBUs with high market share in a market which is growing rapidly.
- Cash Cows are low-growth, high market share businesses or products.
- Question Marks are low market share business in high-growth markets.
- Dogs are low-growth, low-share businesses and products.

(h) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

(i) **Star in BCG Matrix:** BCG growth-share matrix is a simple way to portray an organisation's portfolio of investments. Growth share matrix also known for its cow and dog metaphors is popularly used for resource allocation in a diversified company. The matrix is based on combinations of relative market share of the products or SBUs and their market growth rate.

Stars, a position in the matrix, are characterised by high market share and high growth rate. They are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. Business organisations that enjoy star positions have best opportunities for expansion and growth.

(j) Product life cycle (PLC) is a concept that describes a product's four major life stages, i.e., introduction, growth, maturity and decline in terms of sales, profits, customers, competitors and marketing emphasis. As the product finds market acceptance in introduction stage, it gradually enters the 'Growth' stage. During growth stage there is an exponential rise of the volumes accepted by the market. Many new entrants join the industry and then fight for market share. In this stage consolidation and concentration begins. Profits increase and mass marketing is done with product differentiation.

(k) In the light of BCG Growth Matrix, once an organisation has classified its products or SBUs, it must determine what role each will play in the future. The four strategies that can be pursued are:

(i) Build: Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.

(ii) Hold: Here the objective is to preserve market share.

(iii) Harvest: Here the objective is to increase short-term cash flow regardless of long-term effect.

(iv) Divest: Here the objective is to sell or liquidate the business because resources can be better used elsewhere.

(l) All business organisations operate in a "macro environment" shaped by influences emanating from the economy at large, population demographics, societal values and lifestyles, governmental legislation and regulation, technological factors and so on. As organisational managers scan the external environment, they must watch for potentially important environmental forces, assess their impact and influence, and adapt its direction and strategy as needed. Situational Analysis forms an essential part of any business plan. A preliminary introduction as to what to take into account when conducting a situational analysis and provide a checklist of the important factors to consider are.

- **Environmental factors:** What external and internal environmental factors are there that needs to be taken into account. This can include economic, political, demographic or sociological factors that have a bearing on the performance.
- **Opportunity and issue analysis:** What are the current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance.
- **Competitive situation:** Analyze main competitors of the organisation: Who are they, what they up to are, how they compare. What are their competitive advantages?
- **Distribution situation:** Review the distribution situation - how are the products moving through channels.
- **Product situation:** The details about current product. The details about current product may be divided into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to relate this back to core client needs.

(m) Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.

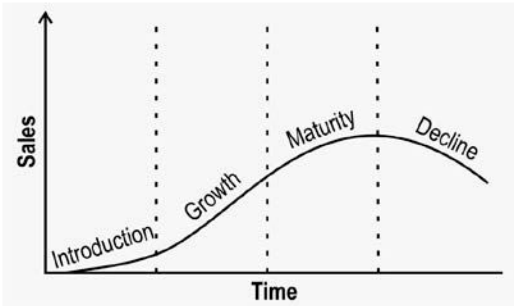
(n) Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is also at a lower rate.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases and market expands.

The third stage of PLC is the maturity stage, where in the competition gets tough and market gets stabilized. Profit comes down because of stiff competition.

The fourth stage is the declining stage of PLC, in which the sales and profits fall down sharply due to some new product replaces the existing product.



Product Life Cycle

PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

(o) An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. An opportunity is also a threat in case internal weaknesses do not allow organization to take their advantage in a manner rivals can.

The IPL (Cricket) tournament is highly profit and entertainment driven. A number of entities and process are involved in this IPL type tournament. IPL (Cricket) type of tournament would offer opportunities/threats to the following industries:

Opportunities:

- Stadiums.

- Sports Industry.
- Manufactures of sports items.
- Media Industry – Sports channels / television, advertisers.

Threats:

- Entertainment industry like TV serials, cinema theatres, Entertainment theme parks as competitors will be fighting for the same viewers/target customers.
- Tourism and hotel Industry.
- Event Management.

(p) ***The BCG growth-share matrix is the simplest way to portray a corporation's portfolio of investments. Using the matrix, organisations can identify four different types of products or Strategic Business Units. Question Marks, sometimes called problem children or wildcats, are low market share businesses in high-growth markets.***

They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier.

It is for business organisations to turn those businesses into stars and then to cash cows when the growth rate reduces. Thus the strategic option that they must strive to achieve is to build. Here the objective is to increase market share, even by forgoing short-term earnings in favour of building a strong future with large market share.

(q) *(i)* ***Significant reduction in domestic air fares spanning over a long period will have opportunities and threats as follows:***

Opportunities

1. ***Tourism as there would be more demand.***
2. ***Hotels as travel would be cheaper and there would be more commuters.***

Threats

1. ***Airlines Industry as there would be squeeze in their profits.***
2. ***In flight catering as they would face pressure to reduce cost.***

(ii) ***Cut in interest rates by banks will have opportunities and threats as follows:***

Opportunities

1. ***Capital intensive infrastructure as the interest cost will come down***
2. ***Real Estate as demand for property on loan will increase.***

Threats

1. ***Banking industry facing reduction in saving and investments.***
2. ***Financial services industry in the area of managing funds such as pension funds, mutual funds as their income will recede.***

(r) ***A strategic group consists of those rival firms with similar competitive approaches and positions in the market. Companies in the same strategic group can resemble one another in any of the several ways. An industry contains only one strategic group when all sellers pursue essentially identical strategies and have comparable market positions. The steps for constructing a strategic group map and deciding which firms belong in which strategic group are as follows:***

- ***Identify the competitive characteristics that differentiate firms in the industry. The typical variables are price/quality range (high, medium, low); geographic coverage (local, regional, national, global); degree of vertical integration (none, partial, full); product-line breadth (wide, narrow); use of distribution channels (one, some, all); and degree of service offered (no-frills, limited, full).***
- ***Plot the firms on a two-variable map using pairs of these differentiating characteristics.***
- ***Assign firms that fall in about the same strategy space to the same strategic group.***
- ***Draw circles around each strategic group making the circles proportional to the size of the group's respective share of total industry sales revenues.***

(s) ***An industry's key success factors (KSFs) are those things or strategic elements that affect industry members' ability to prosper in a market place. For a business organization within an industry, it may include, cost structure, technology, distribution system and so on. It is correct to state that the KSFs help to shape whether a company will be financially and competitively successful.***

The answers to the following three questions help identify an industry's key success factors:

- ***On what basis do customers choose between the competing brands of sellers? What product attributes are crucial?***
- ***What resources and competitive capabilities does a seller need to have to be competitively successful?***
- ***What does it take for sellers to achieve a sustainable competitive advantage?***

Questions with Descriptive Answers

Question 4

Describe the construction of BCG matrix and discuss its utility in strategic management.

Answer

Companies that are large enough to be organized into strategic business units face the challenge of allocating resources among those units. In the early 1970's the Boston Consulting Group developed a model for managing a portfolio of different business units or major product lines. The BCG growth-share matrix named after its developer facilitates portfolio analysis of a company having invested in diverse businesses with varying scope of profits and growth.

The BCG matrix can be used to determine what priorities should be given in the product portfolio of a business unit. Using the BCG approach, a company classifies its different businesses on a two-dimensional growth share matrix. Two dimensions are market share and market growth rate. In the matrix:

- The vertical axis represents market growth rate and provides a measure of market attractiveness.
- The horizontal axis represents relative market share and serves as a measure of company's strength in the market.

Thus the BCG matrix depicts quadrants as shown in the following table:

Market Growth Rate			
	High	**Stars**	**Question Marks**
	Low	**Cash Cows**	**Dogs**
		High	*Low*

Relative Market Share

BCG Matrix

Different types of business represented by either products or SBUs can be classified for portfolio analyses through BCG matrix. They have been depicted by meaningful metaphors, namely:

(a) **Stars** are products or SBUs that are growing rapidly. They also need heavy investment to maintain their position and finance their rapid growth potential. They represent best opportunities for expansion.

(b) **Cash Cows** are low-growth, high market share businesses or products. They generate cash and have low costs. They are established, successful, and need less investment to maintain their market share. In long run when the growth rate slows down, stars become cash cows.

(c) **Question Marks,** sometimes called problem children or wildcats, are low market share business in high-growth markets. They require a lot of cash to hold their share. They need heavy investments with low potential to generate cash. Question marks if left unattended are capable of becoming cash traps. Since growth rate is high, increasing it should be relatively easier. It is for business organisations to turn them stars and then to cash cows when the growth rate reduces.

(d) **Dogs** are low-growth, low-share businesses and products. They may generate enough cash to maintain themselves, but do not have much future. Sometimes they may need cash to survive. Dogs should be minimised by means of divestment or liquidation.

The BCG matrix is useful for classification of products, SBUs, or businesses, and for selecting appropriate strategies for each type as follows.

(a) Build with the aim for long-term growth and strong future.

(b) Hold or preserve the existing market share.

(c) Harvest or maximize short-term cash flows.

(d) Divest, sell or liquidate and ensure better utilization of resources elsewhere.

Thus BCG matrix is a powerful tool for strategic planning analysis and choice.

Question 5

What is the purpose of SWOT analysis? Why is it necessary to do a SWOT analysis before selecting a particular strategy for a business organization?

Answer

An important component of strategic thinking requires the generation of a series of strategic alternatives, or choices of future strategies to pursue, given the company's internal strengths and weaknesses and its external opportunities and threats. The comparison of strengths, weaknesses, opportunities, and threats is normally referred to as SWOT analysis.

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

SWOT analysis helps managers to craft a business model *(or* models) that will allow a company to gain a competitive advantage in its industry *(or* industries). Competitive advantage leads to increased profitability, and this maximizes a company's chances of surviving in the fast-changing, competitive environment. Key reasons for SWOT analyses are:

- It provides a logical framework.
- It presents a comparative account.

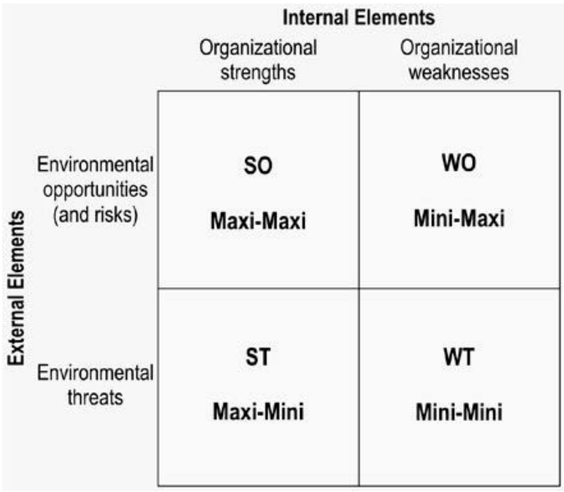
- It guides the strategist in strategy identification.

Question 6

How is TOWS Matrix an improvement over the SWOT Analysis? Describe the construction of TOWS Matrix.

Answer

Through SWOT analysis organisations identify their strengths, weaknesses, opportunities and threats. While conducting the SWOT Analysis managers are often not able to come to terms with the strategic choices that the outcomes demand. Heinz Weihrich developed a matrix called TOWS matrix by matching strengths and weaknesses of an organization with the external opportunities and threats. The incremental benefit of the TOWS matrix lies in systematically identifying relationships between these factors and selecting strategies on their basis. The matrix is outlined below:



TOWS Matrix

The TOWS Matrix is a relatively simple tool for generating strategic options. Through TOWS matrix four distinct alternative kinds of strategic choices can be identified.

SO (Maxi-Maxi): SO is a position that any firm would like to achieve. The strengths can be used to capitalize or build upon existing or emerging opportunities.

ST (Maxi-Mini): ST is a position in which a firm strives to minimize existing or emerging threats through its strengths.

WO (Mini-Maxi): The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited to maximum.

WT (Mini-Mini): WT is a position that any firm will try to avoid. An organization facing external threats and internal weaknesses may have to struggle for its survival.

Question 7

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix:

Product	*Revenues (in ₹)*	*Percent Revenues*	*Profits (in ₹)*	*Percent Profits*	*Percentage Market Share*	*Percentage Industry Growth rate*
A	*6 crore*	*48*	*120 lakh*	*48*	*80*	*+ 15*
B	*4 crore*	*32*	*50 lakh*	*20*	*40*	*+ 10*
C	*2 crore*	*16*	*75lakh*	*30*	*60*	*-20*
D	*50 lakh*	*4*	*5 lakh*	*2*	*5*	*-10*
Total	*12.5 crore*	*100*	*250 lakh*	*100*		

Answer

Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:

Relative Market Share

Market Growth Rate	***High***	***Low***
High	Product A *[80% Market Share* *+15% Growth Rate]* **Stars**	Product B *[40%Market Share* *+10%Growth Rate]* **Question Marks**
Low	Product C *[60% Market Share* *-20% Growth Rate]* **Cash Cows**	Product D *[05% Market Share* *-10% Growth Rate]* **Dogs**

Product A is in best position as it has a high relative market share and a high industry growth rate. On the other hand, product B has a low relative market share, yet competes in a high growth industry. Product C has a high relative market share, but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run. Product D is in the worst position as it has a low relative market share, and competes in an industry with negative growth rate.

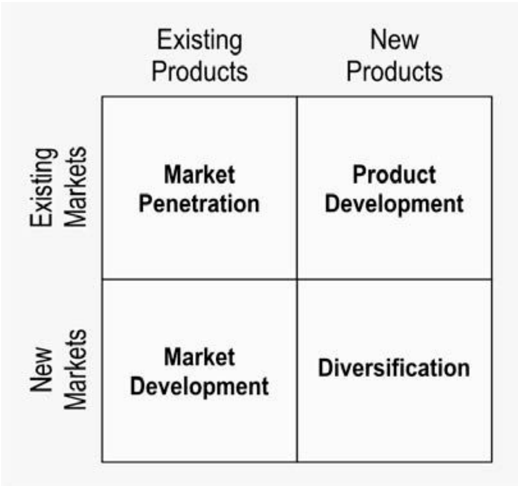
Question 8

Aurobindo, the pharmaceutical company wants to grow its business. Draw Ansoff's Product Market Growth Matrix to advise them of the available options.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

The Ansoff's product market growth matrix is as follows:



Ansoff's Product Market Growth Matrix

Based on the matrix, Aurobindo may segregate its different products. Being in pharmaceuticals, development of new products is result of extensive research and involves huge costs. There are also social dimensions that may influence the decision of the company. It can adopt penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales to present customers without changing products in any major way. Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company. Product development is refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets. Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

Question 9

In the context of Ansoff's Product-Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases:

(i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.

(ii) A business giant in hotel industry decides to enter into dairy business.

(iii) One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets.

(iv) A renowned auto manufacturing company launches ungeared scooters in the market.

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is an useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions. According to Ansoff there are four strategies that organisation might follow.

(i) **Market Penetration:** A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.

(ii) **Diversification:** A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.

(iii) **Market Development:** One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.

(iv) **Product Development:** A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

Question 10

To which industries the following development offers opportunities and threats?

'The number of nuclear families, where husband and wife both are working, is fast increasing'.

Answer

An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position. On the other hand a threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position. Different developments in the environment can offer different opportunities and threats.

In the social environment, there is growth of nuclear families that is away from the joint family system. Often both husbands and wife are working. Having double income increases their spending capacity. Such developments bring direct opportunities to different businesses such as ready to eat food, eateries, ready to cook items, dish washers, washing machines, crèches for children and so on. Indirect opportunities exists for other lifestyle products. At the same time, such development also acts as threat to traditional raw food suppliers, kitty party organizers and so on.

Question with Hints

Question 11

Discuss General Electric model of analyzing business portfolio.

Answer

In order to analyse the current business portfolio, the company must conduct portfolio analysis (a tool by which management identifies and evaluates the various businesses that make up the company). In portfolio analyses top management views its product lines and business units as a series of investments from which it expects returns. The General Electric Model uses two factors in a matrix / grid situation as shown below:

		Business Position		
		High	**Medium**	**Low**
Market Attractiveness	**High**	Invest	Invest	Protect
	Medium	Invest	Protect	Harvest
	Low	Protect	Harvest	Divest

Questions for Practice

1. *Write an explanatory note on strategic analysis.*
2. *How one can compare the industry and competitive analysis.*
3. *Why organizations undertake portfolio analysis?*
4. *Explain the strategic implications of each of the following types of businesses in a corporate portfolio: (a) Stars (b) Question marks (c) Cash cows (d) Dogs.*

Activity

- Identify an industry and apply the SWOT analysis on any company in that industry. For information refer to business magazines, financial newspapers and internet.

4 Strategic Planning

Basic Concepts

The chapter of strategic planning discusses corporate strategy and its formulation. It also introduces strategic formulation process, knowing different strategies and so on.

1. Introduction

Corporate strategy is the game plan that actually steers the firm towards success. The degree of aptness of this game plan decides the extent of the firm's success. That is why formulation of corporate strategy forms the crux of the strategic planning process.

2. Planning

Planning is future oriented. It relates to deciding what needs to done in the future and generating blueprints for action. Planning involves determining what resources are available, what resources can be obtained, and allocating responsibilities according to the potential of the employees.

2.1 Dealing with strategic uncertainty

The strategic uncertainty is represented by a future trend or event that has inherent unpredictability. Each strategic uncertainty involves potential trends or events that could have an impact on present, proposed, and even potential strategic business units (SBUs).

3. The Stages of Corporate Strategy Formulation-Implementation process

Crafting and executing a company's strategy is a five-stage managerial process as given below:

3.1 Developing a strategic vision of where the company needs to head and what should be its future product-customer-market-technology focus.

3.2 Setting objectives and using them as yardsticks for measuring the company's performance and progress.

3.3 Crafting a strategy to achieve the desired outcomes and move the company along the strategic course that management has charted.

3.4 Implementing and executing the chosen strategy efficiently and effectively.

3.5 Monitoring developments and initiating corrective adjustments in the company's long-term direction, objectives, strategy, or execution in light of the company's actual performance, changing conditions, new ideas, and new opportunities.

4. Strategic Alternatives

4.1. Generic Strategic Alternatives

According to William F Glueck and Lawrence R Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

- ***Stability strategies***: One of the important goals of a business enterprise is stability-to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.
- ***Expansion Strategy***: Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion also includes diversifying, acquiring and merging businesses.
- ***Expansion through diversification:*** Diversification is defined as entry into new products or product lines, new services or new markets, involving substantially different skills, technology and knowledge.
- ***Expansion through acquisitions and mergers:*** Acquisition or merger with an existing concern is an instant means of achieving the expansion.
- ***Retrenchment Strategy***: A business organization can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.
- ***Combination Strategies***: The above strategies are not mutually exclusive. It is possible to adopt a mix of the above to suit particular situations

4.2 Michael Porter's Generic Strategies

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus.

- **Cost Leadership Strategies:** A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. A number of cost elements affect the relative attractiveness of generic strategies, including economies or diseconomies of scale achieved, learning and experience curve effects, the percentage of capacity utilization achieved, and linkages with suppliers and distributors. A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead, limited perks, intolerance of waste, intensive screening of budget requests, wide spans of control, rewards linked to cost containment, and broad employee participation in cost control efforts.

- **Differentiation Strategies:** Different strategies offer different degrees of differentiation. Differentiation does not guarantee competitive advantage, especially if standard products sufficiently meet customer needs or if rapid imitation by competitors is possible. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty because consumers may become strongly attached to the differentiation features. A risk of pursuing a differentiation strategy is that the unique product may not be valued highly enough by customers to justify the higher price. When this happens, a cost leadership strategy easily will defeat a differentiation strategy.
- **Focus Strategies:** A successful focus strategy depends on an industry segment that is of sufficient size, has good growth potential, and is not crucial to the success of other major competitors. Strategies such as market penetration and market development offer substantial focusing advantages. Focus strategies are most effective when consumers have distinctive preferences or requirements and when rival firms are not attempting to specialize in the same target segment.

4.3 Best-Cost Provider Strategy

The new model of best cost provider strategy is a further development of above three generic strategies.

4.4 Grand strategies/directional strategies

Various strategy alternatives are available to a firm for achieving its growth objective. The corporate strategies a firm can adopt have been classified into four broad categories: *stability, expansion, retrenchment* and *combination* known as grand strategies.

- **Stability strategy:** The firm stays with its current businesses and product markets; maintains the existing level of effort; and is satisfied with incremental growth.
- **Expansion strategy:** Here, the firm seeks significant growth-maybe within the current businesses; maybe by entering new business that are related to existing businesses; or by entering new businesses that are unrelated to existing businesses.
- **Retrenchment strategy:** The firm retrenches some of the activities in a given business(es), or drops the business as such through sell-out or liquidation.
- **Combination strategy:** The firm combines the above strategic alternatives in some permutation/combination so as to suit the specific requirement of the firm.

Expansion or growth strategy can either be through intensification or diversification.

Intensification Strategy

- **Market Penetration:** The most common expansion strategy is market penetration/concentration on the current business. The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology.
- **Market Development:** It consists of marketing present products, to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media.

- **Product Development:** Product Development involves substantial modification of existing products or creations of new but related items that can be marketed to current customers through establish channels.

Diversification Strategy:

Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

Vertically integrated diversification

In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence It moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

- **Horizontal integrated diversification:** Through the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' products.
- **Concentric diversification:** Concentric diversification too amounts to related diversification. In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. This means that in concentric diversification too, there are benefits of synergy with the current operations.

  However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones. While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain.
- **Conglomerate diversification:** In conglomerate diversification, no such linkages exist; the new businesses/ products are disjointed from the existing businesses/products in every way; it is a totally unrelated diversification. In process/technology/function, there is no connection between the new products and the existing ones. Conglomerate diversification has no common thread at all with the firm's present position.

Retrenchment, Divestment and Liquidation Strategies

Retrenchment grand strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Sometimes simple solutions do not exists. To safeguard the overall interest hard decisions are required. If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategies below.

Turnaround Strategies
Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency, known as turnaround strategy. There are certain conditions like persistent negative cash flow, negative profits, declining market share, deterioration in physical facilities, high turnover of employees, and low morale, uncompetitive products or services and mismanagement which point out that a turnaround is needed if the organization has to survive. For turnaround strategies to be successful, it is imperative to focus on the short and long-term financing needs as well as on strategic issues.
Divestment Strategies:
Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.
Liquidation Strategies:
A retrenchment strategy considered the most extreme and unattractive is liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.
5. Merger and Acquisition Strategy
Merger and acquisition in simple words are defined as a process of combining two or more organizations together. There is a thin line of difference between the two terms but the impact of combination is completely different in both the cases. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers. When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one financially strong organization overpowers the weaker one. Types of Mergers ♦ Horizontal Merger ♦ Vertical Merger ♦ Co-generic Merger ♦ Conglomerate Merger

Very Short Answer Type Questions

Question 1

(i) Explain the meaning of the Combination Strategies.

(ii) Explain the meaning of Directional Strategies.

(iii) Explain the meaning of Cost Leadership Strategies.

(iv) Explain the meaning of Best-cost provider strategy.

Answer

(i) Combination Strategies refer to a mix of different strategies like stability; expansion, diversification or retrenchment to suit particular situations that an enterprise is facing. For instance, a strategy of diversification/acquisition may call for retrenchment in some obsolete product lines.

(ii) The corporate strategies a firm can adopt have been classified into four broad categories: stability, expansion, retrenchment, and combination known as directional/grand strategies. They are often called master or business strategies to provide basic direction for strategic actions toward achieving long-term business objectives.

(iii) A number of cost elements affect the relative attractiveness of generic strategies. A successful cost leadership strategy usually permeates the entire firm, as evidenced by high efficiency, low overhead cost, and waste reduction. The low cost leadership should be such that no competitors are able to imitate so that it can result in sustainable competitive advantage to the cost leader firm.

(iv) Best-cost provider strategy: Best-cost provider strategy involves providing customers more value for the money by emphasizing low cost and better quality difference. It can be done:

(a) through offering products at lower price than what is being offered by rivals for products with comparable quality and features or

(b) charging similar price as by the rivals for products with much higher quality and better features.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) Strategic planning is an attempt to improve operational efficiency.

(b) The first step of strategy formulation in strategic management model is to undertake internal analysis.

(c) Balance scorecard is a combination of strategic and marketing objectives.

(d) Divesting a major product line or market in an organization can be termed as retrenchment strategy.

(e) Acquisition is a strategy.

(f) Diversification only involves entering in new businesses that are related to the existing business of an organisation

(g) *Vertical diversification integrates firms forward or backward in the product chain.*

(h) *Concentric diversification amounts to unrelated diversification.*

(i) *Liquidation is the last resort option for a business organisation.*

(j) *Retrenchment implies downsizing of business.*

(k) *Stability strategy is not a 'do-nothing' strategy.*

Answer

(a) Incorrect: Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. Strategic Planning is a function of top management level in the organisation and relate the organisation with its environment. Operational efficiency is not a direct outcome of strategic planning.

(b) Incorrect: Identifying an organisation's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organisation's existing situation and condition may preclude certain strategies and may even dictate a particular course of action. Determining vision and mission provides long-term direction, delineate what kind of enterprise the company is trying to become and infuse the organisation with a sense of purposeful action.

(c) Incorrect: Balance scorecard is a combination of strategic and financial objectives. It measure company performance, requires setting both financial and strategic objectives and tracking their achievement. Unless a company is in deep financial difficulty, such that its very survival is threatened, company managers are well advised to put more emphasis on achieving strategic objectives than on achieving financial objectives whenever a trade-off has to be made.

(d) Correct: An organization can redefine its business by divesting a major product line or market. The divesting can be termed as retrenchment strategy. The enterprise may withdraw from marginal markets, withdraw some brands or sizes of products. It may also withdraw some of slow moving products. In an extreme manner it may seek retirement either from the production or the marketing activity.

(e) Correct: An acquisition is a strategy through which one firm buys a controlling or complete interest in another firm. Acquisition of an existing concern is an instant means of achieving growth through expansion and/or diversification. Ideally, acquisition strategy should be used when the acquiring firm is able to enhance its economic value through ownership and the use of the assets that are acquired.

(f) Incorrect: Although, organisations can diversify into businesses that are vertically or horizontally related to the existing businesses, the diversification is not limited to the related businesses. In conglomerate diversification; the new businesses/ products are disjointed from the existing businesses/products in every way. There is no connection between the new products and the existing ones in process, technology or function.

(g) Correct: In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. It moves forward or backward in the chain and enters specific product with the intention of making them part of new businesses for the firm.

(h) Incorrect: Concentric diversification amounts to related diversification. Concentric diversification takes place when the products or services added are in different industry but are similar to the existing product or service line with respect to technology or production or marketing channels or customers.

(i) Correct: Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities a firm could pursue, and the stigma of failure. The company management, government, banks and financial institutions, trade unions, suppliers, creditors, and other agencies are extremely reluctant to take a decision, or ask for liquidation.

(j) Incorrect: In the context of strategic management, retrenchment implies giving up certain products and reducing the level of business as a compulsive measure to cope up with certain adverse developments on which the firm has little control. Downsizing (or rightsizing) is planned elimination of positions or jobs. Retrenchment does not imply downsizing, however, the latter is often used to implement a retrenchment strategy.

(k) Correct: Stability strategies are implemented by approaches wherein few functional changes are made in the products or markets. It is not a 'do nothing' strategy. It involves keeping track of new developments to ensure that the strategy continues to make sense. This strategy is typical for mature business organizations. Some small organizations will also frequently use stability as a strategic focus to maintain comfortable market or profit position.

Question 3

Briefly answer the following questions:

(a) Differentiate clearly between forward and backward integration. What is forward and Backward integration.

(b) What is meant by concentric diversification?

(c) Explain conglomerate diversification.

(d) Need for Turnaround Strategy.

(e) Grand Strategy Alternative during Recession.

(f) Explain the meaning of the following strategies and also give suitable examples:

(i) Forward Integration

(ii) Backward Integration

(iii) Horizontal Integration

(iv) Conglomerate Diversification

(v) Divestment,

(vi) Liquidation

(vii) Concentric Diversification

(g) Distinguish between the following:

(i) Top-Down and Bottom-Up Strategic Planning.

(ii) Concentric Diversification and Conglomerate Diversification

(iii) Expansion Strategy and Retrenchment Strategy

(iv) Vertically Integrated Diversification and Horizontally Integrated Diversification.

(v) Cost Leadership and Differentiation Strategies

(vi) Divestment strategy and Liquidation strategy.

(h) What is meant by retrenchment strategy?

(i) What is Divestment strategy? When is it adopted?

(j) What is meant by backward integration? Name any two backward integration strategies that hospitals may pursue.

(k) Write short note on expansion through acquisitions and mergers.

(l) Write short note on Conglomerate Merger.

(m) A Bakery starts producing pastries and other similar products. What type of diversification strategy is being following by it and why?

(n) Identify with reasons the type of growth strategies followed in the following cases:

(i) A leading producer of confectionery products advertising the new uses of its product 'Chokoo Mix' aggressively.

(ii) A company in publishing industry deciding to revise college text books.

(iii) A renowned company in textile industry starting to manufacture PFY and PSF, critical raw materials for textiles.

(iv) A business giant in auto manufacturing enters into edible oils, hotels, financial services and dairy businesses.

Answer

(a) Forward and backward integration forms part of vertically integrated diversification. In vertically integrated diversification, firms opt to engage in businesses that are vertically related to the existing business of the firm. The firm remains vertically within the same process. While diversifying, firms opt to engage in businesses that are linked forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

Backward integration is a step towards creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lower its cost of production. On the other hand forward integration is moving forward in the value chain and entering business lines that use existing products. Forward integration will also take place where organisations enter into businesses of distribution channels.

(b) Concentric diversification amounts to related diversification. In this form of diversification, the new business is linked to the existing businesses through existing systems such as process, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. However, concentric diversification differs from vertically integrated diversification in the nature of the linkage the new product has with the existing ones.

While in vertically integrated diversification, the new product falls within the firm's current process-product chain, in concentric diversification, there is a departure from this vertical linkage. The new product is only connected in a loop-like manner at one or more points in the firm's existing process/technology/product chain. In concentric diversification there are benefits of synergy with the current operations.

(b) When an organization adopts a strategy which requires taking up those activities which are unrelated to the existing businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification. Conglomerate diversification has no common thread at all with the firm's present position. For example, the businesses of Godrej are diversified into furniture, soaps, oils, insecticides and so on.

(d) Turnaround is needed when an enterprise's performance deteriorates to a point that it needs a radical change of direction in strategy, and possibly in structure and culture as well. It is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. It is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is difficult.

The overall goal of turnaround strategy is to return an underperforming or distressed company to normalcy in terms of acceptable levels of profitability, solvency, liquidity and cash flow. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavourable industry characteristics.

(e) Stability strategy is advisable option for the organisations facing recession. During recession businesses face reduced demand for their products even at low prices. Funds become scarce, expenditure on expansion is stopped, profits decline and businesses try to minimise the costs. They work hard to maintain the existing market share, so that company survives the recessionary period.

(f)

Strategy	Meaning	Example
(i) Forward Integration	Gaining ownership or increased control over the next level in the value chain (Manufacturing or intermediaries)	Reliance Industries (owning refineries) diversified into petrol pumps
(ii) Backward Integration	Gaining ownership or increased control over the previous level in the value chain (Manufacturing or suppliers)	An automobile manufactures diversifying into tyre production.
(iii) Horizontal Integration	Seeking ownership or increased control of a firm's competitors	ICICI Bank taking over Bank of Rajasthan
(iv) Conglomerate Diversification	Adding new, unrelated products or services	Yash Birla Group (auto & engineering) decides to enter wellness, solar power and schools.
(v) Divestment	Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU.	Godrej Group's withdrawal from the JV with Sara Lee from Africa
(vi) Liquidation	Liquidation strategy is an extreme and unattractive strategy as it involves closing down a firm and selling its assets. It is considered as the last resort when all other options fail.	Those companies whose products are no more in demand sell all their assets.
(vii) Concentric Diversification	In concentric diversification, the new business are added that are linked to the existing businesses through process, technology or marketing.	Kotak Mahindra Bank gets into insurance and asset management businesses.

(g) (i) Top-Down and Bottom-Up Strategic Planning: Strategic planning determines where an organization is going over the next year or more and the ways for going there. The process is organization-wide or focused on a major function such as a division. As such strategic planning is a top level management function. The flow of planning can be from corporate to divisional level or vice-versa. There are two approaches for strategic planning - top down or bottom up.

Top down strategic planning describes a centralized approach to strategy formulation in which the corporate centre or head office determines mission, strategic intent, objectives and strategies for the organization as a whole and for all parts. Unit managers are seen as implementers of pre-specified corporate strategies.

Bottom up strategic planning is the characteristic of autonomous or semi-autonomous divisions or subsidiary companies in which the corporate centre does not conceptualize its strategic role as being directly responsible for determining the mission, objectives, or strategies of its operational activities. It may prefer to act as a catalyst and facilitator, keeping things reasonably simple and confining itself to perspective and broader strategic intent.

(ii) Concentric diversification occurs when a firm adds related products or markets. On the other hand conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business.

In concentric diversification, the new business is linked to the existing businesses through process, technology or marketing. In conglomerate diversification, no such linkages exist; the new business/product is disjointed from the existing businesses/products.

The most common reasons for pursuing a concentric diversification are that opportunities in a firm's existing line of business are available. However, common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited or opportunities outside are highly lucrative.

(iii) Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. On the other hand, Retrenchment Strategy involves redefinition of business by divesting a major product line or market.

Expansion is a promising and popular strategy that tends to be equated with dynamism, vigour, promise and success. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal.

Expansion may take the enterprise along relatively unknown and risky paths, full of promises and pitfalls. Retrenchment involves regrouping and recouping of the resources.

(iv) In vertically integrated diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process. Sequence moves forward or backward in the chain and enters specific product/process steps with the intention of making them into new businesses for the firm.

On the other hand, horizontal Integrated Diversification is the acquisition of one or more similar business operating at the same stage of the production-marketing chain that is going into complementary products, by-products or taking over competitors' businesses.

(v) According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive.

A primary reason for pursuing forward, backward, and horizontal integration strategies is to gain cost leadership benefits. But cost leadership generally must be pursued in conjunction with differentiation. Different strategies offer different degrees of differentiation. A differentiation strategy should be pursued only after a careful study of buyers' needs and preferences to determine the feasibility of incorporating one or more differentiating features into a unique product. A successful differentiation strategy allows a firm to charge a higher price for its product and to gain customer loyalty.

(vi) **Divestment Strategy:** Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of a turnaround may even be ignored if it is obvious that divestment is the only answer.

Liquidation Strategy: Liquidation as a form of retrenchment strategy is considered as the most extreme and unattractive. It involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities a firm could pursue, and the stigma of failure.

(h) Retrenchment strategy implies substantial reduction in the scope of organization's activity. A business organization can redefine its business by divesting a major product line or market. While retrenching, organizations might set objectives below the past level of objectives. It is essentially a defensive strategy adopted as a reaction to operating problems stemming from either internal mismanagement, unanticipated actions by competitors or hostile and unfavourable changes in the business environmental conditions. With a retrenchment strategy the endeavour of management is to raise the level of enterprise achievements focusing on improvements in the functional performance and cutting down operations with negative cash flows.

(i) Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan.

A divestment strategy may be adopted due to various reasons:

- When a turnaround has been attempted but has proved to be unsuccessful.
- A business that had been acquired proves to be a mismatch and cannot be integrated within the company.
- Persistent negative cash flows from a particular business create financial problems for the whole company.
- Severity of competition and the inability of a firm to cope with it.
- Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it.
- A better alternative may be available for investment.

(j) Backward integration is a step towards, creation of effective supply by entering business of input providers. Strategy employed to expand profits and gain greater control over production of a product whereby a company will purchase or build a business that will increase its own supply capability or lessen its cost of production.

In case of hospitals there can be number of businesses that can be entered. Following are indicative list of backward integration strategies that hospitals may pursue:

- Drugs and pharmaceuticals – Specific drugs can be manufactured or traded.
- Business of gases required in hospitals – oxygen.
- Pathology labs / diagnostic services. This can be created in-house if not available already. Alternatively, a chain can be started.
- Blood Banks.
- Ambulance services.

(k) Acquisitions and mergers are basically combination strategies. Some organizations prefer to grow through mergers. Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity. In a merger two organizations combine to increase their strength and financial gains along with breaking the trade barriers.

When one organization takes over the other organization and controls all its business operations, it is known as acquisition. In this process of acquisition, one financially strong organization overpowers the weaker one. Acquisitions often happen during recession in economy or during declining profit margins. In this process, one that is financially stronger and bigger establishes it power. The combined operations then run under the name of the powerful entity. A deal in case of an acquisition is often done in an unfriendly manner, it is more or less a forced association where the powerful organization either consumes the operation or a company in loss is forced to sell its entity.

(l ***Merger is considered to be a process when two or more companies come together to expand their business operations. In such a case the deal gets finalized on friendly terms and both the organizations share profits in the newly created entity.***

Conglomerate merger happens in case of organizations that are unrelated to each other combine together. There are no linkages with respect to customer groups, customer functions and technologies being used. There are no important common factors between the organizations in production, marketing, research and development and technology. In practice, however, there is some degree of overlap in one or more of these factors.

(m) ***A bakery normally is a small organization that produces and sells flour-based food baked in an oven. Typically, a bakery produces breads, cakes, cookies, pastries, pies, etc. A bakery that is hitherto not into producing pastries starts producing them and other similar products is following concentric diversification which is basically related diversification.***

In this form of diversification, the new business is linked to the existing businesses through existing systems such as processes, technology or marketing. The new product is a spin-off from the existing facilities and products/processes. There are benefits of synergy with the current operations. The most common reasons for pursuing a concentric diversification are that opportunities in existing line of business are available.

(n) *(i)* ***The organisation has adopted market penetration strategy (intensification) through advertising the new uses of its product 'çhokoo mix' aggressively. Here the organisation seeks significant growth – within the current business by selling existing products in the existing markets without changing the product in a major way.***

(ii) ***The company has adopted product development strategy (intensification) by deciding to revise college text books. The company is already in publishing industry and must be having appropriate competencies in dealer network and acceptance amongst the student community. Revising the college text books (new product) would enable it to expand in the college text books segment (existing market).***

(iii) ***The company has adopted backward integration strategy (vertically integrated diversification) by starting to manufacture PFY and PSF, critical raw materials***

for textiles. This strategy, apart from overall growth of the organisation, ensures uninterrupted supply of critical raw materials for the present business of the firm. It will also enable the organization to retain the margins in dealing with the raw materials which otherwise would have gone to its suppliers.

(iv) ***The business giant in auto manufacturing has adopted conglomerate diversification strategy by entering into edible oils, hotels, financial services and dairy businesses. In conglomerate diversification a business enters into new businesses that may have little or no linkages with existing business. The organisation has mammoth growth ambition.***

Questions with Descriptive Answers

Question 3

Under what conditions would you recommend the use of Turnaround strategy in an organization? What could be a suitable work plan for this?

Answer

Rising competition, business cycles and economic volatility have created a climate where no business can take viability for granted. Turnaround strategy is a highly targeted effort to return an organization to profitability and increase positive cash flows to a sufficient level. Organizations that have faced a significant crisis that has negatively affected operations requires turnaround strategy. Turnaround strategy is used when both threats and weaknesses adversely affect the health of an organization so much that its basic survival is a question. When organization is facing both internal and external pressures making things difficult then it has to find something which is entirely new, innovative and different. Being organization's first objective is to survive and then grow in the market; turnaround strategy is used when organization's survival is under threat. Once turnaround is successful the organization may turn to focus on growth.

Conditions for turnaround strategies: When firms are losing their grips over market, profits due to several internal and external factors, and if they have to survive under the competitive environment they have to identify danger signals as early as possible and undertake rectification steps immediately. These conditions may be, inter alia, cash flow problems, lower profit margins, high employee turnover and decline in market share, capacity underutilization, low morale of employees, recessionary conditions, mismanagement, raw material supply problems and so on.

Action plan for turnaround strategy

Stage One – Assessment of current problems: The first step is to assess the current problems and get to the root causes and the extent of damage the problem has caused. Once the problems are identified, the resources should be focused toward those areas essential to efficiently work on correcting and repairing any immediate issues.

Stage Two – Analyze the situation and develop a strategic plan: Before you make any major changes; determine the chances of the business's survival. Identify appropriate strategies and develop a preliminary action plan. For this one should look for the viable core businesses, adequate bridge financing and available organizational resources. Analyze the strengths and weaknesses in the areas of competitive position. Once major problems and opportunities are identified, develop a strategic plan with specific goals and detailed functional actions.

Stage Three – Implementing an emergency action plan: If the organization is in a critical stage, an appropriate action plan must be developed to stop the bleeding and enable the organization to survive. The plan typically includes human resource, financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, prune product lines and accelerate high potential products. A positive operating cash flow must be established as quickly as possible and enough funds to implement the turnaround strategies must be raised.

Stage Four – Restructuring the business: The financial state of the organization's core business is particularly important. If the core business is irreparably damaged, then the outlook for the entire organization may be bleak. Prepare cash forecasts, analyze assets and debts, review profits and analyze other key financial functions to position the organization for rapid improvement.

During the turnaround, the "product mix" may be changed, requiring the organization to do some repositioning. Core products neglected over time may require immediate attention to remain competitive. Some facilities might be closed; the organization may even withdraw from certain markets to make organization leaner or target its products toward a different niche.

The 'people mix' is another important ingredient in the organization's competitive effectiveness. Reward and compensation systems that encourage dedication and creativity encourage employees to think profits and return on investments.

Stage Five – Returning to normal: In the final stage of turnaround strategy process, the organization should begin to show signs of profitability, return on investments and enhancing economic value-added. Emphasis is placed on a number of strategic efforts such as carefully adding new products and improving customer service, creating alliances with other organizations, increasing the market share, etc.

Question 4

Michael E. Porter has suggested three generic strategies. Briefly explain them. What is the basic objective to follow a generic strategy? In what situations can the three strategies be used? Identify the type of strategy used in the following examples:

(a) Dell Computer has decided to rely exclusively on direct marketing.

(b) "Our basic strategy was to charge a price so low that microcomputer makers couldn't do the software internally for that cheaply."

(c) 'NDTV', a TV Channel has identified a profitable audience niche in the electronic media. It has further exploited that niche through the addition of new channels like 'NDTV' Profit and 'Image'.

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. These bases form different generic strategies as follows:

- **Cost leadership** emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. It frequently results from productivity increases and aggressive pursuit of cost reduction throughout the development, production, marketing, and distribution processes. It allows a firm to earn higher profits than its competitors.
- **Differentiation** is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. It concerns with distinguishing a product/service from that of its competitors through unique design features, technological leadership, unique uses of products and attributes like quality, environmental impact and customer service.
- **Focus** means producing products and services that fulfil the specific needs of small groups of consumers. It involves selecting or focussing a market or customer segment in which to operate.

The basic purpose of following a generic strategy is to gain competitive advantage so as to ensure long-time survival and growth.

Situations under which these generic strategies can be used are:

Cost Leadership - When the market is price-sensitive, not much room is left for differentiation. Cost leadership is a better option when buyers do not care much about differences between the brands.

Differentiation – This strategy is suitable when the customers want or can get attracted to specific attribute(s) of the products. It is directed towards creating separate market with a product with different attribute(s). The strategy is useful in a perfectly competitive market where all products look similar.

Focus - Smaller firms may compete on a focus basis. When the customers have distinctive preferences or requirements and the rival firms are not attempting to specialise in the same target segment.

In the given examples the generic strategies that are being followed are given as follows:

(a) Differentiation: Dell Computers is differentiating on product delivery. Computer market is highly competitive and the products are very similar.

(b) Cost Leadership: Keeping the prices low so that microcomputer makers acquire the software rather than developing themselves is a case of cost leadership.

(c) Focus. NDTV has identified a profitable area (audience niche) and is focusing on it.

Question 5

What do you understand by 'Strategy'? Explain the four generic strategies as discussed by Glueck and Jauch.

Answer

Businesses have to respond to a dynamic and often hostile environment in pursuit of their mission. Strategies provide an integral framework for management and negotiate their way through a complex and turbulent external environment. Strategy seeks to relate the goals of the organisation to the means of achieving them.

A company's strategy is the game plan management is using to stake out market position and conduct its operations. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organisational objectives.

Strategy may be defined as a long range blueprint of an organisation's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go. Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness.

The Generic Strategies: According to Glueck and Jauch there are four generic ways in which strategic alternatives can be considered. These are stability, expansion, retrenchment and combinations.

(i) **Stability strategies:** One of the important goals of a business enterprise is stability to safeguard its existing interests and strengths, to pursue well established and tested objectives, to continue in the chosen business path, to maintain operational efficiency on a sustained basis, to consolidate the commanding position already reached, and to optimise returns on the resources committed in the business.

(ii) **Expansion Strategy:** Expansion strategy is implemented by redefining the business by adding the scope of business substantially increasing the efforts of the current business. Expansion is a promising and popular strategy that tends to be equated with dynamism, vigor, promise and success. It is often characterised by significant reformulation of goals and directions, major initiatives and moves involving investments, exploration and onslaught into new products, new technology and new markets, innovative decisions and action programmes and so on. Expansion includes diversifying, acquiring and merging businesses.

(iii) **Retrenchment Strategy:** A business organisation can redefine its business by divesting a major product line or market. Retrenchment or retreat becomes necessary or expedient for coping with particularly hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. In business parlance also, retreat is not always a bad proposition to save the enterprise's vital interests, to minimise the adverse environmental effects, or even to regroup and recoup the resources before a fresh assault and ascent on the growth ladder is launched.

(iv) **Combination Strategies:** Stability, expansion or retrenchment strategies are not mutually exclusive. It is possible to adopt a mix to suit particular situations. An enterprise may seek stability in some areas of activity, expansion in some and retrenchment in the others. Retrenchment of ailing products followed by stability and capped by expansion in some situations may be thought of. For some organisations, a strategy by diversification and/or acquisition may call for a retrenchment in some obsolete product lines, production facilities and plant locations.

Question 6

The Management of a sick company manufacturing various electrical home appliances seeks your advice for an appropriate retrenchment strategy. What will be your advice and why?

Answer

A sick company has huge accumulated losses that have eroded its net worth. The electric home appliance company may analyse its various products to take decisions on their individual viability.

Retrenchment becomes necessary for coping with hostile and adverse situations in the environment and when any other strategy is likely to be suicidal. The nature, extent and timing of retrenchment are matters to be carefully decided by management, depending upon each contingency.

Retrenchment strategy is adopted because:

- ***The management no longer wishes to remain in business either partly or wholly due to continuous losses and unviability.***
- ***The environment faced is threatening.***
- ***Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.***

Retrenchment grand strategy is followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies.

Turnaround strategy:** **If the organization chooses to transform itself into a leaner structure and focuses on ways and means to reverse the process of decline, it adopts a turnaround strategy. It may try to reduce costs, eliminate unprofitable outputs, generate

revenue, improve coordination, better control, and so on. It may also involve changes in top management and reorienting leadership.

Divestment Strategy: Divestment strategy involves the sale or liquidation of a portion of business, or a major division, profit centre or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful.

Liquidation Strategy: In the retrenchment strategy, the most extreme and unattractive is liquidation strategy. It involves closing down a firm and selling its assets.

It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure. Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium-and large-sized companies rarely liquidate in India. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation.

Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition.

The management of a Sick company manufacturing various electrical home appliances be explained about the each of the above three options of retrenchment strategy with their pros and cons. But the appropriate advice with respect to a particular option of retrenchment strategy will depend on the specific circumstances of each electrical home appliances and management goals of the company.

Questions with Hints

Question 7

What is a Corporate Strategy? How organisations can deal with strategic uncertainty?

Answer

Corporate strategy is basically the growth design of the firm. It spells out the growth objective of the firm - the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. Thus, we can also describe corporate strategy as the objective-strategy design of the firm. And, to arrive at such an objective-strategy design is the basic burden of corporate strategy formulation. Strategic uncertainty, uncertainty that has strategic implications, is a key construct in strategy formulation. A typical external analysis will emerge with dozens of strategic uncertainties. To be manageable, they need to be grouped into logical clusters or themes. It is then useful to assess the importance of each cluster in order to set priorities with respect to Information gathering and analysis.

Question 8

What are acquisitions? Discuss with example of two companies?

Answer

Acquisition of or merger with an existing concern is an instant means of achieving the expansion. It is an attractive and tempting proposition in the sense that it circumvents the time, risks and skills involved in screening internal growth opportunities, seizing them and building up the necessary resource base required to materialise growth. Organizations consider merger and acquisition proposals in a systematic manner, so that the marriage will be mutually beneficial, a happy and lasting affair.

Apart from the urge to grow, acquisitions and mergers are resorted to for purposes of achieving a measure of synergy between the parent and the acquired enterprises. Synergy may result from such bases as physical facilities, technical and managerial skills, distribution channels, general administration, research and development and so on. Only positive synergistic effects are relevant in this connection which denote that the positive effects of the merged resources are greater than the some of the effects of the individual resources before merger or acquisition.

Students may give two examples from the industry. Some of the recent / popular instances of acquisition are listed below:

Tata's acquisition of Anglo Dutch steelmaker Corus

Tata's acquisition of British Jaguar Land Rover

Mittal Steel's takeover of Arcelor

HPCL's acquisition of Kenya Petroleum Refinery Ltd.

Hindalco's acquisition Canada based Novelis.

Question 9

What is Strategic Management Process? Briefly explain its each step.

Answer

The term strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then subsequently initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate. The strategy-making/strategy-implementing process consists of five interrelated managerial tasks. These are

- Setting vision and mission.
- Setting objectives.
- Crafting a strategy.
- Implementing and executing.
- Evaluating performance and initiating corrective adjustments.

Question 10

Discuss strategic alternatives with reference to Michael Porter's strategies.

Answer

According to Porter, strategies allow organizations to gain competitive advantage from three different bases: cost leadership, differentiation, and focus. Porter calls these bases as generic strategies. Cost leadership emphasizes producing standardized products at a very low per-unit cost for consumers who are price-sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry wide and directed at consumers who are relatively price-insensitive. Focus means producing products and services that fulfill the needs of even small groups of consumers who are in need of distinctive services.

Porter stresses the need for strategists to perform cost-benefit analyses to evaluate "sharing opportunities" among a firm's existing and potential business units. Sharing activities and resources enhances competitive advantage by lowering costs or raising differentiation. In addition to prompting sharing, Porter stresses the need for firms to "transfer" skills and expertise among autonomous business units effectively in order to gain competitive advantage. Depending upon factors such as type of industry, size of firm and nature of competition, various strategies could yield advantages in cost leadership differentiation, and focus.

Question 11

What are the various bases on which an existing firm can diversify strategically?

Answer

Diversification endeavours can be related or unrelated to existing businesses of the firm. Based on the nature and extent of their relationship to existing businesses, diversification endeavours have been classified into four broad categories:

(i) Vertically integrated diversification

(ii) Horizontally integrated diversification

(iii) Concentric diversification

(iv) Conglomerate diversification

Questions for Practice

1. How a company can deal with strategic uncertainty.

2. Differentiate concentric diversification with vertically integrated diversification.

Activity

Select Financial Newspapers for a period of two months and identify and segregate different strategies being adopted by companies in terms of expansion, diversification, retrenchment, liquidation etc. Find out the reasons for choosing a particular strategy.

5 Formulation of Functional Strategy

Basic Concepts

The chapter introduces and explains various functional strategies required for business strategies. It covers marketing, finance, production, logistics and human resource strategies.

1. Introduction

Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. Functional area strategy such as marketing, financial, production and Human Resource are based on the functional capabilities of an organisation.

2. Marketing Strategy Formulation

The term marketing constitutes different processes, functions, exchanges and activities that are directed towards creating value by satisfying needs of individuals. Marketing induces or helps in moving people closer to making a decision to purchase and facilitate a sale.

Delivering value to Customer

Marketing alone cannot produce superior value for the consumer. It needs to work in coordination with other departments to accomplish this. Marketing acts as part of the organizational chain of activities.

The Marketing Process

The marketing process is the process of analyzing market opportunities, selecting target markets, developing the marketing mix, and managing the marketing effort.

Marketing mix

The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps." The 4 Ps stands for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers.

Product stands for the "goods-and-service" combination the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees.

Price stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. The price of a product is composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

For a new product, an organization may either choose to skim or penetrate the market. In s*kimming* prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product.

Place stands for company activities that make the product available to target consumers. One of the most basic marketing decisions is choosing the most appropriate marketing channel.

Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

Personal Selling: Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them.

Advertising: Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisings are several such as pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Choice of appropriate media is important for effectiveness of the message.

Publicity: Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly.

Sales promotion: Sales promotion is an omnibus term that includes all activities that are undertaken to promote the sales. Activities like discounts, contests, money refunds, instalments, kiosks, exhibitions and fairs constitute sales promotion.

A few new Ps are as follows:

People: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.

Physical evidence: the environment in which the market offering is delivered and where the firm and customer interact.

Process: the actual procedures, mechanisms and flow of activities by which the product/service is delivered.

Marketing Analysis

Marketing analysis involves a complete analysis of the company's situation. A company performs analysis by identifying environmental opportunities and threats. It also analyzes its strengths and weaknesses to determine which opportunities the company can best pursue. Marketing Analyses has three components as planning implementation and control.

Marketing Planning

Marketing planning involves deciding on marketing strategies that will help the company attain its overall strategic objectives. A detailed plan is needed for each business, product, or brand. A product or brand plan may contain different sections: executive summary, current marketing situation, threats and opportunity analysis, objectives and issues, marketing strategies, action programs, budgets, and controls.

Dealing with the Marketing Environment

The company must carefully analyze its environment in order to avoid the threats and take advantage of the opportunities. Areas to be analyzed in the environment normally include:

- Forces close to the company such as its ability to serve customers, other company departments, channel members, suppliers, competitors, and publics.
- Broader forces such as demographic and economic forces, political and legal forces, technological and ecological forces, and social and cultural forces.

Marketing strategy techniques

Social Marketing

It refers to the design, implementation, and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group.

Augmented Marketing

It is provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

Direct Marketing
Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response.
Relationship Marketing
The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholder. For example, British Airways offers special lounges with showers at 199 airports for frequent flyers. Thus, providing special benefits to select customers to strengthen bonds. It will go a long way in building relationships.
Services Marketing
It is applying the concepts, tools, and techniques, of marketing to services. Services is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the, banking, savings, retailing, educational or utilities.
Person Marketing
People are also marketed. Person marketing consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people.
Organization Marketing
It consists of activities undertaken to create, maintain, or change attitudes and behavior of target audiences towards an organization. Both profit and non-profit organizations practice organization marketing.
Place Marketing
Place marketing involves activities undertaken to create, maintain, or change attitudes and behavior towards particular places say, business sites marketing, tourism marketing.
Enlightened Marketing
A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles include customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.
Differential Marketing
A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each.
Synchro-marketing:
When the demand for the product is irregular due to season, some parts of the day, or on hour basis, causing idle capacity or over-worked capacities, synchro-maketing can be used to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives.

Concentrated Marketing:
A market-coverage strategy in which a firm goes after a large share of one or few sub-markets.
Demarketing
Marketing strategies to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it. This happens when there is overfull demand.
3. Financial Strategy Formulation
The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of funds, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business.
Acquiring capital to implement strategies / sources of funds
The major factors regarding which strategies have to be made are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies.
Projected financial statements / budgets
Projected (pro forma) financial statement analysis is a central strategy-implementation technique because it allows an organization to examine the expected results of various actions and approaches. This type of analysis can be used to forecast the impact of various implementation decisions. Nearly all financial institutions require a projected financial statements whenever a business seeks capital.
Management / usage of funds
The management of funds is an important area of financial strategies. It basically deals with decisions related to the systemic aspects of financial management. The major factors regarding which plans and policies related to the management of funds have to be made are: the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax planning and advantages.
Evaluating the worth of a business
Evaluating the worth of a business is central to strategy implementation because integrative, intensive, and diversification strategies are often implemented by acquiring other firms. All the various methods for determining a business's worth can be grouped into three main approaches: The ***first approach*** in evaluating the worth of a business is determining its net worth or stockholders' equity. The ***second approach*** to measuring the value of a firm grows out of the belief that the worth of any business should be based largely on the future benefits its owners may derive through net profits.

The ***third approach***, letting the market determine a business's worth, involves three methods. *First,* base the firm's worth on the selling price of a similar company. The *second* approach is called the price-earnings ratio method. To use this method, divide the market price of the firm's common stock by the annual earnings per share and multiply this number by the firm's average net income for the past five years. The *third* approach can be called the outstanding shares method. To use this method, simply multiply the number of shares outstanding by the market price per share and add a premium. The premium is simply a per-share amount that a person or firm is willing to pay to control (acquire) the company.

Production Strategy Formulation

The strategy for production are related to the production system, operational planning and control, and research and development (R&D). The strategy adopted affects the nature of product/service, the markets to be served, and the manner in which the markets are to be served.

Production System

The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. Strategies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives.

Operations Planning and Control

Strategies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management; and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilized and in what manner the day-to-day operations can be managed in the light of long-term objectives.

5. Logistics Strategy

Management of logistics is a process which integrates the flow of supplies into, through and out of an organization to achieve a level of service which ensures that the right materials are available at the right place, at the right time, of the right quality, and at the right cost. Supply chain management helps in logistics and enables a company to have constant contact with its distribution team.

Supply Chain Management

The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management.

Is logistic management same as supply chain management
Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of logistics to the organizations and enhances customer service.
Implementing Supply Chain Management Systems
Implementing and successfully running supply chain management system will involve:
5.1 Product development
Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all issues related to the product. Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.
5.2 Procurement
Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.
5.3 Manufacturing
Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.
5.4 Physical distribution
Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.
5.5 Outsourcing
Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.

5.6 Customer services

Organizations through interfaces with the company's production and distribution operations develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers

5.7 Performance measurement

There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm's performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

6. Research and Development

Research and development (R&D) personnel can play an integral part in strategy implementation.

Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

There must be effective interactions between R&D departments and other functional departments in implementing different types of generic business strategies. Conflicts between marketing, finance/accounting, R&D, and information systems departments can be minimized with clear policies and objectives.

7. Human Resource Strategy Formulation

Strategic responsibilities of the human resource manager include assessing the staffing needs and costs for alternative strategies proposed during strategy formulation and developing a staffing plan for effectively implementing strategies. A well-designed strategic-management system can fail if insufficient attention is given to the human resource dimension.

The role of human resources in enabling the organization to effectively deal with the external environmental challenges, the human resource management function has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and rewarding of personnel. An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence is very important.

Strategy and Human Resource Management

Strategic human resource management may be defined as the linking of human resource management with strategic goals and objectives to improve business performance and develop organizational culture that fosters innovation and flexibility. The success of an organization depends on its human resources. This means how they are acquired, developed, motivated and retained in the organization play an important role in organizational success. This presupposes an integrated approach towards human resource functions and overall business functions of an organization.

Strategic Role of Human Resource Management
The prominent areas where the human resource manager can play strategic role are as follows:
7.1 Providing purposeful direction
The human resource management must be able to lead people and the organization towards the desired direction involving people right from the beginning.
7.2 Creating competitive atmosphere
There are two important ways of business can achieve a competitive advantages over the others. The first is cost leadership which means the firm aims to become a low cost leader in the industry. The second competitive strategy is differentiation under which the firm seeks to be unique in the industry in terms of dimensions that are highly valued by the customers. Putting these strategies into effect carries a heavy premium on having a highly committed and competent workforce.
7.3 Facilitation of change
The Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personnel function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo.
7.4 Diversion of workforce
In a modern organization, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female workers, young and old workers, educated and uneducated workers, unskilled and professional employee, etc.
7.5 Empowerment of human resources
Empowerment means authorizing every member of a society or organization to take care of his/her own destiny realizing his/her full potential. It involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.
7.6 Building core competency
The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. This may be in the form of human resources, marketing, capability, or technological capability.
7.7 Development of works ethics and culture
Greater efforts will be needed to achieve cohesiveness because workers will have transient commitment to groups. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary.

Very Short Answer Type Questions

Question 1

Explain the meaning of the following concepts:

(a) Relationship Marketing

(b) Supply Chain Management

(c) Joint Venture

(d) Service Marketing

(e) Enlightened Marketing

(f) Person Marketing

(g) Logistics Strategy

(h) Production System

(i) Differential Marketing

(j) Synchro-marketing

Answer

(a) Relationship marketing is the process of creating, maintaining, and enhancing strong, value-laden relationship with customers and other stakeholders, thus, providing special benefits to select customers to strengthen bonds. It will go a long way in building relationship.

(b) Supply chain management is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of logistics of an organisations and enhances customer service by linkages between suppliers, manufacturers and customers. Supply chain management is an extension of logistics management.

(c) A joint venture is a business agreement in which parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

(d) Service Marketing is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing. These may be from business to consumer and from business to business.

(e) Enlightened Marketing helps a company to support the best long-run performance of the marketing system. It is based on five principles – customer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing, and societal marketing.

(f) Person marketing consists of activities undertaken to create, maintain or change attitudes or behavior towards particular people. For example, politicians, sport stars, film stars, professionals market themselves to get votes or promote their careers and income.

(g) Logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy, it is defining the service levels at which its logistics is smooth and is cost effective.

(h) The production system is concerned with the activities directed towards creation of products and services for customers. It covers factors such as capacity, location, layout, design, work systems, automation, and so on.

(i) A market-coverage strategy in which a firm decides to target several market segments and designs separate offer for each. Differentiation can be achieved through variation in size, shape, colour, brand names and so on.

(j) Synchro-marketing: When the demand for the product is irregular causing idle capacity or over-worked capacities, synchro-marketing can be used to find ways to alter the pattern of demand so that it equates more suitably with the pattern of supply. It can be done through flexible pricing, promotion, and other incentives.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) Functional level constitutes the lowest hierarchical level of strategic management

(b) Market penetration ignores competition.

(c) Skimming means keeping price very low.

(d) PLC is an S shaped curve

(e) Augmented marketing is provision of additional customer services and benefits.

(f) Tele-shopping is an instance of direct marketing.

(g) Supply chain management is conceptually wider than logistic management.

(h) Human resource management aids in strategic management.

(i) Production strategy implements, supports and drives higher strategies.

(j) Marketers alone can deliver superior value to customers.

(k) The role of human resource manager is significant in building up core competency of the firm.

(l) Demarketing strategies may aim to reduce demand temporarily or permanently.

Answer

(a) **Correct:** Functional-level managers and strategies operate at the lowest hierarchical level of strategic management. Functional level is responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Although they are not responsible for the overall performance of the organisation, functional managers nevertheless have a major strategic role to develop functional strategies in their area that help to fulfil the strategic objectives set by business and corporate-level managers.

(b) **Incorrect:** Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. Penetration might require greater spending on advertising or personal selling. Overcoming competition in a mature market requires an aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors.

(c) **Incorrect:** In skimming, prices of a new product are kept at a very high level. The idea is to take advantage of the initial interest that a new product generates amongst the buyers who are relatively price insensitive.

(d) **Correct:** Product Life cycle (PLC) which is a graphical depiction of sales over time is an '*S*' shaped curve with four stages – introduction, growth, maturity and decline. The pattern is shared by all product group and families though the duration for each phase is different in each case. Identification of PLC stages for a product/service offers useful insights for marketing management.

(e) **Correct**: Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

(f) **Correct:** Direct marketing is done through various advertising media that interact directly with customer. Teleshopping is a form of direct marketing which operates without conventional intermediaries and employs television and other IT devices for reaching the customer. The communication between the marketer and the customer is direct through third party interfaces such as telecom or postal systems.

(g) **Correct:** Supply chain management is an extension of logistic management. Logistic management is related to planning, implementing and controlling the storage & movement of goods & services while supply chain management is much more than that. It is a tool of business transformation and involve delivering the right product at the right time to the right place and at the right price.

(h) **Correct**: The human resource management helps the organization to effectively deal with the external environmental challenges. The function has been accepted as a partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and rewarding of personnel.

(i) **Correct:** For effective implementation of higher level strategies, strategists need to provide direction to functional managers, including production, regarding the plans and policies to be adopted. Production strategy provides a path for transmitting corporate and business level strategy to the production systems and makes it operational. It may relate to production planning, operational system, control and research & development.

(j) **Incorrect**: A marketer alone cannot deliver superior value to the customers. It needs to work in coordination with other departments to accomplish this. It is important to be part of organization chain and marketer needs to work in coordination with other departments in the search for competitive advantages. Organisations need to look at the value chain network along with its own chain of activities and the chain of suppliers, distributors and ultimately customers.

(k) **Correct**: The human resource manager has a significant role to play in developing core competency of the firm. A core competence is a unique strength of an organization which may not be shared by others. Core-competencies can be generated and maintained only through the effective management of human resources and their skills.

(l) ***<u>Correct</u>: Demarketing is a marketing strategy to reduce demand temporarily or permanently – the aim is not to destroy demand, but only to reduce or shift it. This happens when the demand is too much to handle. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.***

Question 3

Briefly answer the following questions:

(a) *Explain the term marketing.*

(b) *Enlist the components of marketing mix.*

(c) *Define augmented marketing.*

(d) *Define Demarketing.*

(e) *Logistics Strategy.*

(f) *Does HRM function play a role in organizational strategy?*

(g) *Write short notes on the Elements of Marketing Mix*

(h) *Successful implementation of any project needs additional funds. What are the different sources of raising funds and their impact on the financial strategy which you as a Financial Manager will consider?*

OR

'Determining an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation'. Discuss.

(i) *Explain the strategic role of Human Resources Management in the following areas:*

(a) *Facilitation of Change*

(b) *Building Core Competency*

(c) *Development of Work Ethics and Culture*

(j) *"Evaluating the worth of a business is central to strategy implementation." In the light of this statement, explain the methods that can be used for determining the worth of a business.*

(k) *Explain any three prominent areas where Human Resource Manager can play a strategic role.*

(l) *Distinguish between Logistic Management and Supply Chain Management.*

OR

"Supply Chain Management is conceptually wider than Logistic Management". Explain.

(m) *State the factors of human resource that influence on employees competence.*

(n) *What do you understand by functional structure?*

(o) *Distinguish between social marketing and service marketing*

(p) *Write short note on Production System*

(q) *How would you argue that Research and Development Personnel are important for effective strategy implementation?*

(r) *Write short note on expanded marketing mix.*

(s) Write short note on Publicity and Sales Promotion.

Answer

(a) In general, marketing is an activity performed by business organizations. In the present day for business, it is considered to be the activities related to identifying the needs of customers and taking such actions to satisfy them in return of some consideration. The term marketing constitutes different processes, functions, exchanges and activities that create perceived value by satisfying needs of individuals.

(b) Marketing mix is a systematic way of classifying the key decision areas of marketing management. It is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The original framework of marketing mix comprises of 4Ps- product, price, place and promotion. These are subsequently expanded to highlight certain other key decision areas like people, processes, and physical evidence. The elements of original framework are:

- **Product**: It stands for the "goods-and-service" combination the company offers to the target market.
- **Price**: It stands for the amount of money customers have to pay to obtain the product.
- **Place:** It stands for company activities that make the product available to target consumers and include marketing channel, distribution policies and geographical availablity.
- **Promotion:** It stands for activities that communicate the merits of the product and persuade target consumers to buy it.

(c) Augmented marketing refers to deliberate and accelerated efforts to get better marketing returns through additional means. It includes provision of additional customer services and benefits built around the care and actual products that relate to introduction of hi-tech services like movies on demand, on-line computer repair services, secretarial services, etc. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.

(d) Demarketing is a marketing strategy to reduce demand temporarily or permanently-the aim is not to destroy demand, but only to reduce or shift it. This happens when the demand is too much to handle. For example, buses are overloaded in the morning and evening, roads are busy for most of times, zoological parks are over-crowded on Saturdays, Sundays and holidays. Here demarketing can be applied to regulate demand.

(e) Management of logistics is a process which integrates the flow of materials into, through and out of an organization to achieve a level of service that the right materials are available at the right place at the right time, of right quality and at the right cost. For a business organization effective logistics strategy will involve raising and finding solutions to the questions relating to raw material, manufacturing locations, products, transportation and deployment of inventory. Improvement in logistics can result in saving in cost of doing business.

When a company creates a logistics strategy, it is defining the service levels at which its logistics systems are highly effective. A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers to address different categorical requirements.

(f) The role of human resources in enabling the organization to effectively deal with the external environmental challenges, the human resource management function has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and rewarding of personnel. An organization's recruitment, selection, training, performance appraisal, and compensation practices can have a strong influence on employee competence is very important.

(g) Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These are usually referred to as 4Ps - product, price, place and promotion.

Product stands for the "goods-and-service" combination the company offers to the target market. Price stands for the amount of money customers have to pay to obtain the product. Place stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate channel to reach target customer. Promotion stands for activities that communicate the merits of the product and persuade target consumers to buy it. It includes - Personal Selling, Advertising, Publicity and Sales promotion

The traditional concept of 4Ps is also expanded further with more Ps such as, people, physical evidence and process. Under the dynamics of market all the Ps are extremely important so as to build and sustain a competitive advantage over the rivals.

(h) Successful strategy implementation often requires additional capital. Besides net profit from operations and the sale of assets, two basic sources of capital for an organization are debt and equity. Being a financial manager to determine an appropriate mix of debt and equity in a firm's capital structure can be vital to successful strategy implementation. Fixed debt obligations generally must be met, regardless of circumstances. This does not mean that stock issuances are always better than debt for raising capital. If ordinary stock is issued to finance strategy implementation; ownership and control of the enterprise are diluted. This can be a serious concern in today's business environment of hostile takeovers, mergers, and acquisitions.

The major factors regarding which strategies have to be made by a financial manager are: capital structure; procurement of capital and working capital borrowings; reserves and surplus as sources of funds; and relationship with lenders, banks and financial institutions. Strategies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies. Organizations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing.

(i) (a) Facilitation of change: The Human resource will be more concerned with substance rather than form, accomplishments rather than activities, and practice rather than theory. The personnel function will be responsible for furthering the organization not just maintaining it. Human resource management will have to devote more time to promote changes than to maintain the status quo.

(b) Building core competency: The human resource manager has a great role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. If the business is organized on the basis of core competency, it is likely to generate competitive advantage. Because of this reason, many organizations have restructured their businesses by divesting those businesses which do not match core competence.

(c) Development of works ethics and culture: As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide challenge. Flexible starting and quitting times for employees may be necessary. Focus will shift from extrinsic to intrinsic motivation. A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

(j) It is true that evaluating the worth of a business is central to strategy implementation. There are circumstances where it is important to evaluate the actual worth of the business. These circumstances can be wide and varied. At a higher level they may include acquisition, merges or diversification. They may also include other situations such as fixing of share price in an issue. Acquisition, merger, retrenchment may require establishing the financial worth or cash value of a business to successfully implement such strategies.

Various methods for determining a business's worth can be grouped into three main approaches.

(i) Net worth or stockholders' equity: Net worth is the total assets minus total outside liabilities of an organisation.

(ii) Future benefits to owners through net profits: These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

(iii) Market-determined business worth: This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

(k) The prominent areas where the human resource manager can play strategic role are as follows:

1. **Providing purposeful direction:** The human resource manager must be able to lead people and the organization towards the desired direction involving people. He has to ensure harmony between organisational objectives and individual objectives. Objectives are specific aims which must be in the line with the goal of the organization and the all actions of each person must be consistent with them.

2. **Creating competitive atmosphere:** In the present business environment, maintaining competitive position or gains is an important objective of any business. Having a highly committed and competent workforce is very important for getting a competitively advantageous position.
3. **Facilitation of change:** The human resource manager will be more concerned about furthering the organization not just maintaining it. He has to devote more time to promote acceptance of change rather than maintaining the status quo.
4. **Diversion of workforce:** In a modern organization, management of diverse workforce is a great challenge. Workforce diversity can be observed in terms of male and female, young and old, educated and uneducated, unskilled and professional employee and so on. Maintaining a congenial healthy work environment is a challenge for HR Manager. Motivation, maintaining morale and commitment are some of the key task that a HR manager has to perform.
5. **Empowerment of human resources:** Empowerment involves giving more power to those who, at present, have little control what they do and little ability to influence the decisions being made around them.
6. **Building core competency:** The human resource manager has an important role to play in developing core competency by the firm. A core competence is a unique strength of an organization which may not be shared by others. Organization of business around core competence implies leveraging the limited resources of a firm. It needs creative, courageous and dynamic leadership having faith in organization's human resources.
7. **Development of works ethics and culture:** A vibrant work culture will have to be developed in the organizations to create an atmosphere of trust among people and to encourage creative ideas by the people. Far reaching changes with the help of technical knowledge will be required for this purpose.

(l) Supply chain management is an extension of logistic management. However, there are differences between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfillment of orders, inventory management and supply/demand planning. Although these activities also form part of supply chain management, the latter is much broader. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management is an integrating function of all the major business activities and business processes within and across organisations. Supply Chain Management is a systems view of the linkages in the chain consisting of different channel partners – suppliers, intermediaries, third-party service providers and customers. Different elements in the chain work together in a collaborative and coordinated manner. Often it is used as a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price.

(m) Human resource management has been accepted as a strategic partner in the formulation of organization's strategies and in the implementation of such strategies through human resource planning, employment, training, appraisal and reward systems. The following points should be kept in mind as they can have a strong influence on employee competence:

i. **Recruitment and selection:** The workforce will be more competent if a firm can successfully identify, attract, and select highly competent applicants.

ii. **Training:** The workforce will be more competent if employees are well trained to perform their jobs properly.

iii. **Appraisal of performance:** The performance appraisal is to identify any performance deficiencies experienced by employees due to lack of competence. Such deficiencies, once identified, can often be solved through counselling, coaching or training.

iv. **Compensation:** A firm can usually increase the competency of its workforce by offering pay, benefits and rewards that are not only attractive than those of their competitors but also recognizes merit.

(n) Functional structure is widely used because of its simplicity and low cost. A functional structure groups tasks and activities by business function.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering and human resources. Disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, etc.

(o) Social marketing and service marketing are marketing strategies primarily with different orientations. Social Marketing refers to the design, implementation and control of programs seeking to increase the acceptability of a social ideas, cause, or practice among a target group. For instance, the publicity campaign for prohibition of smoking or encouraging girl child, etc.

On the other hand, service marketing is applying the concepts, tools, and techniques, of marketing to services. Service is any activity or benefit that one party can offer to another that is essentially intangible and non-perishing. These may be from business to consumer and from business to business.

(p) Production System is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and such factors. Strategies related to production system are significant as they deal with vital issues affecting the capability of the organisation to achieve its objectives.

Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives.

(q) Research and Development (R&D) personnel can play an integral part in strategy implementation. These individuals are generally charged with developing new products and improving old products in a way that will allow effective strategy implementation. R&D employees and managers perform tasks that include transferring complex technology, adjusting processes to local raw materials, adapting processes to local markets, and altering products to particular tastes and specifications.

Strategies such as product development, market penetration, and concentric diversification require that new products be successfully developed and that old products be significantly improved. But the level of management support for R&D is often constrained by resource availability.

(r) Expanded Marketing Mix: Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. There are a few more elements that may form part of an organizational marketing mix strategy as follows:

People: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.

Physical evidence: the environment in which the market offering is delivered and where the firm and customer interact.

Process: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

(s) ***Publicity and Sales promotion are adopted by organizations when they are undertaking promotion in the overall marketing mix.***

Publicity is a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their product without payment. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly.

Thus it is way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, installments, kiosks, exhibitions and fairs constitute sales promotion. All these are

meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share to an organization.

Questions with Descriptive Answers

Question 4

What is meant by Functional strategies? In term of level where will you put them? Are functional strategies really important for business?

Answer

Once higher level corporate and business strategies are developed, management need to formulate and implement strategies for each functional area. For effective implementation, strategists have to provide direction to functional managers regarding the plans and policies to be adopted. In fact, the effectiveness of strategic management depends critically on the manner in which strategies are implemented. Strategy of one functional area can not be looked at in isolation, because it is the extent to which all the functional tasks are interwoven that determines the effectiveness of the major strategy.

Functional area strategy such as marketing, financial, production and human resource are based on the functional capabilities of an organisation. For each functional area, first the major sub areas are identified and then for each of these sub functional areas, contents of functional strategies, important factors, and their importance in the process of strategy implementation is identified.

In terms of the levels of strategy formulation, functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Functional strategies are made within the higher level strategies and guidelines therein that are set at higher levels of an organisation. Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

Major strategies need to be translated to lower levels to give holistic strategic direction to an organisation. Functional strategies provide details to business strategy & govern as to how key activities of the business will be managed. Functional strategies play two important roles. Firstly, they provide support to the overall business strategy. Secondly, they spell out as to how functional managers will work so as to ensure better performance in their respective functional areas. The reasons why functional strategies are really important and needed for business can be enumerated as follows:

- The development of functional strategies is aimed at making the strategies-formulated at the top management level-practically feasible at the functional level.
- Functional strategies facilitate flow of strategic decisions to the different parts of an organisation.
- They act as basis for controlling activities in the different functional areas of business.

- The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken.
- Functional strategies help in bringing harmony and coordination as they remain part of major strategies.
- Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers.

Question 5

What do you mean by financial strategy of an organization? How the worth of a business is evaluated?

Answer

The financial strategies of an organization are related to several finance/ accounting concepts considered to be central to strategy implementation. These are: acquiring needed capital/sources of fund, developing projected financial statements/budgets, management/ usage of funds, and evaluating the worth of a business.

Various methods for determining a business's worth can be grouped into three main approaches which are as follows:

(i) **Net worth or stockholders' equity:** Net worth is the total assets minus total outside liabilities of an organisation.

(ii) **Future benefits to owners through net profits:** These benefits are considered to be much greater than the amount of profits. A conservative rule of thumb is to establish a business's worth as five times the firm's current annual profit. A five-year average profit level could also be used.

(iii) **Market-determined business worth:** This, in turn, involves three methods. First, the firm's worth may be based on the selling price of a similar company. The second approach is called the price-earnings ratio method whereby the market price of the firm's equity shares is divided by the annual earnings per share and multiplied by the firm's average net income for the preceding years. The third approach can be called the outstanding shares method whereby one has to simply multiply the number of shares outstanding by the market price per share and add a premium.

Question 6

What do you understand by the term marketing mix? Discuss its various constituents.

Answer

Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the “4 Ps.” The 4 Ps stand for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company’s marketing objectives by delivering value to consumers. The 4 Ps are from a marketer’s angle. When translated to buyers angle they may be termed as 4 Cs. Product may be referred as customer solution, price as customer cost, place as convenience and promotion as communication.

- **Product** stands for the “goods-and-service” combination the company offers to the target market. Strategies are needed for managing existing product over time adding new ones and dropping failed products. Strategic decisions must also be made regarding branding, packaging and other product features such as warrantees.

  Products and markets are infinitely dynamic. An organization has to capture such dynamics through a set of policies and strategies. Some products have consistent customer demand over long period of time while others have short and fleeting life spans. There are products that have wide range of quality and workmanship and these also change over time. There are industrial or consumer products, essentials or luxury products, durables or perishables.

  Products can be differentiated on the basis of size, shape, colour, packaging, brand names, after-sales service and so on. Organizations seek to hammer into customers’ minds that their products are different from others. It does not matter whether the differentiation is real or imaginary. Quite often the differentiation is psychological rather than physical. It is enough if customers are persuaded to believe that the marketer’s product is different from others.

  Organizations formalize product differentiation through christening ‘brand names’ to their respective products. These are generally reinforced with legal sanction and protection. Brands enable customers to identify the product and the organization behind it. The products’ and even firms’ image is built around brand through advertising and other promotional strategies. Customers tend to develop strong brand loyalty for a particular product over a period of time.

- **Price** stands for the amount of money customers have to pay to obtain the product. Necessary strategies pertain to the location of the customers, price flexibility, related items within a product line and terms of sale. The price of a product is its composite expression of its value and utility to the customer, its demand, quality, reliability, safety, the competition it faces, the desired profit and so on.

  In an industry there would be organizations with low cost products and other organizations with high costs. The low cost organizations may adopt aggressive pricing strategy as they enjoy more freedom of action in respect of their prices. They may also afford selective increase in costs to push their sales.

  Theoretically, organizations may also adopt cost plus pricing wherein a margin is added to the cost of the product to determine its price. However, in the competitive environment such an approach may not be feasible. More and more companies of today have to accept the market price with minor deviations and work towards their costs. They reduce their costs in order to maintain their profitability.

For a new product pricing strategies for entering a market needs to be designed. In pricing a really new product at least three objectives must be kept in mind.

(a) Making the product acceptable to the customers.

(b) Producing a reasonable margin over cost.

(c) Achieving a market that helps in developing market share.

For a new product an organization may either choose to skim or penetrate the market. In s*kimming* prices are set at a very high level. The product is directed to those buyers who are relatively price insensitive but sensitive to the novelty of the new product. For example call rates of mobile telephony were set very high initially. Even the incoming calls were charged. Since the initial offtake of the product is low, high price, in a way, helps in rationing of supply in favour of those who can afford it. In *penetration* firm keeps a temptingly low price for a new product which itself is selling point. A very large number of the potential consumer may be able to afford and willing to try the product.

- **Place** stands for company activities that make the product available to target consumers. One of the most basic marketing decision is choosing the most appropriate marketing channel. Strategies should be taken for the management of channel(s) by which ownership of product is transferred from producers to customers and in many cases, the system(s) by which goods are moved from where they are produced to where they are purchased by the final customers. Strategies applicable to the middleman such as wholesalers and retails must be designed.

  The distribution policies of a company are important determinants of the functions of marketing. The decision to utilize a particular marketing channel or channels sets the pattern of operations of sales force.

- **Promotion** stands for activities that communicate the merits of the product and persuade target consumers to buy it. Strategies are needed to combine individual methods such as advertising, personal selling, and sales promotion into a coordinated campaign. In addition promotional strategies must be adjusted as a product move from an earlier stages from a later stage of its life.

  Modern marketing is highly promotional oriented. Organizations strive to push their sales and market standing on a sustained basis and in a profitable manner under conditions of complex direct and indirect competitive situations. Promotion also acts as an impetus to marketing. It is simultaneously a communication, persuasion and conditioning process. There are at least four major direct promotional methods or tools – personal selling, advertising, publicity and sales promotion. They are briefly explained as follows:

  (i) *Personal Selling:* Personal selling is one of the oldest forms of promotion. It involves face-to-face interaction of sales force with the prospective customers and provides a high degree of personal attention to them. In personal selling, oral communication is made with potential buyers of a product with the intention of making a sale. It may initially focus on developing a relationship with the potential buyer, but end up with efforts for making a sale. Personal selling suffers from a very high costs as sales personnel are expensive. They can physically attend only one customer at a time. Thus it is not a cost-effective way of reaching a large number of people.

(ii) *Advertising:* Advertising is a non-personal, highly flexible and dynamic promotional method. The media for advertisings are several such as pamphlets, brochures, newspapers, magazines, hoardings, display boards, radio, television and internet. Choice of appropriate media is important for effectiveness of the message. The media may be local, regional, or national. The type of the message, copy, illustration are a matter of choice and creativity. Advertising may be directed towards consumers, middlemen or opinion leaders. Advertising is likely to succeed in promoting the sales of an organization but its effectiveness in respect to the expenditure can not be directly measured. Sales is a function of several variables out of which advertising is only one.

(iii) *Publicity:* Publicity is also a non-personal form of promotion similar to advertising. However, no payments are made to the media as in case of advertising. Organizations skillfully seek to promote themselves and their product without payment. Publicity is communication of a product, brand or business by placing information about it in the media without paying for the time or media space directly. Thus it is a way of reaching customers with negligible cost. Basic tools for publicity are press releases, press conferences, reports, stories, and internet releases. These releases must be of interest to the public.

(iv) *Sales promotion:* Sales promotion is an omnibus term that includes all activities that are undertaken to promote the business but are not specifically included under personal selling, advertising or publicity. Activities like discounts, contests, money refunds, installments, kiosks, exhibitions and fairs constitute sales promotion. All these are meant to give a boost to the sales. Sales promotion done periodically may help in getting a larger market share to an organization.

Expanded Marketing Mix: Typically, all organizations use a combination of 4 Ps in some form or the other. However, the above elements of marketing mix are not exhaustive. It is pertinent to discuss a few more elements that may form part of an organizational marketing mix strategy. They have got more currency in recent years. Growth of services has its own share for the inclusion of newer elements in marketing. A few new Ps are as follows:

- **People**: all human actors who play a part in delivery of the market offering and thus influence the buyer's perception, namely the firm's personnel and the customer.
- **Physical evidence**: the environment in which the market offering is delivered and where the firm and customer interact.

- **Process**: the actual procedures, mechanisms and flow of activities by which the product / service is delivered.

Question 7

What is supply chain management? Is it same as logistics management? Discuss.

Answer

The way businesses were conducted in the yesteryears is entirely different as they are conducted now. Today, organisations work in highly turbulent environment. There are several changes in business environment that have contributed to the development of supply chain networks. The technology has made impact on all spheres of business activities. Organisational systems have improved. Even the available infrastructure is improving. Technological changes and reduction in information communication costs with increase in its speed has led to changes in coordination among the members of the supply chain network. Availability of newer technologies have resulted in creation of innovative products with shorter product life cycles.

Traditionally companies have been managing themselves by taking orders, buying supplies, manufacturing products and shipping them from their warehouses. Such organisations may lose out the businesses that strongly lay their focus on key areas of marketing, branding and delivering value to the customer and outsourcing the rest. Today organisations and individual customers have become more demanding. They desire customised products that are made according to their needs. They also aspire that these should be available at lower costs.

The term supply chain refers to the linkages between suppliers, manufacturers and customers. Supply chains involve all activities like sourcing and procurement of material, conversion, and logistics. Planning and control of supply chains are important components of its management. Naturally, management of supply chains include closely working with channel partners – suppliers, intermediaries, other service providers and customers.

Supply chain management is defined as the process of planning, implementing, and controlling the supply chain operations. It is a cross-functional approach to managing the movement of raw materials into an organization and the movement of finished goods out of the organization toward the end-consumer who are to be satisfied as efficiently as possible. It encompasses all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption. Organizations are finding that they must rely on the chain to successfully compete in the global market.

Modern organizations are striving to focus on core competencies and reduce their ownership of sources of raw materials and distribution channels. These functions can be outsourced to other business organizations that specialize in those activities and can perform in better and cost effective manner. In a way organizations in the supply chain do tasks according to their core-competencies. Working in the supply chain improve trust and collaboration amongst partners and thus improve flow and management of inventory.

Is logistic management same as supply chain management?

Supply chain management is an extension of logistic management. However, there is difference between the two. Logistical activities typically include management of inbound and outbound goods, transportation, warehousing, handling of material, fulfilment of orders, inventory management, supply/demand planning. Although these activities also form part of Supply chain management, the latter has different components. Logistic management can be termed as one of its part that is related to planning, implementing, and controlling the movement and storage of goods, services and related information between the point of origin and the point of consumption.

Supply chain management includes more aspects apart from the logistics function. It is a tool of business transformation and involves delivering the right product at the right time to the right place and at the right price. It reduces costs of organizations and enhances customer service.

Question 8

Discuss major steps in implementing supply chain management systems in a business organization.

OR

What are the requirements for the successful implementation of supply chain management system? Discuss.

Answer

Successful implementing supply management systems requires a change from managing individual functions to integrating activities into key supply chain processes. It involves collaborative work between buyers and suppliers, joint product development, common systems and shared information. A key requirement for successfully implementing supply chain will be network of information sharing and management. The partners need to link together to share information through electronic data interchange and take decisions in timely manner.

Implementing and successfully running supply chain management system will involve:

1. **Product development:** Customers and suppliers must work together in the product development process. Right from the start the partners will have knowledge of all. Involving all partners will help in shortening the life cycles. Products are developed and launched in shorter time and help organizations to remain competitive.
2. **Procurement:** Procurement requires careful resource planning, quality issues, identifying sources, negotiation, order placement, inbound transportation and storage. Organizations have to coordinate with suppliers in scheduling without interruptions. Suppliers are involved in planning the manufacturing process.
3. **Manufacturing:** Flexible manufacturing processes must be in place to respond to market changes. They should be adaptive to accommodate customization and changes in the

taste and preferences. Manufacturing should be done on the basis of just-in-time (JIT) and minimum lot sizes. Changes in the manufacturing process be made to reduce manufacturing cycle.

4. **Physical distribution:** Delivery of final products to customers is the last position in a marketing channel. Availability of the products at the right place at right time is important for each channel participant. Through physical distribution processes serving the customer become an integral part of marketing. Thus supply chain management links a marketing channel with customers.
5. **Outsourcing:** Outsourcing is not limited to the procurement of materials and components, but also include outsourcing of services that traditionally have been provided within an organization. The company will be able to focus on those activities where it has competency and everything else will be outsourced.
6. **Customer services:** Organizations, through interfaces with the company's production and distribution operations, develop customer relationships so as to satisfy them. They work with customer to determine mutually satisfying goals, establish and maintain relationships. This in turn help in producing positive feelings in the organization and the customers.
7. **Performance measurement:** There is a strong relationship between the supplier, customer and organisation. Supplier capabilities and customer relationships can be correlated with a firm performance. Performance is measured in different parameters such as costs, customer service, productivity and quality.

Questions with Hints

Question 9

What is marketing mix? A company launches a new brand of ice creams. It keeps prices much below the prices of similar ice creams that are already in the market. Choose the pricing strategy that is probably being used by the company.

Answer

Marketing mix forms an important part of overall competitive marketing strategy. The marketing mix is the set of controllable marketing variables that the firm blends to produce the response it wants in the target market. The marketing mix consists of everything that the firm can do to influence the demand for its product. These variables are often referred to as the "4 Ps." The 4 Ps stands for product, price, place and promotion. An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by delivering value to consumers.

A company trying to keep the prices of new brand of ice creams too low is trying to penetrate the market. In penetration prices are initially kept at relatively low levels. This is done to attract customers. It is expected that the price sensitive customers will switch to the new brand because of the lower price. The strategy helps in increasing market share or sales volume.

Question 10

What is logistics strategy? What are the areas to examine while developing a logistics strategy?

Answer

Management of logistics is a process that integrates the flow of supplies into, through and out of an organization to achieve a level of service that facilitate movement and availability of materials in a proper manner. When a company creates a logistics strategy it is defining the service levels at which its logistics is smooth and is cost effective.

A company may develop a number of logistics strategies for specific product lines, specific countries or specific customers because of constant changes in supply chains. There are different areas that should be examined for each company that should be considered and should include:

- **Transportation:** Does the current transportation strategies help service levels required by the organisation?
- **Outsourcing:** Areas of outsourcing of logistics function are to be identified. The effect of partnership with external service providers on the desired service level of organisation is also to be examined.
- **Competitors:** Review the procedures adopted by competitors. It is also to be judged whether adopting the procedures followed by the competitors will be overall beneficial to the organisation. This will also help in identifying the areas that may be avoided.
- **Availability of information:** The information regarding logistics should be timely and accurate. If the data is inaccurate then the decisions that are made will be incorrect. With the newer technologies it is possible to maintain information on movement of fleets and materials on real time basis.
- **Strategic uniformity:** The objectives of the logistics should be in line with overall objectives and strategies of the organisation. They should aid in the accomplishment of major strategies of the business organisation.

Questions for Practice

1. *What strategies a company can adopt if they want to launch a new product?*
2. *What is financial strategy? How worth of a business can be evaluated?*
3. *Discuss the concept of production strategy formulation.*
4. *What are the major research and development approaches for implementing strategies?*

Activity

- Prepare a Marketing Plan for a Company providing financial services.

6 Strategy Implementation and Control

Basic Concepts

This chapter covers the concept of strategic implementation, establishing strategic business units (SBUs), strategic leadership and corporate culture.

1. Introduction

Strategic management process does not end when the firm decides what strategies to pursue. There must be a translation of strategic plans into strategic action. Implementing strategy affects an organization from top to bottom.

2. Interrelationships between Strategy Formulation and Implementation

Strategic implementation is concerned with translating a decision into action.

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

The formulation and implementation processes are intertwined. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction.

3. Issues in Strategy Implementation

The different issues involved in strategy implementation are:

- Strategies, by themselves, do not lead to action. Strategies, therefore, have to be activated through implementation.
- Strategies should lead to plans. Plans result in different kinds of programmes.
- Programmes lead to the formulation of projects. It requires separate allocation of funds, and is to be completed within a set time schedule.
- Projects create the needed infrastructure for the day-to-day operations in an organization.

Implementation of strategies is not limited to formulation of plans, programmes, and projects. Projects would also require resources. After that is provided, it would be essential to see that a proper organizational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work.

Given below in sequential manner the issues in strategy implementation which are to be considered:

- Project implementation
- Procedural implementation
- Resource allocation
- Structural implementation
- Functional implementation
- Behavioural implementation

4. Organization Structure and Strategy Implementation

Changes in strategy often require changes in the way an organization is structured for two major reasons:

1. Structure largely dictates how objectives and policies will be established.
2. Structure dictates how resources will be allocated.

Structure undeniably can and does influence strategy. A more important concern is determining what types of structural changes are needed to implement. Seven basic types of organizational structures: functional, divisional by geographic area, divisional by product, divisional by customer, divisional by process, strategic business unit (SBU), and matrix.

4.1 The Functional Structure

Functional structure is widely used because of its simplicity and low cost. A functional structure groups tasks and activities by business function. Disadvantages of a functional structure are that it forces accountability to the top, minimizes career development opportunities, etc.

The functional structure consists of a chief executive officer or a managing director and limited corporate staff with functional line managers in dominant functions such as production, accounting, marketing, R&D, engineering, and human resources. Most large companies abandoned the functional structure in favour of decentralization and improved accountability.

4.2 The Divisional Structure

The divisional structure can be organized in one of four ways: by geographic area, by product or service, by customer, or by process. With a divisional structure, functional activities are performed both centrally and in each separate division.

A divisional structure has some clear advantages. The accountability is clear. Other advantages of the divisional design are that it creates career development opportunities for managers, allows local control of local situations, leads to a competitive climate within an organization, and allows new businesses and products could be added easily.

A divisional structure is costly. The divisional structure by product (or services) is most effective for implementing strategies when specific products or services need special emphasis. Also, this type of structure is widely used when an organization offers only a few products or services, when an organization's products or services differ substantially.

4.3 The Strategic Business Unit (SBU) Structure

The SBU structure is composed of operating units where each unit represents a separate business to which the top corporate officer delegates responsibility for day-to-day operations and business unit strategy to its managers. By such delegation, the corporate office is responsible for formulating and implementing overall corporate strategy and manages SBUs through strategic and financial controls. Hence, the SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer. This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channelling accountability to distinct business units.

4.4 The Matrix Structure

A matrix structure is the most complex of all designs because it depends upon both vertical and horizontal flows of authority and communication (hence the term matrix). In contrast, functional and divisional structures depend primarily on vertical flows of authority and communication.

4.5 Network Structure

A newer and somewhat more radical organizational design, the network structure is an example of what could be termed a "non-structure" by its virtual elimination of in house business functions. Many activities are outsourced. A corporation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response.

4.6 Hourglass Structure

In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers with constricted middle layer. The structure has a short and narrow middle-management level. Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers.

5. Strategic Business Units & Core Competence

In modern times, most corporations organise their businesses into appropriate SBUs. And in their internal appraisal they carry out an assessment of their SBUs. An SBU is a grouping of related businesses, which is amenable to composite planning treatment. As per this concept, a multi-business enterprise groups its multitude of businesses into a few distinct business units in a scientific way. The purpose is to provide effective strategic planning treatment to each one of its products/businesses.

The three most important characteristics of SBU are:

- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.
- Has its own set of competitors.
- Has a manager who has responsibility for strategic planning and profit performance, and who has control of profit-influencing factors.

The identification of SBUs is a convenient starting point for planning since once the company's strategic business units have been identified, the responsibilities for strategic planning can be more clearly assigned.

The Value Chain Analysis

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.

The primary activities of the organization are grouped into five main areas:

- Inbound Logistics
- Operations

- Outbound Logistics
- Marketing and Sales
- Service

Each of these groups of primary activities is linked to support activities. These can be divided into four areas:

- Procurement
- Technology development
- Human resource management
- Infrastructure

Identifying Core Competences

Although a threshold competence in all of these activities is necessary to the organization's successful operation, it is important to identify those competences which critically underpin the organization's competitive advantage. These are known as the core competences and will differ from one organization to another depending on how the company is positioned and the strategies it is pursuing.

It is important to identify an organization's core competences not only for reasons of ensuring or continuing good 'fit' between these core competences and the changing nature of the markets or environment. Core competences may also be the basis on which the organization stretches into new opportunities. So, in deciding which competences are core, this is another criterion which should be used - the ability to exploit the competence in more than one market or arena. The development of 'added value' services and/or geographical spread of markets are two typical ways in which core competences can be exploited to maintain progress once traditional markets are mature or saturated.

Managing linkages

Core competences in separate activities may provide competitive advantage for an organization, but nevertheless over time may be imitated by competitors. Core competences are likely to be more robust and difficult to imitate if they relate to the management of linkages within the organization's value chain and linkages into the supply and distribution chains. It is the management of these linkages which provides 'leverage' and levels of performance which are difficult to match.

6. Leadership and Strategic Implementation

Strategic leadership entails the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. In the today's competitive landscape, strategic leaders are challenged to adapt their frames of reference so that they can deal with rapid, complex changes.

Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organisation's long-term success while maintaining short-term financial stability. It includes determining the firm's strategic direction, aligning the firm's strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm's strategy, when necessary. Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities.

Approaches to leadership

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Transactional leadership style focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

7. Strategic Change

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

8. Strategic Control

The control function involves monitoring the activity and measuring results against pre-established standards, analysing and correcting deviations as necessary and maintaining/adapting the system. The task of control is intended to enable the organisation to continuously learn from its experience and to improve its capability to cope with the demands of organisational growth and development.

9. Building a Strategy-Supportive Corporate Culture

Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment. A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

Very Short Answer Type Questions

Question 1

Explain the meaning of the following concepts:

(a) Out bound Logistics

(b) Value Chain Analysis

(c) Strategic Business Unit

(d) Premise control

Answer

(a) Outbound logistics relate to collection, storage and distribution of the product to customers. It includes all activities such as storage/warehousing of finished goods, order processing, scheduling deliveries, operation of delivery vehicles, etc.

(b) Value chain analysis refers to separate activities which are necessary to underpin an organization's strategies and are linked together both within and around the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities.

(c) A Strategic Business Unit (SBU) is a unit of the company that has a separate mission and objectives which can be planned independently from other company businesses. SBU can be a company division, a product line within a division or even a single product/brand, specific group of customers or geographical location. The SBU is given the authority to make its own strategic decisions within corporate guidelines as long as it meets corporate objectives.

(d) Premise control: A strategy is formed on the basis of certain assumptions or premises about the complex and turbulent organizational environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built. It primarily involves monitoring two types of factors:

(i) Environmental factors such as economic (inflation, liquidity, interest rates), technology, social and regulatory.

(ii) Industry factors such as competitors, suppliers, substitutes.

It is neither feasible nor desirable to control all types of premises in the same manner. Different premises may require different amount of control. Thus, managers are required to select those premises that are likely to change and would severely impact the functioning of the organization and its strategy.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) "Efficiency and effectiveness mean the same in strategic management"

(b) Primarily, strategy formulation is an operational process and strategy implementation is an intellectual process.

(c) Strategy follows structure.

(d) Strategies may require changes in organizational structure.

(e) SBU concepts facilitate multi-business operations.

(f) Culture promote better strategy execution

(g) A core competence is a unique strength of an organization which may not be shared by others.

(h) An organisation's culture is always an obstacle to successful strategy implementation.

(i) A corporate culture is always identical in all the organisations.

(j) "Resistance to change is an impediment in building of strategic supportive corporate culture".

Answer

(a) Incorrect: Efficiency pertains to designing and achieving suitable input output ratios of funds, resources, facilities and efforts whereas effectiveness is concerned with the organization's attainment of goals including that of desired competitive position. While efficiency is essentially introspective, effectiveness highlights the links between the organization and its environment. In general terms, to be effective is to do the right things while to be efficient is to do things rightly.

(b) Incorrect: Strategy formulation is primarily an intellectual process and strategy implementation is primarily an operational process. Strategy formulation is based on strategic decision-making which requires analysis and thinking while strategy implementation is based on strategic as well as operational decision-making which requires action and doing.

(c) Incorrect: Structures are designed to facilitate the strategic pursuit of a firm and, therefore, follows strategy. Without a strategy or reasons for being, it will be difficult to design an effective structure. Strategic developments may require allocation of resources and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate systems.

(d) Correct: Strategies may require changes in structure as the structure dictates how resources will be allocated. Structure should be designed to facilitate the strategic pursuit of a firm and, therefore, should follow strategy. Without a strategy or reasons for being, companies find it difficult to design an effective structure.

(e) Correct: Organizing business along SBU lines and creating strategic business units has become a common practice for multi-product/service and global organizations. It is a convenient and intelligent grouping of activities along distinct businesses and has replaced the conventional groupings. SBU facilitates strategic planning, gaining product-related/market-related specialization, gaining cost-economies and more rational organizational structure.

(f) Correct: Strong cultures in an organisation promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution.

(g) Correct: A core competence is a unique strength of an organization which may not be shared by others. If business is organized on the basis of core competence, it is likely to generate competitive advantage. A core competence provides potential access to a wide variety of markets. Core competencies should be such that it is difficult for competitors to imitate them.

(h) Incorrect: A company's culture is manifested in the values and business principles that management preaches and practices. The beliefs, vision, objectives and business approaches and practices underpinning a company's strategy may be compatible with its culture or may not. When they are compatible the culture becomes a valuable ally in strategy implementation and execution.

(i) Incorrect: Every company has its own organisational culture. Each has its own business philosophy and principles, its own ways of approaching to the problems and making decisions, its own work climate, work ethics, etc. Therefore, corporate culture need not be identical in all organisations. However, every organisation over a period of time inherits and percolates down its own specific work ethos and approaches.

(j) Correct: Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating, and internal work environment. In an organizational effort to build strategic supportive corporate culture resistance can impede its successful implementation and execution.

Question 3

Briefly answer the following questions:

(a) *Difference between Strategy formulation and Strategy implementation.*

(b) *Define competitive advantage.*

(c) *Discuss network structure.*

(d) *What do you mean by core competencies?*

(e) *Components of a Value chain.*

(f) *How a corporate culture can be both strength and weakness of an organisation?*

(g) *Write a short note on advantages on SBU structure.*

(h) *Write a short note on importance of corporate culture.*

(i) *Specify the steps that is needed to initiate & bring changes in the strategic building of any organization.*

(j) *Elaborate the interrelationship between strategy formulation and implementation.*

(k) *What is strategic control? Briefly explain the different types of strategic control?*

(l) *Explain briefly the role of culture in promoting better strategy execution.*

(m) *'A network structure is suited to unstable environment.' Elaborate.*

(n) *Write a short note on Steps for initiating a strategic change.*

(o) *What are the differences between operational control and managementcontrol.*

(p) *Briefly describe the impact of corporate culture on an organization.*

(q) *Write short notes on the characteristics of strategic business unit (SBU)*

(r) *What steps would you suggest to change a company's problem culture?*

(s) What is an 'hour glass structure'? How this structure benefits an organization?

(t) 'To coordinate more complex organizational functions, companies should abandon the simple structure in favour of the functional structure' Discuss.

(u) Distinguish between Transformational Leadership Style and Transactional Leadership Style.

(v) Write short note on Implementation Control.

Answer

(a) Although inextricably linked, strategy implementation is fundamentally different from strategy formulation in the following ways:

Strategy Formulation	Strategy Implementation
- It involves the design and choice of appropriate organisational strategies.	- It is the process of putting the various strategies into action of organizations.
- It is positioning forces before the action.	- It is managing forces during the action
- It focuses on effectiveness.	- It focuses on efficiency.
- It is primarily an intellectual process.	- It is primarily an operational process.
- It requires good intuitive and analytical skills.	- It requires special motivation and leadership skills.
- It requires coordination among a few individuals.	- It requires coordination among many individuals.

(b) Competitive advantage is the position of a firm to maintain and sustain a favorable market position when compared to the competitors. Competitive advantage is ability to offer buyers something different and thereby providing more value for the money. It is the result of a successful strategy. This position gets translated into higher market share, higher profits when compared to those that are obtained by competitors operating in the same industry. Competitive advantage may also be in the form of low cost relationship in the industry or being unique in the industry along dimensions that are widely valued by the customers in particular and the society at large.

(c) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed as 'non-structure' as it virtually eliminates in-house business functions and outsource many of them. A corporation organized in this manner is a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks.

(d) A core competence is a unique strength of an organization which may not be shared by others. Core competencies are those capabilities that are critical to a business achieving competitive advantage. In order to qualify as a core competence, the competency should differentiate the business from any other similar businesses.

(e) Value chain refers to separate activities which are necessary to underpin an organization's strategies and are linked together both inside and outside the organization. Organizations are much more than a random collection of machines, money and people. Value chain of a manufacturing organization comprises of primary and supportive activities. The primary ones are inclusive of inbound logistics, operations, outbound logistics, marketing and sales, and services. The supportive activities relate to procurement, human resource management, technology development and infrastructure.

Value chain analysis helps in maintaining the long-term competitive position of an organization to sustain value for-money in its products or service. It can be helpful in identifying those activities which the organization must undertake at a threshold level of competence and those which represent the core competences of the organization.

(f) The most important phenomenon which often distinguishes one organisation with another is its corporate culture. Corporate culture refers to a company's values, beliefs, business principles, traditions, and ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers.

(i) As a strength: Culture can facilitate communication, decision making and control and instil cooperation and commitment. An organization's culture could be strong and cohesive when it conducts its business according to clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organisation.

(ii) As a weakness: Culture, as a weakness can obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterised as weak when many sub-cultures exists, few values and behavioural norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty and sense of identity.

(g) Advantage of SBU Structure: SBU is any part of a business organization which is treated separately for strategic management purposes. The concept of SBU is helpful in creating an SBU organizational structure. It is discrete element of the business serving product markets with readily identifiable competitors and for which strategic planning can be concluded. It is created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority based on the common strategic interests.

Its advantages are:

- Establishing coordination between divisions having common strategic interests.
- Facilitates strategic management and control on large and diverse organizations.
- Fixes accountabilities at the level of distinct business units.
- Allows strategic planning to be done at the most relevant level within the total enterprise.
- Makes the task of strategic review by top executives more objective and more

effective.

- Helps allocate corporate resources to areas with greatest growth opportunities.

(h) A culture where creativity, embracing change, and challenging the status quo are pervasive themes is very conducive to successful execution of a product innovation and technological leadership strategy. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility is very conducive to successful execution of a strategy of delivering superior customer service.

A strong strategy-supportive culture nurtures and motivates people to do their jobs in ways conducive to effective strategy execution; it provides structure, standards, and a value system in which to operate; and it promotes strong employee identification with the company's vision, performance targets, and strategy. All this makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the company's vision, do their jobs competently and with enthusiasm, and collaborate with others as needed to bring the strategy to success.

(i) The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. For initiating strategic change, three steps can be identified as under:

(i) Recognize the need for change: The first step is to diagnose facets of the corporate culture that are strategy supportive or not. The idea is to determine where the lacuna lies and scope for change exists.

(ii) Create a shared vision to manage change: Objectives and vision of both individuals and organization should coincide. Senior managers need to constantly and consistently communicate the vision not only to inform but also to overcome resistance.

(iii) Institutionalize the change: Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. All these changes should be set up as a practice to be followed by the organization and be able to transfer from one level to another as a well settled practice.

(j) Strategy implementation is the managerial exercise of putting a chosen strategy into place. Strategy execution deals with supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action.

It involves allocation of resources to new courses of action that need to be undertaken. There may be a need for adapting the organization’s structure to handle new activities as well as training personnel and devising appropriate system.

It is crucial to realize the difference between the formulation and implementation because both require very different skills. A business organization will be successful only when the strategy formulation is sound and implementation is excellent.

(k) Strategic Control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended.

There are four types of strategic control:

- Premise control: A strategy is formed on the basis of certain assumptions or premises about the environment. Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
- Strategic surveillance: Strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy.
- Special alert control: At times unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy.
- Implementation control: Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results.

(l) Strong cultures promote good strategy execution when there's fit and hurt execution when there's negligible fit. A culture grounded in values, practices, and behavioral norms that match what is needed for good strategy execution helps energize people throughout the organization to do their jobs in a strategy-supportive manner. A culture built around such business principles as listening to customers, encouraging employees to take pride in their work, and giving employees a high degree of decision-making responsibility. This is very conducive to successful execution of a strategy of delivering superior customer service.

A work environment where the culture matches the conditions for good strategy execution provides a system of informal rules and peer pressure regarding how to conduct business internally and how to go about doing one's job.

A strong strategy-supportive culture makes employees feel genuinely better about their jobs and work environment and the merits of what the company is trying to accomplish. Employees are stimulated to take on the challenge of realizing the organizational vision, do their jobs competently and with enthusiasm, and collaborate with others.

(m) Network structure is a newer and somewhat more radical organizational design. The network structure could be termed a "non-structure" as it virtually eliminates in-house business functions and outsource many of them. An organisation organized in this manner is often called a virtual organization because it is composed of a series of project groups or collaborations linked by constantly changing non-hierarchical, cobweb-like networks. The network structure becomes most useful when the environment of a firm is unstable and is expected to remain so. Under such conditions, there is usually a strong need for innovation and quick response. Instead of having salaried employees, it may contract with people for a specific project or length of time. Long-term contracts with suppliers and distributors replace services that the company could provide for itself.

(n) For initiating strategic change, three steps can be identified as under:

(i) Recognize the need for change: The first step is to diagnose which parts of the present corporate culture are strategy supportive and which are not. This basically means going for environmental scanning involving appraisal of both internal and external capabilities and then identify the problems/improvement areas and determine scope for change.

(ii) Create a shared vision to manage change: Objectives and vision of individuals and organization should coincide. Strategy implementers have to convince all those concerned that the change in business culture is not superficial or cosmetic. The actions taken have to be fully indicative of management's seriousness to new strategic initiatives and associated changes.

(iii) Institutionalise the change: This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking or doing things. Besides, change process must be regularly monitored and reviewed to analyse the after-effects of change. Any discrepancy or deviation should be appropriately addressed.

(o) Differences between Operational Control and Management Control are as under:

(i) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organisation, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.

(ii) Many of the control systems in organisations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.

(p) Corporate culture refers to values, beliefs, business principles, traditions, ways of operating, and internal work environment. An organization's culture is either an important contributor or an obstacle to successful strategy execution. The beliefs, vision, objectives, business approaches and practices underpinning a company's strategy may be compatible with its culture or not. When they are, the culture becomes a valuable ally in strategy implementation and execution. When the culture is in conflict with some aspect of the company's direction, performance targets or strategy, the culture becomes a stumbling block that impedes successful strategy implementation and execution.

A culture grounded in values, practices, and behavioural norms that match what is needed for good strategy execution helps energize people throughout the company to do their jobs in a strategy-supportive manner, adding significantly to the power and effectiveness of strategy execution.

(q) **Strategic Business Unit** (SBU) is a unit of the company that has a separate mission and objectives and which can be planned independently from other businesses of the orgnanisation. The three most important characteristics of SBU are:

- It is a single business or a collection of related businesses which offer scope for independent planning and which might feasibly stand alone from the rest of the organization.
- Has its own set of competitors?
- Has a manager who has responsibility for strategic planning and profit performance. He has control of profit-influencing factors.

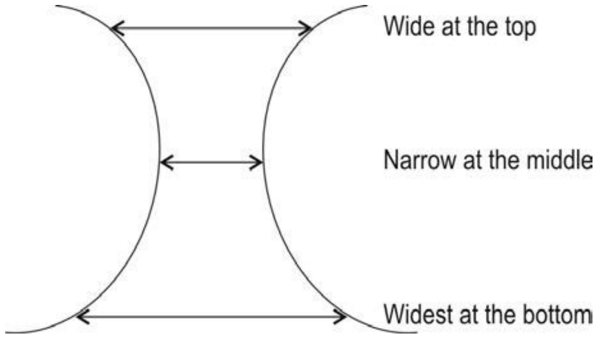
(r) Changing problem cultures is very difficult because of deeply held values and habits. It takes concerted management action over a period of time to replace an unhealthy culture with a healthy culture or to root out certain unwanted cultural obstacles and instill ones that are more strategy-supportive.

- The first step is to diagnose which facets of the present culture are strategy supportive and which are not.
- Then, managers have to talk openly and forthrightly to all concerned about those aspects of the culture that have to be changed.
- The talk has to be followed swiftly by visible, aggressive actions to modify the culture-actions that everyone will understand are intended to establish a new culture more in tune with the strategy.

The menu of culture-changing actions includes revising policies and procedures, altering incentive compensation, recruiting and hiring new managers and employees, replacing key executives, communication on need and benefit to employees and so on.

(s) ***In the recent years information technology and communications have significantly altered the functioning of organizations. The role played by middle management is diminishing as the tasks performed by them are increasingly being replaced by the technological tools. Hourglass organization structure consists of three layers in an organisation structure with constricted middle layer. The structure has a short and narrow middle management level.***

Information technology links the top and bottom levels in the organization taking away many tasks that are performed by the middle level managers. A shrunken middle layer coordinates diverse lower level activities.



Hourglass Organization Structure

Hourglass structure has obvious benefit of reduced costs. It also helps in enhancing responsiveness by simplifying decision making. Decision making authority is shifted close to the source of information so that it is faster. However, with the reduced size of middle management, the promotion opportunities for the lower levels diminish significantly.

(t) Simple organizational structure is most appropriate usually in those small organisations that follow single business strategy and offer a line of products in a single geographic market. When a small organisation grows, its complexities also tend to grow which necessitates the companies to abandon the simple organisation structure which it has been adopting hitherto and move towards structures like functional organisational structure. A typical simple organization structure is often owner driven with small number of employees.

Functional structure groups tasks and activities by business function, such as production, marketing, finance, research and development and is generally headed by Chief Executive Officer or Managing Director. Besides being simple and inexpensive, a functional structure also promotes specialization, encourages efficiency, minimizes the need for an elaborate control system, and allows rapid decision making. At the same time with the passage of time and overall growth much more complex organisational structures exist in business world. However, dividing organization according to functional lines is invariably found at some level or the other.

(u) Difference between transformational and transactional leadership

1. *Transformational leadership style uses charisma and enthusiasm to inspire people to exert them for the good of organization. Transactional leadership*

style uses the authority of its offices to exchange rewards such as pay, status, etc.

2. ***Transformational leadership style may be appropriate in turbulent environment, in industries at the very start or end of their cycles, poorly performing organisations, when there is a need to inspire a company to embrace major changes. Transactional leadership style can be appropriate in settled environment, in growing or mature industries and in organisations that are performing well.***

3. ***Transformational leaders inspire employees by offering the excitement, vision, intellectual stimulation and personal satisfaction. Transactional leaders prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement and non-achievement. Transactional leaders focus mainly to build on existing culture and enhance current practices.***

(v) Implementation control: Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changes in the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Strategic implementation control, unlike operational controls continuously monitors the basic direction of the strategy. The two basis forms of implementation control are:

(i) Monitoring strategic thrusts: Monitoring strategic thrusts help managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii) Milestone Reviews. All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

Questions with Descriptive Answers

Question 3

"Management of internal linkages in the value chain could create competitive advantage in a number of ways". Briefly explain.

Answer

The management of internal linkages in the value chain could create competitive advantage in a number of ways:

- There may be important linkages between the primary activities. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide for a faster response time to the customer. However, an assessment needs to be made whether the value added to the customer by this faster response through holding stocks is greater than the added cost.
- It is easy to miss this issue of managing linkages between primary activities in an analysis if, for example, the organization's competences in marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost of production. However, at the same time, the marketing team may be selling speed, flexibility and variety to the customers. So competence in separate activities need to be compatible.
- The management of the linkages between a primary activity and a support activity may be the basis of a core competence. It may be key investments in systems or infrastructure which provides the basis on which the company outperforms competition. Computer-based systems have been exploited in many different types of service organization and have fundamentally transformed the customer experience.
- Linkages between different support activities may also be the basis of core competences. For example, the extent to which human resource development is in tune with new technologies has been a key feature in the implementation of new production and office technologies. Many companies have failed to become competent in managing this linkage properly and have lost out competitively.

Question 4

What do you mean by strategic leadership? What are two approaches to leadership style?

Answer

Strategic leadership is the ability of influencing others to voluntarily make decisions that enhance prospects for the organisation's long-term success while maintaining short-term financial stability. It includes determining the firm's strategic direction, aligning the firm's strategy with its culture, modelling and communicating high ethical standards, and initiating changes in the firm's strategy, when necessary. Strategic leadership sets the firm's direction by developing and communicating a vision of future and inspire organization members to move in that direction. Unlike strategic leadership, managerial leadership is generally concerned with the short-term, day-to-day activities.

Two basic approaches to leadership can be transformational leadership style and transactional leadership style.

Transformational leadership style use charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Whereas, transactional leadership style focus more on designing systems and controlling the organization's activities and are more likely to be associated with improving the current situation. Transactional leaders try to build on the existing culture and enhance current practices. Transactional leadership style uses the authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Transactional leadership style may be appropriate in settled environment, in growing or mature industries, and in organizations that are performing well. The style is better suited in persuading people to work efficiently and run operations smoothly.

Question 5

Discuss the leadership role played by the managers in pushing for good strategy execution.

Answer

A strategy manager has many different leadership roles to play: visionary, chief entrepreneur and strategist, chief administrator, culture builder, resource acquirer and allocator, capabilities builder, process integrator, crisis solver, spokesperson, negotiator, motivator, arbitrator, policy maker, policy enforcer, and head cheerleader. Managers have five leadership roles to play in pushing for good strategy execution:

1. Staying on top of what is happening, closely monitoring progress, working through issues and obstacles.
2. Promoting a culture that mobilizes and energizes organizational members to execute strategy and perform at a high level.
3. Keeping the organization responsive to changing conditions, alert for new opportunities and remain ahead of rivals in developing competitively valuable competencies and capabilities.
4. Ethical leadership and insisting that the organization conduct its affairs like a model corporate citizen.
5. Pushing corrective actions to improve strategy execution and overall strategic performance.

Question 5

What is strategic change? Explain the change process proposed by Kurt Lewin that can be useful in implementing strategies?

OR

ABC Ltd. plans to introduce changes in its structure, technology and people. Explain how Kurt Lewin's change process can help this firm.

Answer

The changes in the environmental forces often require businesses to make modifications in their existing strategies and bring out new strategies. Strategic change is a complex process and it involves a corporate strategy focused on new markets, products, services and new ways of doing business.

To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are unfreezing, changing and refreezing.

(a) **Unfreezing the situation:** The process of unfreezing simply makes the individuals or organizations aware of the necessity for change and prepares them for such a change. Lewin proposes that the changes should not come as a surprise to the members of the organization. Sudden and unannounced change would be socially destructive and morale lowering. The management must pave the way for the change by first "unfreezing the situation", so that members would be willing and ready to accept the change.

Unfreezing is the process of breaking down the old attitudes and behaviours, customs and traditions so that they start with a clean slate. This can be achieved by making announcements, holding meetings and promoting the ideas throughout the organization.

(b) **Changing to New situation:** Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour. These are compliance, identification and internalisation.

- **Compliance:** It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.
- **Identification:** Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.
- **Internalization:** Internalization involves some internal changing of the individual's thought processes in order to adjust to a new environment. They have given freedom to learn and adopt new behaviour in order to succeed in the new set of circumstances.

(c) **Refreezing:** Refreezing occurs when the new behaviour becomes a normal way of life. The new behaviour must replace the former behaviour completely for successful and permanent change to take place. In order for the new behaviour to become permanent, it must be continuously reinforced so that this newly acquired behaviour does not diminish or extinguish.

Change process is not a one time application but a continuous process due to dynamism and ever changing environment. The process of unfreezing, changing and refreezing is a cyclical one and remains continuously in action.

Question 6

Define corporate culture. Also elucidate the statement "Culture is a strength that can also be a weakness".

Answer

The phenomenon which often distinguishes good organizations from bad ones could be summed up as 'corporate culture'. Corporate culture refers to a company's values, beliefs, business principles, traditions, ways of operating and internal work environment. Every corporation has a culture that exerts powerful influences on the behaviour of managers. Culture affects not only the way managers behave within an organization but also the decisions they make about the organization's relationships with its environment and its strategy.

"Culture is a strength that can also be a weakness". This statement can be explained by splitting it in to two parts.

Culture as a strength: As a strength, culture can facilitate communication, decision-making & control and create cooperation & commitment. An organization's culture could be strong and cohesive when it conducts its business according to a clear and explicit set of principles and values, which the management devotes considerable time to communicating to employees and which values are shared widely across the organization.

Culture as a weakness: As a weakness, culture may obstruct the smooth implementation of strategy by creating resistance to change. An organization's culture could be characterized as weak when many subcultures exist, few values and behavioral norms are shared and traditions are rare. In such organizations, employees do not have a sense of commitment, loyalty and sense of identity.

Question 7

What are the different responsibilities of a strategic leader? Distinguish between transformational leadership style and traditional leadership style.

Answer

A strategic leader has several responsibilities, including the following:

- Environment Scanning.
- Dealing with the diverse and cognitively competitive situations.
- Managing human capital.
- Effectively managing the company's operations.

- Sustaining high performance over time.
- Willing to make candid, courageous, and yet pragmatic decisions.
- Decision-making responsibilities that cannot be delegated.
- Seeking feedback through face-to-face communications.
- Being spokesman of the organisation.

Difference between Transformational and Traditional leadership style:

1. Traditional leadership borrowed its concept from formal Top-down type of leadership such as in the military. The style is based on the belief that power is bestowed on the leader, in keeping with the traditions of the past. This type of leadership places managers at the top and workers at the bottom of rung of power.

   In transformational leadership, leader motivates and empowers employees to achieve company's objectives by appealing to higher ideas and values. They use charisma and enthusiasm to inspire people to exert them for the good of the organization.

2. Traditional leadership emphasizes characteristics or behaviours of only one leader within a particular group whereas transformational leadership provides a space to have more than one leader in the same group at the same time. According to the transformational leadership style, a leader at one instance can also be a follower in another instance. Thus there is element of flexibility in the relationships.

3. Traditional leadership is more focused in getting the work done in routine environment. Traditional leaders are effective in achieving the set objectives and goals whereas transformational leaders have behavioural capacity to recognize and react to paradoxes, contradictions and complexities in the environment. Transformational leadership style has more focus on the special skills or talents that the leaders must have to practice to face challenging situations. Transformational leaders work to change the organisational culture by implementing new ideas.

4. In traditional leadership, followers are loyal to the position and what it represents rather than who happens to be holding that position whereas in transformational leadership followers dedicate and admire the quality of the leader not of its position.

Questions with Hints

Question 8

Explain the concept of value chain analysis.

Answer

Value chain analysis has been widely used as a means of describing the activities within and around an organization, and relating them to an assessment of the competitive strength of an organization (or its ability to provide value-for-money products or services). Value analysis was originally introduced as an accounting analysis to shed light on the 'value added' of separate steps in complex manufacturing processes, in order to determine where cost improvements could be made and/or value creation improved. These two basic steps of identifying separate activities and assessing the value added from each were linked to an analysis of an organization's competitive advantage by Michael Porter.

One of the key aspects of value chain analysis is the recognition that organizations are much more than a random collection of machines, money and people. These resources are of no value unless deployed into activities and organised into routines and systems which ensure that products or services are produced which are valued by the final consumer/user.

Question 9

Discuss the importance of proper implementation of strategy in strategic management.

Answer

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself (i.e., the strategic choice) was made with some thought being given to feasibility and acceptability. The allocation of resources to new courses of action will need to be undertaken, and there may be a need for adapting the organization's structure to handle new activities as well as training personnel and devising appropriate system.

There are situations where an organisation formulates a very competitive strategy, but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience, the lack of necessary resources, missing leadership and so on. Unless corrective actions are taken the strategy will fail.

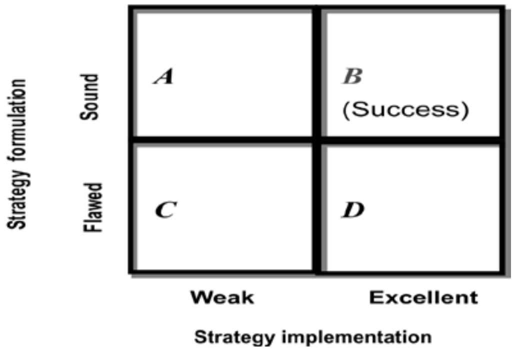
Question 10

An important part of strategic management process is implementation of strategy. Discuss the relationship of soundness of strategy with the quality of implementation.

Answer

Strategy implementation concerns the managerial exercise of putting a freshly chosen strategy into place. Strategy execution deals with the managerial exercise of supervising the ongoing pursuit of strategy, making it work, improving the competence with which it is executed and showing measurable progress in achieving the targeted results. Strategic implementation is concerned with translating a decision into action, with presupposes that the decision itself was made with some thought being given to feasibility and acceptability.

It is crucial to realize the difference between strategy formulation and strategy implementation because they both require very different skills. Also, a company will be successful only when the strategy formulation is sound and implementation is excellent. There is no such thing as successful strategic design. This sounds obvious, but in practice the distinction is not always made. The matrix in the figure below represents various combinations of strategy formulation and implementation:



Questions for Practice

1. *Define forward and backward linkages.*
2. *Explain both primary and supportive activities in value chain analysis.*
3. *What are the major issues while implementing a strategy?*
4. *How culture can promote better strategy execution?*

Activity

- Identify three SBUs of MNCs that are functioning in India and discuss their position vis-à-vis their parent company. Refer to their annual reports.

7 Reaching Strategic Edge

Basic Concepts

1. Introduction

The basic ideology of businesses shifted from diversification to core-competencies. There are several such changes in strategic ideology. The chapter on reaching strategic edge covers some of the recent and evolving issues like Business Process Reengineering (BPR), Total Quality Management (TQM), Six Sigma and overview on a few other contemporary issues in strategic management.

2. Business Process Reengineering

Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers.

Implementing BPR in organizations

BPR involves the following steps:

2.1 Determining objectives and framework

Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign process.

2.2 Identify customers and determine their needs

The designers have to understand customers - their profile, their steps in acquiring, using and Act disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.

2.3 Study the existing process

The existing processes will provide an important base for the redesigners. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.

2.4 Formulate a redesign process plan

The information gained through the earlier steps is translated into an ideal redesign process. Customer focused redesign concepts are identified and formulated. In this crucial step alternative processes are considered and the optimum is selected.

2.5 Implement the redesign

It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalise the new process.

3. Benchmarking

Benchmarking is an approach of setting goals and measuring productivity based on best industry practices. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. It measures company's products, services and practices against those of its competitors or other acknowledged leaders in the industry.

The Benchmarking Process

Some of the common elements of benchmarking process are as under:

(i) **Identifying the need for benchmarking:** This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.

(ii) **Clearly understanding existing decisions processes:** The step will involve compiling information and data on performance.

(iii) **Identify best processes:** Within the selected framework best processes are identified. These may be within the same organization or external to them.

(iv) **Comparison of own process and performance with that of others**: Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.

(v) **Prepare a report and implement the steps necessary to close the performance gap:** A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.

(vi) **Evaluation:** Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

4. Total Quality Management (TQM)

Total Quality Management or TQM is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy. It works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

4.1 Principles guiding TQM

There are several principles that guide success of TQM. Various principles that guide the total quality management philosophy are as follows:

- A sustained management commitment to quality
- Focusing on the customer
- Preventing rather than detecting defects
- Universal quality responsibility
- Quality measurement
- Continuous improvement and learning
- Root cause corrective action
- Employee involvement and empowerment
- The synergy of teams
- Thinking statistically
- Inventory reduction
- Value improvement
- Supplier teaming
- Training

4.2 TQM and traditional management practices

The nature of TQM differs from common management practices in many respects. Some of the key differences are as follows:

- Strategic Planning and Management
- Changing Relationships with Customers and Suppliers
- Organizational Structure
- Organizational Change
- Teamwork
- Motivation and Job Design

5. Six Sigma and Management

Meaning of Six Sigma

Primarily Six sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. Six sigma has its base in the concept of probability and normal distribution in statistics. Six sigma strives that 99.99966% of products manufactured are defect free.

Six Sigma efforts target different areas such as:

- Improving customer satisfaction
- Improving quality
- Reducing wastage
- Reducing cycle time
- Reducing defects

Six sigma methodology

The two methodologies as follows:

DMAIC: DMAIC methodology is an acronym for five different steps used in six sigma directed towards improvement of existing product, process or service. The five steps are Define, Measure, Analyze, Improve and Control.

DMADV: DMADV is again acronym for the steps followed in implementing six sigma. It is a strategy for designing new products, processes and services. The five steps are Define, Measure, Analyze, Design and Verify.

Six themes of six sigma

The critical elements of six sigma can be put into six themes as follows:

- *Theme one* – genuine focus on the customer
- *Theme two* – data and fact-driven management
- *Theme three* – processes are where the action is
- *Theme four* – proactive management
- *Theme five* – boundaryless collaboration
- *Theme six* – drive for perfection; tolerate failure

6. Contemporary Strategic Issues

Strategies for Internet Economy: The coming of e-commerce has changed the character of the market, created new driving forces and key success factors and bred the formation of new strategic groups. The creativeness with which a company incorporates e-commerce practices holds enormous potential for reconfiguring its value chain and affecting its company's competitiveness. Also the Internet economy presents opportunities and threats that demand strategic response and that require managers to craft bold new strategies.

6.1 Strategy-shaping characteristics of the E-Commerce environment

Growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. The following features stand out:

- The Internet makes it feasible for companies everywhere to compete in global markets.
- Competition in an industry is greatly intensified by the new e-commerce strategic initiatives of existing rivals and by the entry of new, enterprising e-commerce rivals.
- Entry barriers into the e-commerce world are relatively low.
- Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors.
- The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings.
- Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions.
- The internet results in much faster diffusion of new technology and new idea across the world.
- The e-commerce environment demands that companies move swiftly.
- E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains.
- The Internet can be an economical means of delivering customer service.
- The capital for funding potentially profitable e-commerce businesses is readily available.
- The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how.

6.2 Strategic management in non-profit and government organization

The strategic-management process is being used effectively by countless non-profit and governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and strategic management.

Very Short Answer Type Questions

Question 1

Explain the meaning six sigma

Answer

Six sigma is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational outputs in terms of quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. It means taking systemic and integrated efforts towards improving quality and reducing cost.

Short Answer Type Questions

Question 2

State with reasons which of the following statements is correct / incorrect:

(a) ***Business Process Reengineering (BPR) means partial modification or marginal improvement in the existing work processes.***

(b) BPR is an approach to maintain the existing growth of an organization.

(c) The main focus of six sigma is on the shareholders.

(d) The focus of six sigma is on customers.

(e) Benchmarking and Business Process Reengineering are one and the same.

(f) Not-for-profit organizations are not required to have a strategy.

(g) E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains.

(h) Benchmarking is a remedy for all problems faced by organizations.

(i) Total Quality Management (TQM) focusses on preventing rather than detecting defects.

(j) Six sigma efforts target following main areas:

i. Improving customer satisfaction.

ii. Reducing wastage

iii. Reducing defects

Answer

(a) ***<u>Incorrect</u>: Business Process Reengineering does not mean any partial modification or marginal improvement in the existing work processes. On the other hand, it is an approach to unusual enhancement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is***

revolutionary redesign of key business processes. It involves forgetting how work has been done so far and deciding how best it can be done now.

(b) **Incorrect:** BPR is an approach to unusual enhancement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involve examination of the basic processes.

(c) **Incorrect:** Although any business action may result directly or indirectly in creation/erosion of shareholders wealth, the main focus of six sigma is on delivering value to the customers. Six sigma aims in improving customer satisfaction. Primarily, six sigma means maintenance of the desired quality in processes and end products. It also means taking systematic and integrated efforts toward improving quality and reducing cost.

(d) **Correct:** Six sigma puts the customer first and uses facts and data to derive better solutions and products. Six sigma focus on three main areas: improving customer satisfaction, reducing cycle time and reducing defects.

(e) **Incorrect:** Benchmarking relates to setting goals and measuring productivity based on best industry practices. The idea is to learn from competitors and others to improve their own performance. On the other hand business process reengineering relates to analysis and redesign of workflows and processes both within and between the organizations.

(f) **Incorrect:** Similar to commercial organizations, 'not-for-profit' organizations must also have a strategy. It is required to give it direction, focus and efficient utilization of resources. In many 'not-for-profit' organizations surpluses are important for their survival and growth.

(g) **Correct:** The impact of e-commerce technology on industry and company value chains is profound, paving the way for fundamental changes in the ways business is conducted both internally, and with suppliers and customers. Using the network to link the customers and the suppliers enables just-in-time delivery, reducing inventory costs and allowing production to match demand.

(h) **Incorrect:** Benchmarking is an approach of setting goals and measuring productivity based on best industry practices and is a process of continuous improvement in search for competitive advantage. However, it is not panacea for all problems. Rather, it studies the circumstances and processes that help in superior performance. Better processes are not merely copied. Efforts are made to learn, improve and evolve them to suit the organizational circumstances.

(i) **Correct:** TQM is a management philosophy that seeks to prevent poor quality in products and services, rather than simply to detect and sort out defects. A little precaution before a crisis occurs is preferable to a lot of fixing up afterward. This also saves cost and time.

(j) **Correct:** Primarily Six Sigma means maintenance of the desired quality in processes and end products. It is a highly disciplined process that helps in developing and delivering near-perfect products and services. Improvements in these areas usually represent dramatic cost savings to businesses, as well as opportunities to retain customers, capture new markets, and build a reputation for top performing products and services.

Question 3

Briefly answer the following questions:

(a) Define T.Q.M.

(b) How internet has helped business?

(c) Distinguish between the TQM and Traditional Management Practices.

(d) Describe briefly the use of Strategic Management techniques in Educational Institutions.

(e) Being a strategic professional, analyze and redesign the work flows in the context of business process reengineering.

(f) Elaborate the following principles that guide the Total Quality Management Philosophy:

(i) Universal Quality Responsibility

(ii) Preventing Rather than Detecting Defects

(iii) Continuous Improvement and Learning

(g) Distinguish between DMAIC and DMADV Methodology of Six Sigma.

(h) Trace the role of information technology in business process reengineering.

(i) Write a short note on Internet Technology.

(j) "Firms can use benchmarking process to achieve improvement in diverse range of management functions." Elucidate.

(k) Do you agree with the statement that "Strategic Management concepts are of no use to Government organizations and Medical organizations"? Explain with reasons.

Answer

(a) TQM or Total Quality Management is a people-focused management system that aims at continual increase in customer satisfaction at continually lower real cost. There is a sustained management commitment to quality and everyone in the organisation and the supply chain is responsible for preventing rather than detecting defects.

TQM is a total system approach (not a separate area or program) and an integral part of high-level strategy. It works horizontally across functions and departments, involves all employees, top to bottom, and extends backward and forward to include the supply chain and the customer chain. TQM stresses learning and adaptation to continual change as keys to organizational success.

(b) The Internet is an integrated network of high-speed computers and servers, digital switches and routers, telecommunications equipment and lines and individual computers of users. The Internet has provided a very fast means of communication to business with no geographic limitations. Internet also makes it feasible for companies to find, negotiate and deal across the world with suppliers on one hand and customers on the other. The evolving Internet technology is altering industry value chains, spawning substantial opportunities for increasing efficiency and reducing costs, and affecting strengths and weaknesses of business organisations.

(c) Total Quality Management is different from traditional management practices, requiring changes in organisational processes, beliefs and attitudes, and behaviours. 'Traditional management' means the way things are usually done in most organisations in the absence of a TQM focus. The nature of TQM differs from common management practices in many respects. Some of the key differences are as follows:

(i) Strategic Planning and Management: Quality planning and strategic business planning is indistinguishable in TQM. Customer satisfaction, defect rates and process cycle times receive very high attention on TQM which is not the case in traditional management.

(ii) Changing Relationships with customers and suppliers: Distinguishable, innovation is essential to meet and exceed customers' needs. In TQM quality is defined as product and services. Traditional management places customers outside of the enterprises and within the domain of marketing and sales.

(iii) Organizational Structure: TQM is also distinguishable as it views enterprise as a system of interdependent processes. Every process contains sub-processes and is also contained within a higher process.

(iv) Organizational Change: In TQM the environment in which the enterprise interacts is considered to be changing constantly. Management's job, therefore, is to provide the leadership for continual improvement and innovation in processes and systems, products, and services. TQM recognises the inevitability of external change and focuses on shaping the future.

(v) Teamwork: In TQM, individuals cooperate in team structure such as quality circles, steering committees, and self-directed work teams. Departments work together toward system optimization through cross-functional teamwork.

(vi) Motivation and Job Design: TQM managers provide leadership and motivation rather than overt intervention in the processes of their subordinates who are viewed as process managers rather than functional specialists.

(d) Education is considered to be a noble profession. An educational institution often functions as a not-for-profit organization managed by trusts and societies. They include schools, colleges and universities. Being inherently non-commercial in nature, educational organisations do not have cut-throat competition as in case of their commercial counterparts. However, as the number of institutions belonging to both public and private sector are increasing, the competition is gradually rising. Through the use of strategic management techniques such institutions are expected to concentrate attention towards:

- Getting better name and recognition.
- Attracting talented students.
- Designing the curriculum in such a way to provide better citizenry and employability.
- Appointing and retaining quality faculty for teaching.
- Preparing students for the future challenges by capacity building.

(e) Business Process Reengineering (BPR) refers to the analysis and redesign of workflows and processes both within and between the organizations. The orientation of the redesign effort is radical. It involves total deconstruction and rethinking of a business process in its entirety

The workflows are studied, appraised and improved in terms of time, cost, output, quality, and responsiveness to customers. The redesign effort aims to simplify and streamline a process by eliminating all extra avoidable steps, activities, and transactions. With the help of redesigning workflows, organizations can drastically reduce the number of stages of work, and improve their performance.

(f) (i) Universal quality responsibility: TQM requires that everyone takes responsibility for quality. The responsibility for quality is not restricted to an organization's quality assurance department, but is a guiding philosophy shared by everyone in an organization.

(ii) Preventing rather than detecting defects: TQM is a management philosophy that seeks to prevent poor quality in products and services, rather than simply to detect and sort out defects. This saves cost, time and wastages.

(iii) Continuous improvement and learning: TQM adopts a philosophy of continuous improvement in all areas. Improvement and learning need to be embedded in the way an organization operates. They should be a regular part of daily work, seeking to eliminate problems at their source.

(g) For implementing six sigma, there are two separate key methodologies for existing and new processes. They are known as DMAIC and DMADV.

DMAIC is an acronym for five different steps used in six sigma - Define, Measure, Analyze Improve, and Control. DMAIC methodology is directed towards improvement of existing product, process or service.

- Define: To begin with six sigma experts define the process improvement goals that are consistent with the strategy of the organization and customer demands. They discuss different issues with the senior managers so as to define what needs to done.

- Measure: The existing processes are measured to facilitate future comparison. Six sigma experts collect process data by mapping and measuring relevant processes.
- Analyze: Verify cause-and-effect relationship between the factors in the processes. Experts need to identify the relationship between the factors. They have to make a comprehensive analysis to identify hidden or not so obvious factor.
- Improve: On the basis of the analysis experts make a detailed plan to improve.
- Control: Initial trial or pilots are run to establish process capability and transition to production. Afterwards continuously measure the process to ensure that variances are identified and corrected before they result in defects.

DMADV is an acronym for Define, Measure, Analyze, Design, and Verify. DMADV is a strategy for designing new products, processes and services.

- Define: As in case of DMAIC six sigma experts have to formally define goals of the design activity that are consistent with strategy of the organization and the demands of the customer.
- Measure: Next identify the factors that are critical to quality (CTQs). Measure factors such as product capabilities and production process capability. Also assess the risks involved.
- Analyze: Develop and design alternatives. Create high-level design and evaluate to select the best design.
- Design: Develop details of design and optimise it. Verify designs may require using techniques such as simulations.
- Verify: Verify designs through simulations or pilot runs. Verified and implemented processes are handed over to the process owners.

However, in spite of different orientation in two methodologies, conceptually there is overlapping between the DMAIC and DMADV as both are essentially having similar objectives.

(h) The Role of IT in BPR: The accelerating pace at which information technology has developed during the past few years had a very large impact in the transformation of business processes. Various studies have conclusively established the role of information technology in the transformation of business processes. Information technology is playing a significant role in changing the business processes.

A reengineered business process, characterized by IT-assisted speed, accuracy, adaptability and integration of data and service points, is focused on meeting the customer needs and expectation quickly and adequately, thereby enhancing his/her satisfaction level. With the help of tools of information technology organizations can modify their processes to make them automatic, simpler, time saving. Thus IT can bring efficiency and effectiveness in the functioning of business.

(i) The Internet is an integrated network of banks of servers and high-speed computers, digital switches and routers, telecommunication equipments and lines, and individual computers. The backbone of the internet consists of telecommunication lines criss-crossing countries, continents, and the world that allow computers to transfer data in digital form at very high speed.

Internet has made significant changes in the way businesses are being conducted. Communications has become faster, with many interlinkages promoting globalization. While markets have expanded, the competition has also increased manifolds. E-commerce is a new area which has developed on account of internet technology.

(j) Benchmarking is a process of finding the best practices within and outside the industry to which an organisation belongs. Knowledge of the best practices helps in setting standards and finding ways to match or even surpass own performances with the best performances.

Benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking process to achieve improvement in diverse range of management function such as mentioned below:

- Maintenance operations,
- Assessment of total manufacturing costs,
- Product development,
- Product distribution,
- Customer services,
- Plant utilisation levels; and
- Human resource management.

(k) **B*usiness organization can be classified as commercial or non-commercial on the basis of the interest they have. Typically, a government or medical organisation may function without any commercial objectives. A commercial organization has profit as its main aim. We can find many organizations around us, which do not have any commercial objective of making profits. Their genesis may be for social, charitable, or educational purposes.***

The strategic-management process is being used effectively by countless non-profit governmental organizations. Many non-profit and governmental organizations outperform private firms and corporations on innovativeness, motivation, productivity, and strategic management.

Compared to for-profit firms, non-profit and governmental organizations often function as a monopoly, produce a product or service that offers little or no

measurability of performance, and are totally dependent on outside financing. Especially for these organizations, strategic management provides an excellent vehicle for developing and justifying requests for needed financial support.

Questions with Descriptive Answers

Question 4

Define each of the following and analyse its role in strategic implementation:

(1) B.P.R.

(2) ERP

(3) Benchmarking

Answer

(1) BPR: BPR stands for business process reengineering. It refers to the analysis and redesign of workflows both within and between the organisation and the external entities. Its objective is to improve performance in terms of time, cost, quality, and responsiveness to customers. It implies giving up old practices and adopting the improved ones. It is an effective tool of realising new strategies.

Improving business processes is paramount for businesses to stay competitive in today's marketplace. New technologies are rapidly bringing new capabilities to businesses, thereby raising the strategical options and the need to improve business processes dramatically. Even the competition has become harder. In today's market place, major changes are required to just stay even.

(2) ERP: ERP stand for enterprise resource planning which is an IT based system linking isolated information centers across the organisation into an integrated enterprise wide structured functional and activity bases. ERP is successor to MRP systems (material requirements and manufacturing resource planning systems). ERP is used for strengthening the procurement and management of input factors.

Modern ERP systems deliver end-to-end capabilities to support the entire performance management of an organisation. It helps in consolidated financial reporting, financial management, planning, budgeting, performance management and so on.

(3) Benchmarking: It is a process of finding the best practices within and outside the industry to which an organisation belongs. Knowledge of the best helps in standards setting and finding ways to match or even surpass own performances with the best performances.

Benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking process to achieve improvement in diverse range of management function like maintenance operations, assessment of total manufacturing costs, product development, product distribution, customer services, plant utilisation levels and human resource management

Question 5

Define Business Process Re-engineering. Briefly outline the steps therein.

Or

What is the rationale behind Business Process Reengineering (BPR)? What steps would you recommend to implement BPR in an organization?

Answer

Business Process Reengineering (BPR) is an approach to unusual improvement in operating effectiveness through the redesigning of critical business processes and supporting business systems. It is revolutionary redesign of key business processes that involves examination of the basic process itself. It looks at the minute details of the process, such as why the work is done, who does it, where is it done and when it is done. BPR refers to the analysis and redesign of workflows and processes both within the organization and between the organization and the external entities like suppliers, distributors, and service providers.

The orientation of redesigning efforts is basically radical. In other words, it is a total deconstruction and rethinking of business process in its entirety, unconstrained by its existing structure and pattern. Its objective is to obtain quantum jump in process performance in terms of time, cost, output, quality, and responsiveness to customers. BPR is a revolutionary redesigning of key business processes.BPR involves the following steps:

1. **Determining objectives and framework:** Objectives are the desired end results of the redesign process which the management and organization attempts to achieve. This will provide the required focus, direction, and motivation for the redesign process. It helps in building a comprehensive foundation for the reengineering process.
2. **Identify customers and determine their needs*:*** The designers have to understand customers – their profile, their steps in acquiring, using and disposing a product. The purpose is to redesign business process that clearly provides added value to the customer.
3. **Study the existing process:** The existing processes will provide an important base for the redesigners. The purpose is to gain an understanding of the 'what', and 'why' of the targeted process. However, some companies go through the reengineering process with clean perspective without laying emphasis on the past processes.
4. **Formulate a redesign process plan:** The information gained through the earlier steps is translated into an ideal redesign process. Formulation of redesign plan is the real crux of the reengineering efforts. Customer focused redesign concepts are identified and formulated. In this step alternative processes are considered and the best is selected.
5. **Implement the redesign:** It is easier to formulate new process than to implement them. Implementation of the redesigned process and application of other knowledge gained from the previous steps is key to achieve dramatic improvements. It is the joint responsibility of the designers and management to operationalize the new process.

Question 6

What is Benchmarking? Explain briefly the elements involved in Benchmarking process.

Answer

Benchmarking is an approach of setting goals and measuring productivity of firms based on best industry practices or against the products, services and practices of its competitors or other acknowledged leaders in the industry. It developed out of need to have information against which performance can be measured. Benchmarking helps businesses in improving performance by learning from the best practices and the processes by which they are achieved. Thus, benchmarking is a process of continuous improvement in search for competitive advantage. Firms can use benchmarking practices to achieve improvements in diverse range of management functions like product development, customer services, human resources management, etc.

The various steps in Benchmarking Process are as under:

(i) **Identifying the need for benchmarking:** This step will define the objectives of the benchmarking exercise. It will also involve selecting the type of benchmarking. Organizations identify realistic opportunities for improvements.

(ii) **Clearly understanding existing decisions processes:** The step will involve compiling information and data on performance.

(iii) **Identify best processes:** Within the selected framework best processes are identified. These may be within the same organization or external to them.

(iv) **Comparison of own process and performance with that of others**: Benchmarking process also involves comparison of performance of the organization with performance of other organization. Any deviation between the two is analysed to make further improvements.

(v) **Prepare a report and implement the steps necessary to close the performance gap:** A report on benchmarking initiatives containing recommendations is prepared. Such a report also contains the action plans for implementation.

(vi) **Evaluation:** Business organizations evaluate the results of the benchmarking process in terms of improvements vis-à-vis objectives and other criteria set for the purpose. It also periodically evaluates and reset the benchmarks in the light of changes in the conditions that impact the performance.

Question 7

What is Six Sigma? How is it different from other quality programs? Explain in brief themes of Six Sigma.

Answer

Meaning of Six Sigma: Primarily Six sigma means maintenance of the desired quality in processes and end products. It means taking systemic and integrated efforts toward improving quality and reducing cost.

It is a highly disciplined process that helps in developing and delivering near-perfect products and services. It strives to meet and improve organizational goals on quality, cost, scheduling, manpower, new products and so on. It works continuously towards revising the current standards and establishing higher ones. Six sigma has its base in the concept of probability and normal distribution in statistics. Six sigma strives that 99.99966% of products manufactured are defect free.

Six sigma efforts target three main areas:

- Improving customer satisfaction
- Reducing cycle time
- Reducing defects

Six sigma and other quality programs

Six sigma is improvement over other quality programmes:

(i) Six sigma is customer focused. It strives to provide better satisfaction to the customer owning the product.

(ii) Six sigma is a total management commitment and philosophy of excellence, process improvement and the rule of measurement.

(iii) Six sigma induces changes in management operations - new approaches to thinking, planning and executing to achieve results.

(iv) Six sigma combines both leadership and grassroots energy and involvement for its success.

Six themes of six sigma

The critical elements of six sigma can be put into six themes as follows:

- ***Theme one*** *– genuine focus on the customer:* Companies launching six sigma often to find that how little they really understand about their customers. In six sigma, customer focus becomes the top priority. For example, the measures of six sigma performance begin with the customer. Six sigma improvements are defined by their impact on customer satisfaction and value.
- ***Theme two*** *– data and fact-driven management:* Six sigma takes the concept 'of "management by fact" to a new, more powerful level. Despite the attention paid in recent years to improved information systems, knowledge management, and so on, many business decisions are still being based on opinions, assumptions and gut feeling. Six sigma disciplines begins by clarifying what measures are key to gauging business

performance and then gathers data and analyzes key variables. Problems are effectively defined, analyzed, and resolved. Six sigma also helps managers to answer two essential questions to support data-driven decisions and solutions.

- What data/information is really required?
- How to use the data/information for maximum benefit?

- ***Theme three*** *– processes are where the action is* Designing products and services, measuring performance, improving efficiency and customer satisfaction and so on. Six sigma positions the process as the key vehicle of success. One of the most remarkable breakthroughs in Six Sigma efforts to date has been convincing leaders and managers. Process may relate to build competitive advantage in delivering value to customers.
- ***Theme four*** *– proactive management:* In simple terms, being proactive means acting in advance of events rather than reacting to them. In the real world, though, proactive management means making habits out of what are, too often, neglected business practices: defining ambitious goals and reviewing them frequently, setting clear priorities, focusing on problem prevention rather than fire-fighting, and questioning why we do things instead of blindly defending them.

  Far from being boring or overly analytical, being truly proactive is a starting point for creativity and effective change. Six sigma, encompasses tools and practices that replace reactive habits with a dynamic, responsive, proactive style of management.
- ***Theme five*** **–** *boundaryless collaboration:* "Boundarylessness" is one of Jack Welch's mantras for business success. Years before launching six sigma, GE's chairman was working to break barriers and to improve teamwork up, down, and across organizational lines. The opportunities available through improved collaboration within companies and with vendors and customers are huge. Billions of dollars are lost every day because of disconnects and outright competition between groups that should be working for a common cause: providing value to customers.
- ***Theme six*** *– drive for perfection; tolerate failure:* Organizations need to make efforts to achieve perfection and yet at the same time tolerate failure. In essence, though, the two ideas are complementary. No company will get even close to six sigma without launching new ideas and approaches-which always involve some risk. Six sigma cannot be implemented by individuals who are overly cautious and are scared of making mistakes.

Question 8

'The growing use of the internet by businesses and consumers is changing the competitive scenario.' Identify the characteristics of the E-commerce environment doing so.

Or

How does the Internet Technology influence an industry's competitive environment? Explain.

Answer

The impact of the Internet and the rapidly emerging e-commerce environment is substantial and widespread. The advent of the Internet and online networks is changing everything. Growing use of the Internet by businesses and consumers reshapes the economic landscape and alters traditional industry boundaries. Characteristics of E-commerce environment changing competitive scenario are as under:

(a) The Internet makes it feasible for companies everywhere to compete in global markets. This is true especially for companies whose products are of good quality and can be shipped economically.

(b) There are new e-Commerce strategic initiatives of existing rivals and new entrants in the form of e-commerce rivals. The innovative use of the Internet adds a valuable weapon to the competitive arsenal of rival sellers, giving them yet another way to jockey for market position and manoeuvre for competitive advantage.

(c) Entry barriers into the e-commerce world are relatively low. Relatively low entry barriers explain why there are already hundreds of thousands of newly formed e-commerce firms, with perhaps millions more to spring up around the world in years to come. In many markets and industries, entry barriers are low enough to make additional entry both credible and likely.

(d) Increased bargaining power of customers to compare the products, prices and other terms and conditions of rival vendors. Online buyers gain bargaining power because they confront far fewer obstacles to comparing the products, prices, and shipping times of rival vendors.

(e) Possibility for business organizations to locate the best suppliers across the world to gain cost advantage. The Internet makes it feasible for companies to reach beyond their borders to find the best suppliers and, further, to collaborate closely with them to achieve efficiency gains and cost savings. Organisations can extend their geographic search for suppliers and can collaborate electronically with chosen suppliers to systemise ordering and shipping of parts and components, improve deliveries and communicate speedily and efficiently.

(f) Internet and PC technologies are advancing rapidly, often in uncertain and unexpected directions. Such changes are often bringing in new opportunities and challenges.

(g) Faster diffusion of new technology and new idea across the world. Organisations in emerging countries and elsewhere can use the internet to monitor the latest technological developments and to stay abreast of what is transpiring in the developed markets.

(h) The e-commerce environment demands that companies move swiftly. In the exploding e-commerce world, speed is a condition of survival. New developments occur on one front and then on another occur regularly.

(i) E-commerce technology opens up a host of opportunities for reconfiguring industry and company value chains. Using the internet to link the orders of customers with the suppliers of components enables just-in-time delivery to manufacturers, slicing inventory costs and allowing production to match demand.

(j) The Internet can be an economical means of delivering customer service. Organisations are discovering ways to deliver service in a centralised manner – online or through telephone. Thus curtailing the need to keep company personnel at different locations or at the facilities of major customers.

(k) The capital for funding potentially profitable e-commerce businesses is readily available. In the Internet age, e-commerce businesses have found it relatively easy to raise capital. Venture capitalists are quite willing to fund start-up enterprises provided they have a promising technology or idea, an attractive business model, and a well thoughtout strategic plan

(l) The needed e-commerce resource in short supply is human talent-in the form of both technological expertise and managerial know-how. While some e-commerce companies have their competitive advantage lodged in patented technology or unique physical assets or brand-name awareness, many are pursuing competitive advantage based on the expertise and intellectual capital of their personnel and on their organizational competencies and capabilities.

Questions with Hints

Question 9

What is Benchmarking? What are the areas where benchmarking can help.

Answer

For explanation to benchmarking refer answer to question No. 4.

Benchmarking helps in improving performance by learning from best practices and the processes by which they are achieved. It involves regularly comparing different aspects of performance with the best practices, identifying gaps and finding out novel methods to not only reduce the gaps but to improve the situations so that the gaps are positive for the organization. Benchmarking can help in almost all aspect of business that are amenable to comparison and are significant to business. Typically organisations can use benchmarking process to achieve improvement in diverse range of management function like:

- Maintenance operations
- Assessment of total manufacturing costs
- Product development
- Product distribution
- Customer services

- Plant utilization levels
- Human resource management

Questions for Practice

1. *Write an explanatory note on the role of information technology in BPR.*
2. *What is TQM? Compare it with traditional management practices.*
3. *What are the strategy shaping characteristics of E-commerce environment?*
4. *Is the strategic management implemented in non-profit and Government organizations?*

Activity

Make a list of household products. Segregate them into the ones that can be purchased through internet and those that are not available on internet. Identify the reasons, why some of the products are not popular on internet sales.