| MBA-DE(Second year) | BPSM (401) |
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| Semester- 4 | BUSINESS POLICY AND STRATEGIC MANAGEMENT |
| Lesson no- 1 | AUTHOR- SHAMINDER KAUR |

# BUSINESS POLICY AND STRATEGIC MANAGEMENT

## STRUCTURE

1.1 Objectives
1.2 Introduction
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1.4 Basic Characteristics of Strategic Management Types
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## 1.1 OBJECTIVES

The objectives of the chapter:

1. To understand the students meaning and characteristics of strategic Management.
2. To aware the students about the levels of strategic management, benefits and limitation of strategic management.

## 1.2 INTRODUCTION

The concept of strategy is central to understanding the process of strategic management. The term 'strategy' is derived from the Greek word strategos, which means generalship- the actual direction of military force, as distinct from the policy governing its deployment. Therefore, the word 'strategy' literally means the art of the general. Strategies are the means by which long-term objectives will be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, liquidation and joint ventures. On the other hand, Management is an art as well as science. Many of the concepts used in building management theory have been derived from the practice. Business policy is rooted in the practice of management and has passed through different phases before taking its shape in the present shape in the present form of strategic management. Strategies have malfunctional or multidivisional consequences and require consideration

of both the external and internal factors facing the firm. Collectively, Strategic management is a process. A process denotes that it has various activities and these must be performed in a systematic manner.

## 1.3 DEFINING STRATEGIC MANAGEMENT

Strategic management can be defined as art and science of formulating, implementing, and evaluating cross- functional decisions that enable an organization to achieve its objectives. As the definition implies, strategic management focuses on integrating management, marketing, finance/accounting, production/operations, research development, and computer information systems to achieve organizational success. **Pearce and Robbinson** have defined strategic management as follows:

"Strategic management is defined as the set of decisions and actions in formulation and implementation of strategies designed to achieve the objectives of an organization."

This definition emphasizes on two major aspects: strategy formulation and its implementation and these aspects are oriented towards achieving organizational objectives.

**Ansoff** defines strategic management without mentioning strategy formulation and/or strategy implementation. According to him,

"Strategic management is a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will ensure its continued success and make it secure from surprises."

This definition puts emphasis on organization-environment interface and relating to the organization to its environment for continuous success.

An appraisal of various definitions of strategic management suggests that it deals with the following aspects:

1. Continuously relating the organization to its environment.
2. Formulating suitable strategies to maintain this relationship.
3. Implementing strategies, and
4. Ensuring through evaluation and control that strategies are implemented properly and produce the results as intended.

Taking the above aspects, we may define strategic management as follows:

Strategic management is a continuous process of relating the organization with its environment by suitable courses of action involving strategy formulation and ensuring that the strategy has been implemented effectively. It involves attention to not less than nine critical areas:

1. Determining the mission of the company, including broad statements about its purpose, philosophy and goals.
2. Developing a company profile that reflects internal conditions and

capabilities.

3. Assessment of the company external environment, in terms of both competitive and general contextual factors.
4. Analysis of possible options uncovered in the matching of the company profile with the external environment.
5. Identifying the desired options uncovered when possibilities are considered in light of the company mission.
6. Strategic choice of a particular set of long-term objectives and grand strategies needed to achieve the desired options.
7. Development of annual objectives and short-term strategies compatible with longterm objectives and grand strategies.
8. Implementing strategic choice decisions based on budgeted resource allocations and emphasizing the matching of tasks, people, structures, technologies, and reward system.
9. Review and evaluation of the success of the strategic process to serve as a basis for control and as an input for future decision-making.

As these nine areas indicate, strategic management involves planning, directing, organizing, and controlling of the strategy related decisions and actions of the business. By strategy, managers mean their large-scale, future-oriented plans for interacting with the competitive environment to optimize achievement of organization all objectives.

1.3 Self check questions

1. From where the term ‘strategy’ is derived from?
2. What do you understand by strategic management?
3. What is a strategy?

## 1.4 BASIC CHARACTERISTICS OF STRATEGIC MANAGEMENT TYPES

Strategic management is a continuous process of decision-making that are vital to the very survival, growth and nourishment of an organization that contribute to wealth maximization. Strategic management is different from routine management in the sense that it is making of strategic decisions and implementation of those to get pre-calculated results. These Strategic issues have influence the decision as management is a decision-making process. One point is to pounder that all the decisions are of not equal importance; however, they become strategic and non-strategic. As a decision-making process, strategic management is characterized by at least eight distinct points. These are:

1. Strategic issues warrant Top Management Decisions:

Strategic Decisions are having far-reaching impact on several areas of firms operations. Hence, top management involvement in decision making is imperative. These decisions must be made by top management as these are the pillars of the organization. Let us take the example of a pharmaceutical firm. The quality of the product and the price you are

charging they are most important. These decisions will not be left to business level or functional level. Only at the top level there is perfect perspective understanding, anticipating broad implications and the power to authorize the resource allocation that is needed for implementation of what is contemplated.

2. Strategic issues involve the Allocation of Large Amounts and Resources:

By very nature, Strategic issues call for allocation of large amounts and resource deployment. The Strategic issue is one of expansion or expanding the production capacity, or entering into new market or modernization to cut cost. This resource allocation takes place in one of the many ways:

(a) By sparing the internal funds out of accumented reserves and surplus;
(b) By fresh issue of capital both owned and borrowed
(c) Any combinations of the two reach the third alternative whichever is viable.

3. Strategic issues are likely to have impinging impact on the long-term Prosperity of the Firm:

The strategic decisions are such that their impact good or bad will be known in the long- run. When a company sticks to a particular strategic option, its competitive image and merits are tied to that strategy option only. A firm which is spending huge amount on building company's image which is dependent on its position in product market, capital market and labour market will be known in due course of time but not immediately. In a nutshell, these strategic decisions are having enduring effects on flrm-for better off or worse off.

4. Strategic issues have Consequences of Multi Business:

Strategic decisions are not one man show. The CEO has to invite the people from all the levels namely top, functional and operative. That is, these strategic decisions are coordinative or participative in nature. Top management may have wonderful plan but it should be earned out because there vast difference between promise and performance a dream and a reality. There are many vital decisions- about marketing mix, market segments, organizational structure, competitive emphasis all involve a firm's strategic business units (SBUs) functions, divisions, program units and so on.

5. Strategic issues Are Future Oriented:

Management- we mean managing the future because first function of management is foreseeing the future or planning-then rest of the functions come jnto picture. Strategic decisions are future oriented. Each Manager worth calling is one who wants to calculate what future holds to him or his firm. Perdiction of future is almost very difficult, if not impossible. You know the mightiest nation- the USA succeeded in using all its resources to capture Osama bin Laden and of Saddam Hussain; however, the results were not commensurate with. What they put in the terms of treasure, time and talent. However, if they really strategic their plans are going to be true.

6. Strategic issues Warrant Due Weightage to the Firm's External Environment:

Each business unit is a sub-system that exists in open and supra-system which is otherwise known as environment. A firm as a sub-system has great influence of the environmental forces on it and it has its own impact on environment. However, the environmental forces are so powerful that atmost very difficult to exert control on them. To survive each firm has to adjust to these external forces in future because these forces are constantly changing. That is why; the strategic managers have to look beyond the limits of firm's operations. They will have to wa:ch and act their competitors, customers, suppliers, creditors, labour forces, government policies and so on.

7. Strategic Management is a Process: • \

Strategic Management has emerged out of management in other areas where the concept of management is taken as a process for achieving certain objectives of the organization for which it is brought into existence. Strategic Management brings in a framework that helps in performing various processes. The configuration of strategic management embodies all general management principles and practices devoted to strategy formulation and implementation in the organization. As a process, it has logical steps namely, formulation and implementation in the organization; keen observation and monitoring of environment- both external and internal so as to identify the opportunities and threats; evaluation of firm's strengths and weaknesses, vis a vis the opportunities and threats, formulation of variant and matching strategies and evaluation and monitoring of the results of these strategics and evaluation and monitoring of the results of these strategies to ensure the organizational objectives are being achieved.

8. Strategic Management Stresses Both Efficiency and Effectiveness:

The professors Alex Miller and George Dess have pinpointed the difference between efficiency and effectiveness. Many a times what is efficient may not be effective but other way round not normally may not be true. "Doing things right" is efficiency and "doing the right things" is effectiveness. Generally, a manager who takes the word in narrow sense concentrates on efficiency or improving on his efficiency level yet he may not be successful all the time because his concentrating on his functional or divisional area than overall business. By working so hard at trying to do 'things right', they forget to look up from their work occasionally to cor.sider. Whether they are working on the right things that will be effective in moving their organization towards the final vision. A strategic Manager or a strategist he has right blend of efficiency and effectiveness in his performance. He knows not only to hit but he knows where exactly to hit for hitting can be done by any Tom, Dick and Harry.

1.4 Self check questions

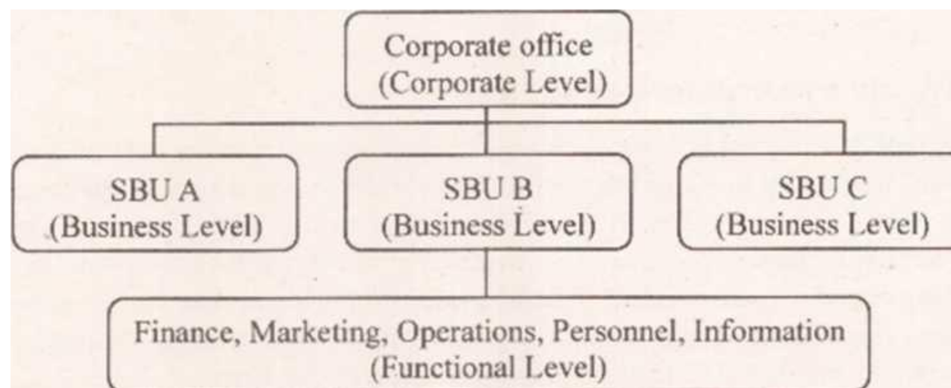
1. Why strategic management is a process?

2. Give some characteristics of strategic management.

## 1.5 HIERARCHY IN STRATEGIC MANAGEMENT

When one thinks of any organization in business and non-business, it stands for people

occupying a position to play the role of the assigned position. However strategic management is at three levels namely top, functional level and operational level. Though we talk of three level strategists, the graduation reduces from top to the bottom of the organization. At the top, corporate level, at the middle is the business level and at the bottom, it is functional level. The strategy levels will be decided by the alternative strategic management structures. Broadly, the business firms can be classed into single business firms and multiple business firms. Different Levels of strategy are as follows:




Generally SBUs are involved in a single line of business. A complementary concept to the SBU, valid for the external environment of a company, is a strategic Business Area (SBA). It is defined as "a distinctive segment of the environment in which the firm does (or may want to do) business". Each one of the SBUs has its own functional departments, or a few major departments, while common functions are grouped under the corporate level.

At the corporate level, decision-making machinery' is consisting of mainly members of the board of directors and the CEOs and administrative officers. These persons are responsible for the financial performance of the corporation as a whole in addition to the achievement of non- financial goals of the unit. To a large extent, orientations at corporate level corporate image and social responsibility arc of top concern.

At the next downward level of decision hierarchy is the business level mainly made up of business and corporate managers. These managers are responsible to translate the general statements of direction and the intent generated at the corporate level into solid, functional objectives and strategies for individual business divisions or SBUs. Business level strategic managers must, in essence, determine the basis on which a firm can compete in the selected product market field.

The bottom-level decision-making hierarchy is the functional level which is composed of all those managers of product, geographic and functional areas. Their basic responsibility lies in annual objectives and short term strategies in the area of production and operations, research and development, finance and accounting, marketing and above all human relations. It is very rightly pointed by Professors'John, A. Pearce II and Richard B. Robinson, Jr, "While corporate and business level managers centre their planning concerns on "doing right things", the managers at the functional level must stress '"doing things right".

In the nutshell, corporate level strategy occupies the highest level of strategic decision-making. The nature of strategic decisions is more value-oriented, conceptual and less concrete than business or functional level. At business level, .strategies are comprehensive defining objectives for each SBU and allocation of resources among functional areas and coordinating them for the best results. At the functional level, functional strategy is relating to single functional operation and the activities involved therein. These decisions are tactical. Just below the functional level strategy, there is operational level strategy covering each function for each SBU. What is important is that the strategies at three levels are interlocked where higher level strategy generates a lower level strategy and lower level strategy contributes to the achievement of the objectives of the higher level strategy. In achieving organizational goals, they are planned on sound footing and implemented with effectiveness and vigour so that a decision-results into the outcome that is desired.

1.5 Self check questions

1. What are the different levels of strategic management?

2. What is the responsibility of functional level managers?

## 1.6 BENEFITS OF STRATEGIC MANAGEMENT

The Strategic Management approach emphasizes interaction by managers at the levels of the organizational hierarchy in planning and implementation. As a result, Strategic Management has certain behavioral consequences that are also characteristic of participative decision-making. Therefore, an accurate assessment of the impact of strategy formulation on organizational performance also requires a set of non financial evaluation criteria- measures of behavioral based effects. However, regardless of the eventual profitability of particular strategic plans, several behavioral effects can be expected to improve the welfare of the firm:

1. Strategy Formulation activities should enhance the problem prevention capabilities of the firm. As a consequence of encouraging and rewarding subordinate attention to planning considerations, managers are aided in their monitoring and forecasting responsibilities by workers.
2. Group-based strategic decisions are most likely to reflect the best available alternatives. For this purpose, a generating alternative strategy which is facilitated by group interactions and offer forecast based on their specialized perspectives.
3. Employee motivation should improve as employee better appreciate the productivity-reward relationships inherent in every strategic plan. When employees on their representatives participate in the strategy formulation process, a better understanding of the priorities and operations of the organization’s reward system is achieved, thus adding incentives for goal directed behavior.
4. Gaps and overlaps in activities among diverse individuals and groups should be reduced as participation in strategy formulation leads to a clarification of role differentiations

5. Resistance to change should be reduced, The required participation helps to eliminate the uncertainty associated with the change, which is at the root of more resistance.

## 1.7 LIMITATIONS OF STRATEGIC MANAGEMENT

Strategic management as a fundamental aspect of top management is essential but there are certain practical limitations to use it. The reason why management fails in Strategic management emphasizes the practical difficulties encountered in it. Thus Strategic management is not an easy job of the top management. However, it can be more effective by recognizing its various limitations so that top management functions within those parameters. From this point of view, identification of various limitations of Strategic management is essential.

Complex and Dynamic Environment

The Strategic Management is essential to overcome the problems posed by complex and dynamic environment. However, this becomes a serious limitation on effective Strategic. Management. For Strategic Management, we require knowledge of the trend in the environment However, with increasing complexity and an accelerating rate of change it becomes more and more difficult to predict the future outcome. For example, not only there is very high level of technological and social changes in the environment but there is very wide variation and inconsistency in government policies towards business in a country. Such policies are not only in terms of physical, monetary and fiscal policies but also in terms of many regulatory measures, such as licensing, monopolies and restrictive trade practices, foreign exchange regulations etc. under these conditions, Strategic Management becomes more difficult and without sound basis.

Not withstanding the fact that environment is more flexible and dynamic, the role of strategic Management cannot be ignored. Infact, in such circumstances, the role of strategic Management become even more crucial. The more uncertain is the future, the more is the need for contemplating the future by assigning some probability for the events.

Rigidity

Strategic management brings rigidity in the organization through strategic planning, it is claimed. To some extent, this can be valid and more serious limitation of Strategic management. Strategies are selected and implemented in a given set of environment, both interned and external. When these variables arte taken into account, the organizations set various parameters for its working, for examples, designing of organizational structure prescribing rules and procedures, allocating resources etc. Over the long run, people become accustomed to these. When there is a question of making any change because of change in the strategy necessitated by the environment, it is not easy. Thus, various internal inflexibilities are experienced in the organization. These internal inflexibilities-human and procedural-may make the strategic planning ineffective, consequently demotivating the management to go for strategic management.

Inadequate Appreciation of Strategic Management

Problems in strategic Management come because the managers are inadequately aware about its contribution to the success of the organization and the way in which

strategic Management can be undertaken. For example, managers often fail to isolate the strategic work, and they use short-term outdated evaluation techniques.

(i) The failure to isolate strategic work is very common to many managers. The problem stem from an Inadequate Appreciation of the need for such an appraisal. Thus, he is focusing his attention on operating problems, ignoring more important strategic problems.

(ii) Another problem in Strategic Management emerges from the fact that managers often attach importance to short-term achievement. It is easy to become wedded to a financially oriented formula for measuring the performance routinely from year to year while the time required for a strategy or group of strategies to become full blown is often much grater than the annual measurement requirement.

Limitations in Implementation

There are various problems in implementing strategy. Though this aspect will be discussed at a later stage at a greater length, here it is sufficient to say that many organizational problems cannot be solved by Strategic Management alone but require the use of other aspects of management. Seldom corporate strategy is as clear to organization members as is thought by its framers. Even the most persuasive, articulate, and specific strategy by the top management may not carry the same meaning throughout the organization. The internal conflicts among departments, individuals, or organizational and personal values canno: be solved by Strategic Management. In mam of these cases, non- strategic management functions are more important.

The various limitations of Strategic Management should be weighed in the light of its contributions to the success of the organization. Every action has certain limitations but it has certain limitations but it does not mean that action should not be taken. The recognition of various limitations of an action provides an opportunity to safeguard oneself against the possible counter effect of the action and places the individual in a better way to make the action more effective. For example, administering a medicine to a patient may have some side effects. But this does not mean that medicine should not be given to the patient. What is required is the administrating of correct medicine and taking effective step to overcome the side effect. Similar is the case with strategic management. While going for strategic management, the managers should take into account its various limitations. •

Moreover, the strategic management should not be taken as panacea for all organizational problems because many of the problems are of operative nature. The role of strategic management cannot be denied and various organizations have emerged as winners by following strategic management.

1.7 Self check questions

1.Why Strategic Management is essential to overcome the problems posed by dynamic environment?

2. What are the limitations of strategic management?

## 1.8 CONCLUSION

Strategic management was defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organization. It was shown to involve long-term, future oriented, complex decision-making necessitating top management action because of the resources required to formulate an environmentally opportunistic plan.

Strategic management was presented as a three-tired process involving corporate-, business- , and functional-level planners, and support personnel. At each progressively lower level, strategic activities were shown to be more specific, narrow, short-term, and action oriented with lower risks but fewer opportunities for dramatic impact.

The value of Strategic management was demonstrated in a review of seven large-scale studies. Using a variety of financial performance measures, each of these studies was able to provide convincing evidence of the profitability of strategy formulation and implementation.

## 1.9 SHORT ANSWER QUESTIONS:

1. Discuss the roles that major strategists play in strategic management?
2. Define strategic Management and bring out is distinguishing features?
3. What do you understand by SBU?

## 1.10 LONG ANSWER QUESTIONS

2. Discuss the levels at which strategies operate. How can strategies of different levels be integrated? Illustrate with example of an organization of your choice?
3. Explain the benefits of strategic management to an organisation?
4. What are the limitations and issues related to strategic management for an organisation?

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## 1.12 Answers of self check questions

1.3 1. Greek word ‘strategos’

2. art and science of formulating, implementing, and evaluating cross- functional decisions that enable an organization to achieve its objectives

3. Strategies are the means by which long-term objectives will be achieved

1.4 1. It has logical steps namely, monitoring of environment, formulation of strategies and evaluation of the results of these strategies to ensure the objectives are being achieved

2. a. A continous process, ensures efficieny and effectiveness, future oriented

1.5 1. Strategic management is at three levels: top, functional level and operational level.

2. Functional level is composed of managers of product, geographic and functional areas. Their basic responsibility lies in annual objectives and short term strategies .

1.7 1. Strategic Management is essential to overcome the problems posed by complex and dynamic environment. We require knowledge of the trend in the environment so that strategies are planned accordingly.

2. Complex environment, rigidity, less support by managers

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**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 2** **AUTHOR- SHAMINDER KAUR**

## STRATEGIC MANAGEMENT PROCESS

**STRUCTURE**


2.1 Objectives
2.2 Introduction
2.3 Strategic management process
- 2.3.1 Statement of Corporate Mission and Objectives
- 2.3.2 Environmental Analysis
- 2.3.3 Organizational Analysis
- 2.3.4 Identification of Strategic alternatives
- 2.3.5 Choice of Right Strategy
- 2.3.6 Going ahead with implementation of a strategy
- 2.3.7 Evaluating and controlling the implementing of Strategy

2.4 Snapshot of Strategic Management Process
2.5 Implications of Strategic Management as a Process
2.6 Components of Strategic management
2.7 Conclusion
2.8 Short answer questions
2.9 Long answer questions
2.10 References
2.11 Answer of self check Questions


## 2.1 OBJECTIVES

The objectives of the chapter:

1. To identify how the process of strategic management is conducted to achieve organization objectives.
2. To understand the various components of strategic management model.

## 2.2 INTRODUCTION

As we know that Strategic management is a process of relating an organization with its environment by suitable course of action. Every action has two dimensions: substantive and procedural. Substantive dimension of action involves determination of what to do and procedural dimension of action involves determination of how to do. Both these dimensions are interdependent and taken tog^her help in achieving the objective for which action is contemplated. In case of strategic management, substantive dimension involves determination of a strategy or a set of strategies and procedural dimension deals with putting a strategy into operation. The present chapter deals with an overview of these aspects.

**2.3 STRATEGIC MANAGEMENT PROCESS**

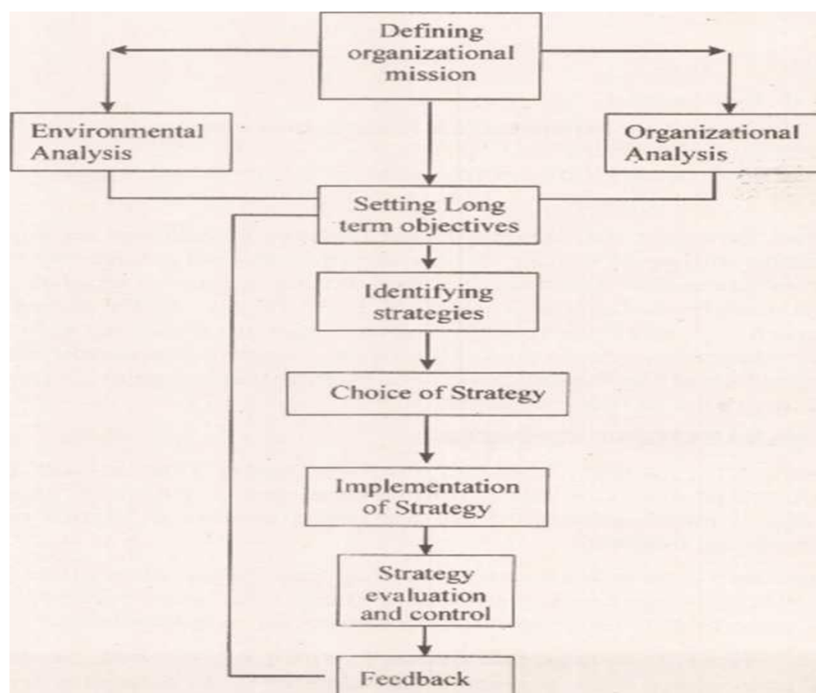
The logic of a process is that its particular elements are undertaken in sequence through time. Strategic management as a process involves a number of elements. However, Strategic management being a continuous and dynamic process there are two problems in identifying and sequencing these elements which are as follows:

Various authors and even practitioners are not unanimous about these elements and the way they interact among themselves. Thus, there is a lack of precision so far as these elements are concerned through various elements can be identified for further progression.

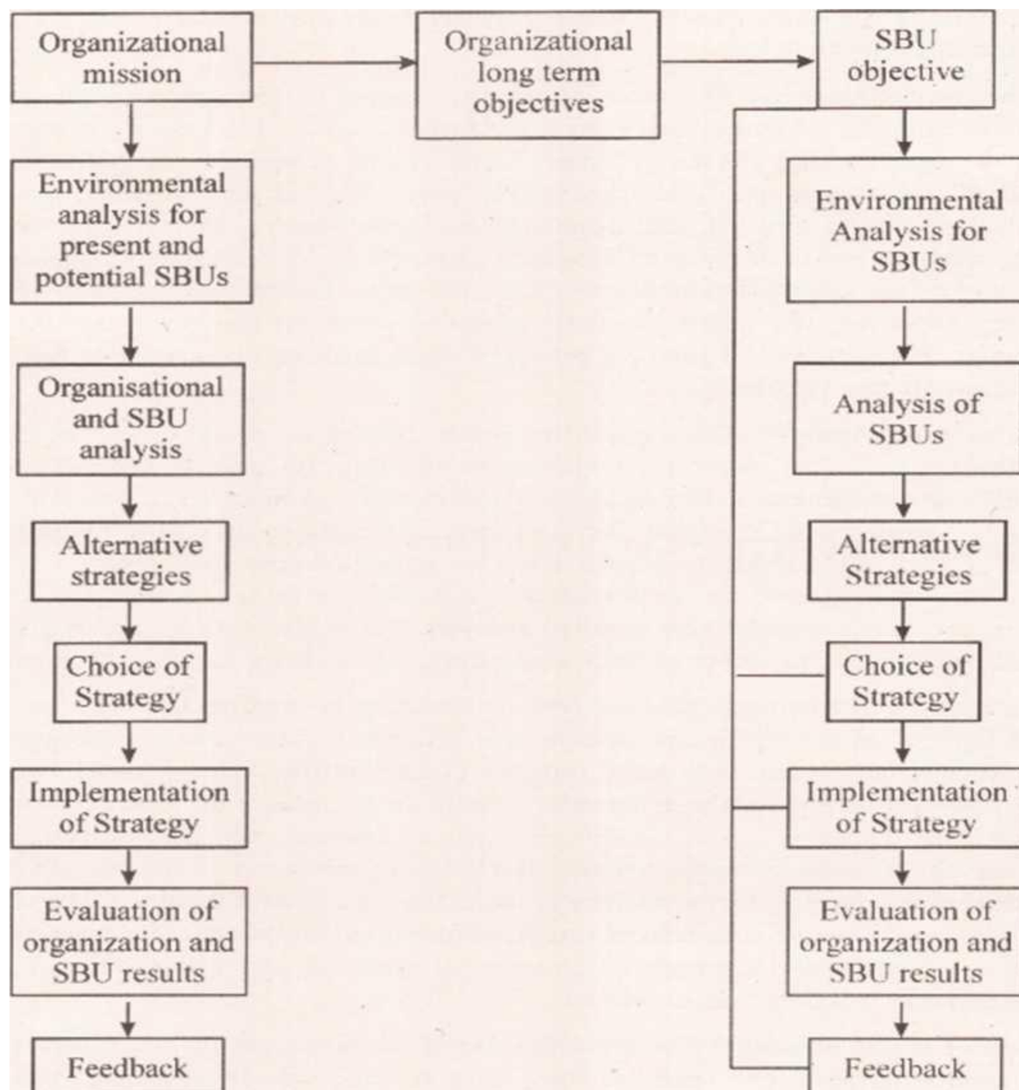
Even if various elements of strategic management are identified, another problem comes in the form of prescribing their sequential arrangement. In case of a precise process, such as assembly line production process, identification of sequential arrangement does not pose any problem because technologically it is defined. In the case of strategic management which is continuous and dynamic process without an apparent beginning and end, the sequential arrangement is hard to prescribe.

The above two problems are real which show the complexity of strategic management process. Inspite of these problems, the model/s for strategic management can be prescribed. Figures present model of strategic management. The strategic management process shown in 1st figure is applicable to a strategic business unit (SBU) firm. For a multiple SBUs firm, the process given in figure has to be adjusted so that the process is conducted at corporate level as well as at SBU levels as these firms insert SBU strategy between corporate strategy and functional strategy.

Figures present strategic management and its various elements along with the way they interact among themselves. Accordingly, various elements of strategic management process are organizational mission (this may also include long-term enduring objectives like survival and growth etc.), environmental, organizational analysis, identification and evaluation of alternative strategies, choice of strategy, implementation of strategy and strategic evaluation and control. Feedback is provided in the light of this strategy evaluation and control to take additional actions wherever required so that the objectives are achieved.



We are talking of management as a process of decision-making. Strategic management is one which involves making series of strategic decisions to achieve organizational goals. In this context a process stands for an identifiable flow of information through interrelated stages of analysis which is directed towards the attainment of a given objective or objectives. Hence, Strategic management as a process involves a set of activities or elements. One thing should be made clear at this juncture, that all experts do not agree over these activities or elements of strategic management process and the fashion in which they interact among themselves. The strategic management process is a sequence of components indicating a definite step by step chronology.



**2.3.1 Statement of Corporate Mission and Objectives:** Organizations are the deliberate creations of human beings having a definite mission towards which all efforts, energies, and resourcesare directed. A mission is a fundamental and a unique purpose by which it becomes outstanding or distinct from another. The mission is a general, enduring statement of organization's intention. It embodies the strategic decision maker’s business philosophy. It implies the image which the organization seeks to project. Organization’s mission becomes the cornerstone for strategic management and around it all functions revolve.

Organizational objectives are other factors which determine the strategy. In fact, the choice of the objectives for an organization is a strategic decision because by choosing its objective, the organization commits itself for these. Objectives are different from mission in the sense that the latter prescribes the basic philosophy of an organization itself which may be used in determining the objectives. Objectives are generally end results which the organization makes an attempt to achieve.

**2.3.2 Environmental Analysis:** The second important aspect of strategic management process is the environmental analysis. Since an organization is a social system, it operates within the environment which consists of many factors such as society, competitors, technology, and legal framework, political framework, psychological and cultural framework. An organization has to interact continuously with these factors. In this interaction process, the organization has to relate itself with the environment. Various factors of the environment have dual effect in interaction process with the organization and are also affected by its working. However, the effect of environment is more on the organization rather than otherwise. The interaction process provides opportunities or threats to ai> organization depending on the situation.

**2.3.3 Organizational Analysis:** What opportunities or threats are posed by the ‘ environment and how the organization can take advantages w'ill depend greatly on the organization's strengths and weaknesses. Organizational analysis brings these strengths and weaknesses. Through organizational analysis, the organization evaluates its strengths and weaknesses so that it can relate itself by emphasizing its strengths and overcoming its weaknesses. Organizational strengths and weaknesses also help in identifying the relevant environmental factors taken for detailed analysis. Thus, strategic opportunities and threats are determined on the basis of both environmental analysis and organizational analysis.

**2.3.4 Identification of Strategic alternatives:** Interaction of organization with its environment in the light of its strengths and weaknesses will result into various strategic alternatives. This process may result into large number of alternatives.

This process may result into large number of alternatives through which an organization can relate itself to the environment. However, all alternatives cannot be chosen even if all of them produce the same results. Obviously managers may like to limit themselves to the serious consideration of some of the strategic alternatives so that they are saved from unnecessary exercise. Therefore, the strategic alternatives should be identified in the light of strategic opportunities and threats generated through environmental analysis and organizational analysis and organizational mission and objectives.

**2.3.5 Choice of Right Strategy:** The identification of various strategic alternatives leads to the level where managers can consider some alternatives seriously and may choose one of the most acceptable. This is the stage of strategic decision process and all factors relevant for decision making arc relevant here. Since the particular strategy attempts to affect the organizational operation in some predetermined manner, the choice process systematically considers how each alternative strategy affects the various critical factors of the organizational functioning. Further, the chosen alternative should be acceptable in the light of organizational objectives. Thus, it is not necessary that the chosen is the best one. In the choice process, apart from the various organizational and environmental factors, personal factors play considerable role because strategy reflects the personal values and aspirations of a strategist.

**2.3.6 Going ahead with implementation of a strategy:** Once the creative and analytical aspect of strategy formulation has been settled, the organization tries to convert the strategy into something operationally effective. To bring the result, the strategy should be put :o action because mere choice of even the soundest strategy will not affect organizational activities and achievement of its objectives. In strategy implementation, various activities involved are design of organization structure to suit the chosen strategy, effective leadership, development of functional policies, development and allocation of resources, development of effective information system, etc.

**2.3.7 Evaluating and controlling the implementing of Strategy:** Evaluation and control may be treated as the last stage of strategic management process. However, this is an ongoing process and evaluation and control should be taken as the process for future course of action. For effective implementation and consequently achievement of organizational objectives, it is necessary that there is continuous monitoring of the implementation of the strategy so that suitable action is taken whenever something goes wrong. Evaluation and control of strategy and its implementation may result into various actions :hat the organization will have to take to be successful, depending on the situation. Such actions may be required in the area of correcting implementation of strategy, choice of strategy, or change in organizational mission and objectives and consequently leading to change in the identification of strategy. Therefore, strategic management process should never be taken as static but as dynamic so that new action is taken whenever there is any change in any of the factors affecting strategy.

2.3.. Self check questions

1.What is organizational analysis?

2. Explain environmental analysis.

3. What do you mean by mission statement?

## 2.4 SNAPSHOT OF STRATEGIC MANAGEMENT PROCESS

Strategy formulation

1. Formulation of Organizational Mission and Objectives Formulating mission and mission statement
   Business definition in terms of customer, product, and technology Formulating long-term broad objectives
2. Environmental Analysis
   Analysis of general environment Industry and competition analysis.
   Preparation of environmental threat and opportunity profile
3. Organisational analysis
   Analysis of strengths and weaknesses in different areas
   Preparing organizational capability profile SWOT analysis
   Defining core competence and distinctive competence
   Developing competitive advantage through:
   Benchmarking Synergistic approach Critical success factors approach Preparing competitive advantage profile.
4. Strategic alternatives
   Stability strategy
   Retrenchment strategy
   Turnaround
   Divestment
   Liquidation
   Growth strategy
   Concentric expansion strategy
   Vertical integration strategy
   Diversification strategy
   Merger and acquisition strategy
   Joint Venture strategy
   Strategic alliance
   Combination strategy
   Business restructuring strategy
5. Choice of strategy
   Focusing on strategic alternatives

Evaluating strategic alternatives
Considering decision factors
Strategic choice
**Strategy Implementation**

1. Activating strategy Institutionalization of strategy Resource mobilization and allocation Translating general objectives into specific objectives
2. Procedural implementation
3. Structural implementation Designing organization structure Prescribing organization system
4. Functional implementation Prescribing policies and strategies in Production/operations
Marketing
Finance
Human resources
5. Behavioral implementation Leadership implementation Managing organizational culture Creating values and ethics Corporate governance Managing organizational politics.
6. Organizational change and innovation Initiating and implementing organizational change Managing organizational innovation
Creating learning organization

Strategy Evaluation and Control

1. Designing evaluation and control system
Setting criteria for evaluation and
control Setting standard in respect
of these criteria
2. Exercising control Strategic Control Financial performance control Social performance control

2.4.. Self check questions

1.What are the various steps in strategy evaluation and control?

2. How an environment analysis can be done?

3. What is strategy formulation?

## 2.5 IMPLICATIONS OF STRATEGIC MANAGEMENT AS A PROCESS

Taking Strategic Management as a Process has number of implications which must be taken into account by strategists while going through this process. These implications are as follows:

1. All the elements of the process can be thought of in sequential nature. It implies that each step must be undertaken in a sequence, at least for a new strategic action. In case of an existing organization and existing strategic action, these

elements may not be put in a very strict sequence because the action may be repetitive

2. The various elements of the process are interrelated. This interrelatedness suggests effect of each factor on others. Thus, there may be two-way impact of a factor; each affecting others and in turn being affected by others. However, the relative force of this impact may differ for various elements. It may be major in some cases but minor in other cases depending on the nature of various external and internal factors.
3. Feedback is necessary to relate the implementation of the strategy with the early stage elements of the process. Feedback can be defined as the post implementation results of a strategy which are collected as inputs for the enhancement of future decision making through strategic management process. Thus, Feedback, strictly speaking not an element of strategic management process, is as essential as any other element.
4. Strategic Management can be termed as a dynamic system. The term dynamic is used to describe the constantly changing nature of conditions which affect interrelatedness and interdependent strategic activities. Since the organization has to function in an environment which is dynamic and constantly changing, the various elements and activities of the strategic management have to be adjusted accordingly.

## 2.6 COMPONENTS OF STRATEGIC MANAGEMENT

The key components of the strategic management described as follows:

### 1. Company mission

The mission of the business is the fundamental, unique purpose that sets it apart from other firms of its type and identifies the scope of its operations in the product and market terms. The mission is a general, enduring statement of company intent. It embodies the business philosophy of strategic decision makers, implies the image the company seeks to project, reflects the firm's self-concept and indicates the principal product or service areas and primary customer needs the company will attempt to satisfy.

### 2. Company profile

A firm's internal analysis determines its performance capabilities based on existing or accessible resources. From this analysis, a company profile is generated. At any designated point in time, the company profile depicts the quantity and quality of financial, human, and physical resources available to the firm. The profile also assesses the inherent strengths and weaknesses of the firm's management and organizational structure.

### 3. External Environment

A firm's external environment consists of all the conditions and forces that affect its strategic options but are typically beyond the firm's control. The strategic management model shows the external environment as consisting of two interactive and

interrelated segments: the operating environment and remote environment.

The operating environment consists of forces and conditions within a specific industry and a specific competitive operating situation, external to the firm that influences the selection and attainment of alternative objective/strategy combinations where as remote environment refers to forces and conditions that originate beyond and usually irrespective of any single firm's immediate operating environment and provide the general economic, political, social, and technological framework within which competing organizations operate. For example, import restrictions on raw materials, revolutionary technological innovations that make their production systems unexpectedly obsolete

### 4. Strategic Analysis and Choice

Simultaneous assessment of the external environment and company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are possible avenues for investment. However, the full list must be screened through the criterion of the company mission before a set of possible and desired opportunities is generated. This process results in the selection of Strategic Choice. It is meant to provide the combination of long-term objectives and grand strategy that will optimally position the firm in the external environment to achieve the company mission.

A complicated sub-process is used to derive the strategic choice. Strategic Analysis involves matching each of the possible and desirable interactive opportunities with the reasonable longterm targets and objectives. In turn these are matched with the most promising means known as grand strategies for achieving the desired results. Each set is then evaluated individually to determine the single set or group of sets that is expected to achieve the company mission. The chosen set is known as strategic choice.

Critical assessment of strategic alternatives initially involves developing criteria for comparing one set of alternatives with all others. As is the case in making any choice, a company's strategic selection involves evaluating alternatives that are rarely wholly acceptable or wholly unacceptable. The alternatives are therefore compared to determine which option will have the most favorable overall, long run impact on a firm. Among the criteria used in assessing strategic choice alternatives are strategic managers' attitudes toward risk, flexibility, stability, growth, profitability and diversification.

### 5. Long term objectives

The results an organization seeks over a multiyear period arc its long-term objectives. Such objectives typically involve some or all of the following areas: profitability, return on investment, competitive position, technological leadership, productivity, employee relations, public responsibility, and employee development. To be of greatest value, each objective should be specific, measurable, achievable, and consistent with other objectives of the firm. Objectives are a statement of what is expected from pursuing a given set of business activities.

### 6. Grand Strategy

The comprehensive, general plan of major actions through which a firm intends to

achieve its long-term objectives in a dynamic environment is called the grand strategy. This statement of means indicates how the objectives or ends of business activity are to be achieved. Although every grand strategy is, in fact, a fairly unique package of long-term strategies, 12 basic approaches can be identified: concentration, market development, product development, product development, innovation, horizontal integration, vertical integration, joint venture, concentric diversification, conglomerate diversification, retrenchment, divestiture and liquidation. Any of these strategies are meant to guide the acquisition and allocation of resources over an extended period of time.

The results an organization seeks to achieve within a one-year period are annual objectives. Short-term or annual objectives involve areas similar to those entailed in long-term objectives. The difference between them stems principally from the greater specificity possible and necessary in short term objectives. For example, a long-term objectives of increasing company wise sales volume by 20% in 5 years might be translated into a 4% growth objective in year one. In addition, it is reasonable that the planning activities of all major functions or divisions of the firm should reflect this company wide, short term objectives.

### 7. Functional Strategies

Within the general framework of the grand strategy, each distinctive business function or division needs a specific and integrative plan of action. Most strategic managers attempt to develop an operating strategy for each related set of annual objectives. Operating strategies are detailed statements of the means that will be used to achieve objectives in the following years. The company's budgeting process is usually coordinated with the development of the operating strategies to ensure practicality, and accountability in the planning process.

### 8. Policies

Policies are directives designed to guide the thinking, decisions and actions of managers and their subordinates in implementing the organization's strategy. Policies provide guidelines for establishing and controlling the ongoing operating processes of the firm consistent with the firm's strategic objectives. Policies are often referred to as standard operating procedures and serve to increase managerial effectiveness by standardizing many routine decisions and to limit the discretion of managers and subordinates in implementing operating strategies.

### 9. Institutionalizing the Strategy

Annual Objectives, Functional Strategies and specific Policies provide important means of communicating what must be done to implement the overall strategy. By translating long-term intentions into short-term guides to action, they make the strategy' operational. But the strategy must also be institutionalized- must permeate the very day-to-day life of the company- if it is to be effectively implemented. Three organizational elements provide the fundamental, long-term means for the Institutionalizing the Firm's strategy:

(1) Structure.
(2) Leadership,
(3) Culture.

Successful implementation requires effective management and integration of these elements to ensure the strategy "takes hold" in the daily life of the firm.

**10. Control and Evaluation**

An implemented strategy must be monitored to determine the extent to which objectives are achieved. The process of formulating a strategy is largely subjective despite often extensive efforts at objectivity. Managers must provide monitoring and controlling methods to ensure their strategic plan is followed. So, in final analysis a firm is only successful when its strategy achieves designated objectives.

2.6. Self check questions

1. What is a policy?

2. Explain grand strategy.

## 2.7 CONCLUSION

There are different phases in strategic management namely Statement of corporate mission and objectives, Embarking on environment Analysis, Debarking to corporate Analysis, Identification of Strategic alternatives, Choice of Right Strategy, Going Ahead with implementation of a strategy, Evaluating and controlling the implementing of Strategy. As many as 20 different elements in the process of strategic management have been identified. In establishing strategic intent, we have the elements of creating and communicating a vision, designing a mission statement, defining the business and setting objectives. In the formulation of Strategies we have: performing environment Analysis, corporate Analysis, considering Strategic alternatives, Choice of Right Strategy, formulating strategies and preparing strategic plans. In strategy implementation there are the elements of activating strategies, designing structures and systems, managing behavioral implementation, managing functional implementation, and operationalising strategies. Finally, in strategic evaluation and control the elements involved are: strategic evaluation, exercising strategic control and reformulating strategies. To enable an easier grasp of the process of strategic management, two variations of the model are proposed. A comprehensive model shows all the different elements while a working model depicts the outline of the process. The latter should aid you in remembering the process and model of strategic management which includes the various components: Company mission, Annual Objectives, Functional Strategies, and Policies, Institutionalizing the Strategy, Control and Evaluation

## 2.8 SHORT ANSWER QUESTIONS

**1..** What organizational element are needed for institutionalizing the Strategy

**2.** What is the difference between mission, vision and annual objectives?

**3.** Explain strategic choice and analysis

## 2.9 LONG ANSWER QUESTIONS

1. Define Strategic management process. What precautions should be taken while

applying this process in practice?

2. "Strategic management process should be seen as dynamic, continuous and flexible and must be considered as a whole." Explain this statement and bring out the main features of strategic management process.
3. Briefly describe the components of strategic management, model with certain examples?

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## 2.11 ANSWERS OF SELF CHECK QUESTIONS

2.3 1. The organization evaluates its strengths and weaknesses so that it can relate itself by emphasizing its strengths and overcoming its weaknesses

2. Since an organization is a social system and has to interact continuously with various factors. It provides opportunities or threats to organization depending on the situation.

3. A mission is unique purpose by which it becomes outstanding or distinct from another

2.4 1. Designing evaluation and control system, Setting criteria for evaluation, comparing and finding the deviations

2. Analysis of general environment, Industry and competition analysis, Preparation of environmental threat and opportunity profile

3. Formulation of Organizational Mission and Objectives and defining Business in terms of customer, product, and technology, Formulating long broad objectives

2.6 1. Policies are directives designed to guide the thinking, decisions and actions of managers and their subordinates in implementing the organization's strategy

2. The comprehensive, general plan of major actions through which a firm intends to achieve its long-term objectives in a dynamic environment

**MBA-DE(Second year)** | **BPSM (401)**

**Semester- 4** | **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 3** | **AUTHOR- SHAMINDER KAUR**

# ORGANISATIONAL MISSION AND OBJECTIVES

**STRUCTURE**


3.1 Objectives
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3.3 Vision
- 3.3.1 Understanding Vision
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## 3.1 OBJECTIVES

The objectives of the chapter:

1. To understand organizational mission, vision, purpose and business definition so as to relate a strategy' with these.
2. To aware the students about the distinction between mission, purpose and vision.

## 3.2. INTRODUCTION

Setting of organizational objectives is the starting point of strategy formulation. Since, organizations are deliberate and purposive creations, they have some objectives: the end results for which they strive. These end results are referred to as mission, purpose, objective, goal, target etc. Many times, these terms are used interchangeably as these

denote the end results. However, there are differences in the context in which terms are used. This contextual difference among various terms is important in understanding their nature and use in strategic management. From strategy formulation point of view, an organization must define why it exists, 'how' it justifies that existence, and 'when' it justifies the reasons for that existence. The answers of these questions lie in the organization's: Mission and purpose, business definition, objectives and goals. Strategy formulation is a must to guide executives in defining the business of their company is in, the aims it want to achieve, the means it wants to use in attaining these aims. Strategy formulation impounds into compound an improved approach to traditional long range planning. That is, strategy' formulation combines a future-oriented perspective with the concern for a firm's internal and external environments in developing its competitive plan of action. The strategy process of strategy formulation begins with the definition of company mission, vision, purpose, objectives or goals followed by environment analysis, corporate appraisal, and identification of strategic alternatives and ends with choice of a strategy. In this chapter, an attempt is made to discuss in detail the aspects of corporate vision, mission and objectives.

## 3.3. VISION

Aspirations, expressed as strategic intent, should lead to an end; otherwise they would just be castles in the air. That an end is the vision of an organization or an individual. It is what the firm or a person would ultimately like to become. For instance, some of you, say in 10 years, or may be even earlier, would like to become general managers managing a SBU in a large, diversified MNC. Or some others among you would like to believe that you will be an entrepreneur in 10-15 years owning your own company dealing with IT services and employing cutting-edge technology to serve a global clientele. A firm thinks like that too. A vision therefore, articulates the position that a firm would like to attain in the distant future. Seen from this perspective, the vision encapsulates the basic strategic intent.

### 3.3.1 Understanding Vision

A Vision is more dreamt of than it is articulated. This is the reason why it is difficult to say what vision a company has. Sometimes it is not even evident to the entrepreneur who usually thinks of the vision. By its nature, it could be as hazy and vague as a dream that one experienced the previous night and is not able to recall perfectly in broad daylight. Yet it is a powerful motivator to action. And it is from the actions that a vision could often be derived. Henry Ford wished to democratize the automobile when he visualized that an affordable vehicle could be available for the masses. Walt Disney probably wanted to make people happy. A vision statement should answer the basic question, "What do we want to become?" A clear vision provides the foundation for developing a comprehensive mission statement. Many organizations have both a vision and mission statement, but the vision statement should be established first and foremost. The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement.

Several example vision statements are provided below:

The Vision of the National Pawnbrokers Association is to have complete and

vibrant membership that enjoys a positive public and political image and is the focal organization of all pawn associations- National Pawnbrokers Association (npa. Polygon.net)

Our vision as an independent community financial institution is to achieve superior longterm shareholder value, exercise exemplary' corporate citizenship and create an environment which promotes and rewards employee development and consistent delivery' of quality service to our customers. - First Reliance Bank of Florence, South Carolina

At CIGNA, we intend to be the best at helping our customers enhance and extend their lives and protect their financial security. Satisfying customers is the key to meeting employee needs and shareholder expectations, and will enable CIGNA to build on our reputation as a financially strong and highly respected company, (www.cigna.com)

The vision statement of Bellevue Hospital is the LEADER in providing resources necessary to realize the community's highest level of HEALTH throughout life.

The vision statement of Manley Bapist Church is to be the people of God, motivated by a love for God and a love for others.

Ohio's division of Hazardous Waste Management is recognized as a leader among state hazardous waste management programs through our expertise, effectiveness, application of sound science, and delivery of quality service to our stakeholders.

### 3.3.2 Defining Vision

Vision has been defined in several different ways. Kotter (1990) defines it as a "description of something (an organization, corporate culture, a business, a technology, an activity) in the future".

El-Namaki (1992) considers it as a "mental perception of the kind of environment an individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception".

Miller and dess (1996) view it simply as the category of intentions that are broad, all- inclusive, and forward thinking.

The common strand of though evident in these definitions and several others available in strategic management literature relates to Vision' being future aspirations that lead to an inspiration to be the best in one's field of activity.

### 3.3.3 The Benefits of Having a Vision

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

- Good visions are inspiring and exhilarating.
- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
- Good visions help in creation of common identity and shared purpose.
- Good visions are competitive, original and unique. They make sense in the market place as they are practical.
- Good visions foster risk taking and experimentation.
- Good visions foster long-term thinking.

- Good visions represent integrity; they are truly genuine and can be used for the benefit of people.

3.3.4 The Process of Envisioning

The process of envisioning is a difficult one as we see from what Collins and Portas(1996) have to say about it. According to them, a well-conceived vision consists of two major components: core ideology and envisioned future. The core ideology defines the enduring character of an organization that remains unchangeable as it passes through the vicissitudes of vectors, such as, technology, competition, or management fads. The core ideology rests on the core values (the essential and enduring tenets of an organization) and a core purposes (an organization's reason for being). The envisioned future too consists of two components: a 10-30 years audacious goal, and a vivid description of what it will be like to achieve that goal.

3.3. Self check questions

1. What is a vision?
2. What are the benefits of having a vision?

## 3.4. MISSION AND PURPOSE

Mission and Purpose are often used either together or interchangeably to denote a particular phenomenon of end results of organizational actions though there is a difference between the two at least at the conceptual level. Before we go into operationalising these two terms as used in strategic management, let us through the dictionary meaning of these terms. According to dictionary meaning, mission, defined in a broad way, relates to that aspect for which an individual has been or seems to have been sent into the world.

Mission and Purpose of Hindustan Lever

**Mission**

Hindustan Lever has defined its mission in the terms of its commitment to national priorities and states that "Hindustan Lever's commitment to national priorities ensures that the company is a part of people's lives at the grass roots level, making a difference to India and Indians- in depth, in width and in size. Hindustan Lever has always identifies itself with the national priorities: employment generations, development of backward area, agricultural linkages, exports and contribution to the exchequer.

Purpose

Hindustan Lever has defined its purpose in the terms of the nature of business currently undertaken or it intends to undertake in future. It states that "Our purpose at Hindustan Lever is to meet the everyday needs of people everywhere- to anticipate the aspirations of consumers and customers and to respond reactively and competitively with branded products and services which raise the quality of life'.

Thus, the distinction between Mission and Purpose can be made. Mission provides guidelines to an organization to link its activities to the needs of the society in general and legitimizes its existence as an organ of the society. Purpose is also externally-focused but it relates the organizational activities to that segment of the society to which it serves; it defines the business the organization undertakes or will undertake in future. It depicts the organization's business character and does so in the ways that tend to distinguish it from other organizations. The external orientation of the purpose of an organization has been defined by Drucker as follows:

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

Judged in the light of above statement, we can derive the conclusion that mission is much wider as compared to purpose in dealing with society. While mission focuses on various constituents or interest groups- both direct and remote, purpose is more directly related to immediate constituents- customer.

3.4.1. Experiential exercises for 'purpose'

Experiential exercise 1-Does My University Recruit in Foreign countries?

Purpose

A competitive climate is emerging among colleges and universities around the world.

Colleges and universities in Europe and Japan are increasingly recruiting American students to offset declining enrollments. Foreign students already make up more than one-third of the student body at many American universities. The purpose of this exercise is to identify particular colleges and universities in foreign countries that represent a competitive threat to American institutions of higher learning.

Instructions

**Stepl** Select a foreign country. Conduct a research to determine the number and nature of colleges and universities in that country.

**Step2** Prepare a report for the class that summarizes your research findings. Present your report to the class.

Experiential exercise2-Getting Familiar with SMCO (Strategic Management Club Online)

Purpose

This exercise is designed to get you familiar with the Strategic Management Club Online, which offers many benefits for the strategy student. Note there is a student version of the popular checkmate strategic Planning software, which is described in more detail at the www.checkmateplcm.com Website. The corporate version of checkmate is the most popular strategic planning software in the world. The SMCO site also offsets templates for doing case analyses in this course.

Instructions

Stepl go to the www.strategyclub.com Website. Review the various sections of this site. Step2 Select a section of SMCO site that you feel will be most useful to you

**Experiential exercise3- Strategic Planning for My University Purpose**

External and internal factors are the underlying bases of strategies formulated and implemented by organizations. Your college/university faces numerous external opportunities/ threats and has many interned strengths and weaknesses. The purpose of this exercise is to illustrate the process of identifying critical external and internal factors.

External influences include trends in the following areas: economic, social, cultural, demographic, environmental, technological, political, legal, governmental, and competitive. External factors could include declining number of high school graduates; population shifts; community relations; rising number of internet courses; increased competitiveness among universities and colleges.

Internal Factors of a college or university include faculty, students, staff, alumni, athletic programs, the physical plant, grounds and maintenance, placement clubs, fraternities, sororities, and public relations.

Instructions

Step 1 On a spare sheet of paper, make four headings: External opportunities/threats, internal Strengths/weaknesses.

Step 2 As related to your college or university, list five factors under each of the four headings. Step 3 Discuss the factors as a class. Write the factors on the board.

Step 4 What new things did you learn about your university from the class discussion? How could this type of discussion benefit an organization?

## 3.5. COMPANY MISSION

Whether developing a new business or reformulating direction for an ongoing company, the basic goals, characteristics, and philosophies that will shape a firm's strategic posture must be determined. This company mission will guide future executive action. Thus, the company mission is defined as the fundamental, unique purpose that sets a business apart from other firms of its type and identifies the scope of its operation in product and market terms. It embodies the business philosophy of a strategic decision makers; implies the image the company seeks to project; reflects a firm's self concept; indicates the principal product or service areas and primary customer needs the company will attempt to satisfy. In short, the mission describes the product, market, and technological areas of emphasis for the business. And it does so in the way that reflects the values and priorities of strategic decision makers. A Drucker says that asking the question "What is our business?" is synonymous with asking the question "what is our mission?" An enduring statement of purpose that distinguishes one organization from other similar enterprises, the mission statement is a declaration of an organization's

"reason for being". It answers the pivotal question "What is our business?" A clear mission statement is essential for effectively establishing objectives and formulating strategies.
Sometimes called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, a statement of business principles, or a statement "defining our business", a mission statement reveals what an organization wants to be and whom it wants to serve. All organizations have a reason for being, even if strategists have not consciously transformed this reason into writing. Basically, a business mission is the foundation of priorities, strategies, plans, and work assignments. It is the starting point for the design of managerial jobs and above all, for the design of managerial structures. Nothing may be seemed simpler or more obvious than to know what a company's business is. A steel mill makes steel, a railroad runs trains to carry freight and passengers, insurance underwrites fire risks and a bank lend money. Actually, "what is our business?" is always almost a difficult question and the right answer is usually anything but obvious. The answer to this question is the first responsibility of strategist. Only strategists can make sure that this question receives the attention it deserves and the answer makes sense and enables the business to plot its course and sets its objectives.

Some strategists spend almost every moment of every day on administrative and tactical concerns, and strategists who rush quickly to establish objectives and implant strategies often overlook the development of vision and mission statement. This problem is widespread even among large organizations. Many corporations in America have not developed a formal vision and mission statement. An increasing number of organizations are developing these statements.

### 3.5.1. Defining mission

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission has gradually expanded to represent a concept that embodies the purpose behind the existence of an organization. Thompson (1997) defines mission as the "essential purpose of the organization, concerning particularly why it is an existence, the nature of the business (es) it is in, and the customers it seeks to serve and satisfy."

Hunger and Wheelen (1999) says that mission is the "purpose or reason for the organization's existence."

Now, there is not much difference of opinion about the definition of mission. Yet, one finds instances of organizations confusing mission with vision or objectives. In strategic management organization literature, mission occupies a definite place as a part of strategic intent.

### 3.5.2. Characteristics of Mission Statement

Organizations legitimize themselves by performing some function that is valued by society. A mission statement defines the basic reason for the existence of that organization. Such a statement reflects the corporate philosophy, identity, character and image of an organization. It may be defined explicitly or could be deduced from the management's actions, decisions, **of**the chief executive's press statements. In order to be

effective, a mission statement should possess the following characteristics:

1. **It should be feasible.** A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable- its followers must find it to be credible.
2. **It should be precise.** A mission statement should not be so narrow as to restrict the organization's activities nor should it be too broad to make itself meaningless. For instance, 'manufacturing bicycles' is a narrow mission statement since severely limits the organization's activities
3. **It should clear.** A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organizations do adopt such statements but probably they do so for emphasizing their identity and character. For example, Asian Paints stresses 'leadership through excellence', while India today sees itself as 'the complete news magazine'-.
4. **It should be motivating.** A mission statement should be motivating for members of the organization and of society, and they should feel it worthwhile working for such an organization or being its customers. A bank which lays emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients.
5. **It should be distinctive.** A mission statement which is indiscriminate is likely to have little impact. If all scooter manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But if one defines it as providing scooters that would provide Value for money, for years' it will create an important purpose for a banking institution.
6. **It should indicate major components of strategy. A** mission statement, along with the organizational purpose should indicate the major components of the strategy to be adopted. The chief executive of indal expressed his intentions by saying that his company "begins its fifth decade of committed entrepreneurship with the promise of a highly diversified company retaining aluminium as its mainline business, but with an active presence in the chemical, electronics and industrial equipment business. This statement indicates that the company is likely to follow a combination of stability, growth and diversification.
7. **It should indicate how objectives are to be accomplished.** Besides indicating the broad strategies to be adopted a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished. The mission statements specially deal with the objectives to be achieved within a given period of time. In day to day decision making, managers are not concerned about survival and, therefore, do not actively think abouttheir organization's mission for the society. Thus a mission statement becomes an ideology that can be used occasionally for legitimization. But, for strategic decision-making it is important to consider the mission in each phase of the strategic management process. A helpful approach to defining as well as refining a mission statement is to define the business itself.

### 3.5.3. Need for an explicit mission

Defining the company mission is time consuming, tedious, and not required by any external body. The mission contains few specific directives, only broadly outlined or implied objectives and strategies. Characteristically, it is a statement of attitude, outlook and orientation rather than of details and measurable targets.

What then is a company mission designed to accomplish? King and Cleland provide seven good answers:

1. To ensure unanimity of purpose within the organization.
2. To provide a basis for motivating the use of organization's resources.
3. To develop a basis, or standard, for allocating organization's resources.
4. To establish a general tone or organizational climate, for example, to suggest a businesslike operation.
5. To serve as a focal point for those who can identify with the organization's purpose and direction, and to deter those who cannot from participating further in the organization's activities.
6. To facilitate the translation of objectives and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
7. To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time, and performance parameters can be assesses and controlled.

### 3.5.4. Formulating a Mission

The process of defining the mission for specific business can perhaps be best understood by thinking about a firm at its inception. The typical business organization begins with the beliefs, desires and aspirations of a single entrepreneur. The sense of mission for such tin owner-managers is usually based on several fundamental elements:

1. Belief that the product or service can provide benefits at least equal to its price.
2. Belief that the product or service can satisfy a customer need currently not met adequately for specific market segments.
3. Belief that the technology to be used in production will provide a product or service that is cost and quality competitive.
4. Belief that with hard work and the support of others the business can do better than just survive, it can grow and can be profitable.
5. Belief that the management philosophy of the business will result in a favorable public image and will provide financial and psychological rewards for those willing to invest their labor and money in helping the firm to succeed.
6. Belief that the entrepreneur's self-concept of the business can be communicated to and adopted by employees and stockholders.

As the business grows or is forced by competitive pressures to alter its product/market/ technology, redefining the company mission may be necessary. So, the revised mission

statement will reflect the same set of elements as the original.

3.5.5. Components of mission statement

Mission statements can and do vary in length, content, format and specificity. Most practitioners and academicians of strategic management feel that an effective statement exhibits nine characteristics or components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all of these essential components:

1. **Customers-** Who are the firm’s customers?
2. **Products or services-** What are the firm's major Products or services?
3. **Markets-** Geographically, where does the firm compete?
4. **Technology-** Is the firm technologically current?
5. **Concern for survival, growth, and profitability-** Is the firm committed tc growth and financial soundness?
6. **Philosophy-** What are the basic beliefs, values, aspirations and ethical priorities of the firm?
7. **Self-Concept-** What is the firm’s distinctive competence or major competitive advantage?
8. **Concern for public image-** Is the firm responsive to social, community, and environmental concern?
9. **Concern for employees-** Are employees a valuable asset of the firm?

3.5.. Self check questions

1. What is a mission?
2. What are the features of good mission statement?
3. What is the difference between a vision and a mission?

## 3.6. VISION VERSUS MISSION

Many organizations develop both a mission statement and a vision statement. Whereas the mission statement answers the question “What is our business”, the vision statement answers the question “What do we want to be? Many organizations have both a mission statement and a vision statement. Vision and Mission statement Examples:

**1 The Bellevue Hospital**

**Vision Statement**

The Bellevue Hospital is the Leader in providing resources necessary to realize the community's highest level of Health throughout life.

Mission statement

The Bellevue Hospital, with respect, compassion, integrity, and courage, honors the individuality and confidentiality of our patients, employees and community and is progressive in anticipating and providing future health care services.

2 U.S. Geological Survey

Vision Statement

The vision of USGS is to be a world leader in the natural sciences through our scientific excellence and responsiveness to society's needs.

Mission statement

The mission of USGS is to serve the nation by providing reliable scientific information to

Describe and understand the earth.
Minimize loss of life and property from natural disasters.
Manage water, biological, energy, and mineral resources; and enhance and protect our quality of life.

3 U.S. Poultry & Egg Association

Vision Statement

A national organization which represents its members in all aspects of poultry & egg on both a national and an international level.

Mission statement

We will partner with our affiliated state organizations to attack common problems.
We are committed to the advancement of all areas of research and education in poultry technology
The international poultry exposition must continue to grow and be beneficial to both attendees and exhibitors.
We must always be responsive and effective to the changing needs of our industry.
Our imperatives must be such that we do not duplicate the efforts of our sister organization.
We will strive to constantly improve the quality and safety of poultry products.
We will continue to increase the availability of poultry products.

4 Manley Bapist Church

Vision Statement

The vision statement of Manley Bapist Church is to be the people of God, motivated by a love for God and a love for others.

Mission statement

The mission of Manley Bapist Church is to help people in the Lakeway area become fully developed followers of Jesus Christ.

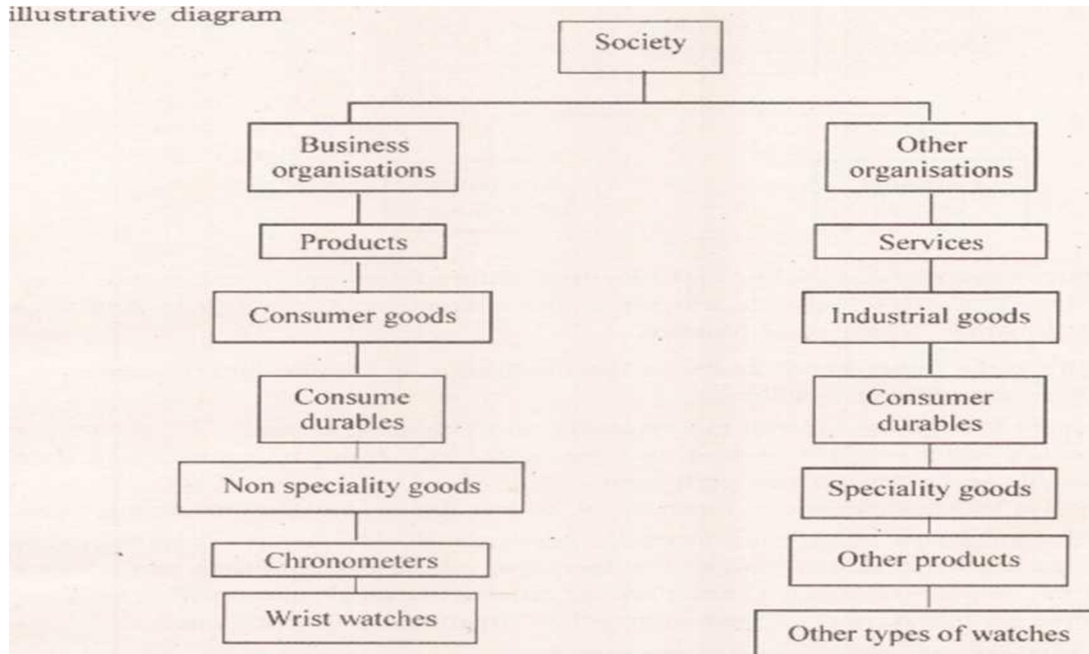
It can be argued that profit, not mission or vision is the primary corporate motivator. But profit alone is not enough to motivate people. Profit is perceived negatively by some employees in companies. Employees may see profit as something that they earn and management then uses and even gives way to shareholders. Though this perception is undesired anc disturbing to management, it clearly indicates that both profit and vision are needed to effectively motivate a workforce.

When employees and managers together shape or fashion the vision and mission statements for a firm, the resultant documents can reflect the personal visions that managers and employees have in their hearts and minds about their own futures. Shared

vision creates a commonality of interests that can lift workers out of the monotony of daily work and put them into a new world of opportunity and challenge.

## 3.7. BUSINESS DEFINITION

Understanding business is vital to defining it and answering the question 'What is our business?' it could also be a pointer to the answers to the questions: What will it be?' and what should it be?' Mission statements can use the ideas generated through the process of understanding and defining business.



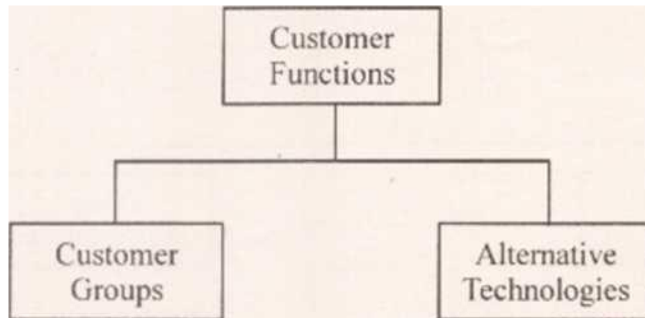

Each successive step provides alternatives ways through which the timekeeping needs of the society could be satisfied. Consider the following illustrative examples.

- Wrist watches could be of different types, for example, ladies', men's, children's and sport watches.
- Other types of watches could be timepieces, wall clocks, and pocket watches.
- Other products could be an hourglass or a sundial
- Specialty watches could be video-timers, calculator watches, and car clocks.
- Consumer non-durables could be time-punching machines and stopwatches.
- Senders could be telephone or teletext time services
- Other organizations which roughly meet the timekeeping needs could be, for instance, a chruchbell chiming at appointed hours, or a call to the faithful from mosques.
- All the above options, or their combinations, Lead to the satisfaction of the

timekeeping needs of the society.

Dimensions of Business Definition

In a path breaking analysis, Derek Abell suggests defining business along the three dimensions of customer groups, customer functions, and alternative technologies 'how' the need is being satisfied. This represents a diagrammatic three dimensions.




Customer groups are created according to the identity of the customers. Customer functions. Are based on what the products or services provide to the customers. Alternative technologies describe the manner in which a particular function.

Applying Abell's three dimensional model to the illustration of timekeeping business, we could identify the three dimensions as follows:

1. Customers groups are individual customers and industrial users.
2. Customers functions are of finding time, recording time, using watches as a fashionable accessory, and as a gift item.
3. Alternative technologies are of mechanical, quartz digital, and quartz analog types.

Such a clarification helps in defining business explicitly. A clear business definition ishelpful for strategic management in many ways. For instance, a business definition can indicate the choice of objectives, help in exercising a choice among different strategic alternatives, facilitate functional policy implementation, and suggest appropriate organizational structure.

## 3.8. LEVELS AT WHICH BUSINESS COULD BE DEFINED

Like strategy, business could either be defined at the corporate or SBU levels. A singlebusiness firm is active in just in one area so its business definition is simple. A long conglomerate, operating in several businesses, would have a separate business definition for each of its businesses.

At the corporate level; the business definition will concern itself with the wider meaning of customer groups, customer functions, and alternative technologies. A highly diversified company organized on a divisional basis could benefit by having a business definitions covering all three definitions. Each division could again have more accurate business definitions covering all the three dimensions. Each division could also have a more accurate business definition at the SBU level.

When a company takes up activities outside the domain of its business definitions, it generally faces the accompanying risk of adding of new businesses, divisions or products unrelated to its present activities and at variance with its corporate identity. The crisis of identity is serious problem which results either in inefficiency or ineffectiveness. On the other hand, if the various acquisition, growth and diversification plans of the company are linked through a business definition, it results in a considerable amount of synergy (more commonly known as 'the two-plus-two-is-equal-to- five effect'). An example of such a company is ITC Ltd, which believes in the 'professional management of planned growth' through a pursuit of excellence by operating in the areas of agroindustry, packaging and printing, pulp and paper- seemingly diverse but intrinsically related to its main activity of cigarette manufacturing. Incidentally, ITC defines its SBU-level mission for its cigarette division as making quality product that will offer the smoker satisfaction at a price he can afford.

## 3.9. CONCLUSION

The arguments of those who argue that business organizations have nothing to do with social responsibility and expect the maximization of shareholders' wealth are weak on two points. First, they overstate the trend and ultimate magnitude of business's voluntary" assumption of social responsibility. Second, they want business organizations to do some things they cannot do, that is to ignore societal demands on them. Many forces will come in its way to destroy it. Therefore, even if business is involved in making profit, it is done through their creation of utility to the social needs. Better these social needs are served, better will be the prospect of its survival and progress. Even in Western countries, where economic activities are comparatively free from controls, it has been accepted that profit is not the sole criterion for measuring the success of a business organization. For example, Day has observed that:

"As a statement of purpose, maximizing of profit is not only unsatisfying; it is not even accurate. A more realistic statement has to be more complicated. The corporation is a creation of society whose purpose is the production and distribution of needed goods and services, for profit of society and itself. Each element of that statement is needed if the whole is to be accurate: you cannot drop one element without doing violence to the facts."

The proponents of social responsibility say that the society is not substituting one set of expectations for another. Rather it is broadening the standards by means of which corporate performance is to be judged. The old concept of profit maximization has vanished and even economists have accepted it. They substituted profit maximization with satisfactory' profit. Today, business decision-making is a mixture of altruism, self interest and good citizenship. Managers do take actions which are in the social interest even though there is a cost involved and the connection with long range profit is quite remote. Therefore, the issue is not whether the business has social responsibility; it has. The issue is how to identify this responsibility and act upon that.

## 3.10. SHORT ANSWER QUESTIONS

1. How does mission of an organization differ from its vision? Identify the features of a visionary organization?
2. What are the components of a mission statement?
3. What are the various levels on which business is defined?

## 3.11. LONG ANSWER QUESTIONS

1. How is mission of an organization formulated? What are the characteristics of a good mission?
2. What do you mean by business definition of a company? What are the dimensions along which a business is defined? How does business definition help in strategy formulation?
3. What are the components of an organizational mission? Illustrate with examples. What is the role of organizational mission in strategy formulation?

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## 3.13 ANSWERS OF SELF CHECK QUESTIONS

3.4 1. future aspirations that lead to an inspiration to be the best in one's field of activity

2. Good visions are inspiring and exhilarating, help in the creation of a common identity and a shared sense of purpose, foster risk taking and experimentation, foster long-term thinking.

3.5 1. purpose or reason for the organization's existence

2. feasible, precise, clear and motivating

3. mission statement answers the question "What is our business", the vision statement answers the question "What do we want to be

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 4** **AUTHOR- SHAMINDER KAUR**

# ENVIRONMENT SCANNING STRUCTURE

**STRUCTURE**

4.1 Objectives
4.2 Introduction
4.3 Concept of Environment Analysis
4.4 Role of Environmental Analysis
4.5 Environmental Factors
 4.5.1 Economic Environment
 4.5.2 Political Legal Environment
 4.5.3 Technological Environment
 4.5.4 Socio-Cultural Environment
4.6 International Environment
4.7 Conclusion
4.8 Short answer Questions
4.9 Long answer questions
4.10 References
4.11 Answers of self check questions

## 4.1 OBJECTIVES

The objectives of the study:

1. To understand the nature of environment in which in which an organization operates and the role of its analysis in strategy formulation.
2. To understand the changing nature of Indian business environment and its implications for strategy formulation.

## 4.2 INTRODUCTION

Environment analysis is a part of SWOT analysis. SWOT is acronym of strengths, weakness, opportunities, and threats, while opportunities and threats are external to an organization, strengths and weaknesses are internal to the organization. Though the analysis of these has spread in five following chapters:

1. Opportunity, An opportunity is a favourable condition in the organization's environment which enables it to strengthen its position.
2. Threat, A threat is an unfavourable condition in the organization's environment which causes a risk for, or damage to, the organization's position.
3. Strength, strength is an inherent capability of the organization which it can

use to gain strategic advantage over its competitors.

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

Though SW$^{T}$OT analysis should be taken as an integrated process in strategic management, here, it has been broken into two parts because the types of information required and techniques adopted in both these parts are quite different. These parts are environmental analysis for identifying opportunities and threats and organizational analysis for identifying strengths and weaknesses.

## 4.3 CONCEPT OF ENVIRONMENT ANALYSIS

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

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

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

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

4.3 Self check questions

1. Why Environmental analysis is a holistic exercise?
2. Why the scanning of environment is a continuous process?

## 4.4 ROLE OF ENVIRONMENTAL ANALYSIS

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

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

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

1. Environmental analysis allows strategists time to anticipate opportunities and plan to take optional responses to these opportunities. Similarly, it helps to develop an early warning system to prevent the threats or to develop strategies which can turn the threats to the organization's advantage.
2. Environmental analysis helps strategists to narrow the range of available alternatives and eliminate options that are clearly inconsistent with forecast opportunities or threats. The analysis helps in eliminating unsuitable alternatives and to process most promising alternatives. Thus, it helps strategists to reduce time pressure and to concentrate on those which are more important.

## 4.5 ENVIRONMENTAL FACTORS

As pointed out earlier, the managers should identify their relevant environment so that they can analyze the various elements in order to relate their organizations with the environment. However, they may be a number of such factors and can be classified in various ways. Since the orientation towards relevant environmental factors differs for organizations because of the reasons noted earlier, there may be lack of unanimity on such factors. Similar is the case with management literature. For example, Duncan has classified the relevant components of environment for an organization into five categories; consumer components, supplier components, competitor component, socio-political component and technological component. On the other hand, Glueck has

grouped the environmental factors in six broad categories; economic, government- legal, market competitor, supplier-technological, geographic, and social. D.R.Singh, while analyzing environmental issues taken up by multinationals in the host country, has emphasized the following factors; economic situation, political situation, and financial situation. He has further classified the political situation into Industrial development policy, foreign investment policy, corporate taxation policy, import export policy, industrial licensing, foreign exchange control, and capital issue control. These classifications suggest that the environmental factors may be classified in various ways. However, the classifications of these factors must be in such a way it presents some framework by which to view the total situation with which the manager's confront. This provides managers a sharp focus on the relevant factors of the environment. They make decisions in the light of the various environmental forces as perceived by them. This requires the classification of environmental forces which distinguishes each element from others so that managers can pinpoint the impact of each on their organizations. However, it can be emphasized here that environmental factors are intertwined; they affect each other and are affected by others. For example, the economic factor of a country is likely to be affected by the political and legal aspect of the country. In the same way, economic aspect may determine technological factor but is affected by the latter. This interrelation feature makes the classificatory scheme even more flexible. However, an analytical classification of various environmental factors may be;

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

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

### 4.5.1 ECONOMIC ENVIRONMENT

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

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

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

## A. GENERAL ECONOMIC CONDITIONS

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

i. ECONOMIC SYSTEM. The economic system of a country determines the extent to which the organizations have to face different constraints and controls by the economic factors. In three alternative economic systems - capitalistic, mixed and socialistic - organizations have to face different types of control ranging from total freedom to total control. An economic system puts certain restrictions over the functioning of the organization. Second, it provides lot of protection to an organization depending on its nature. For example, public sector organizations are protected from private organizations, local organizations from foreign organizations, small organizations from large organizations, and so on.

ii. NATIONAL INCOME AND ITS DISTRIBUTION. National income is defined as the money value of economic activities of a country' during a particular period, normally one year. National income determines the purchasing power of people and consequently the demand of products. Distribution of national income determines the types of products that may be determined by the people.

MONETARY POLICY. Monetary policy regulates the economic growth through the expansion or contraction of money supply. There are three basic objectives of Indian monetary policy; (1) to provide necessary' finance to the industries, particularly in private sector (2) to control the inflationary pressure in the economy; and (3) to generate and maintain high employment.

iii. FISCAL POLICY: Fiscal policy deals with the tax structure and governmental expenditure. Generally the fiscal policy is adopted for (l) mobilizing maximum possible resources;(2) optical allocation of resources so as to attain rapid growth ; (3) attainment of greater equality in the distribution of income, and (4) maintenance of reasonably possible stability of prices. There are two aspects of fiscal policy relevant to strategic management. First, how tax structure is affecting the growth of individual organizations and the industry as a whole. Second, how government's spending affects economic activities.

## B. FACTOR MARKET OR SUPPLIER COMPONENTS

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

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

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

iii. RAW MATERIAL AND SUPPLIES: An organization requires continuous flow of raw materials and other things to maintain its operations. The price of materials, frequency and regularity of supply, and other terms and conditions are important considerations in this respect. All these factors, in turn, depend on the availability of natural resources, infrastructural facilities, and general economic development of the country.

iv. PLANT AND EQUIPMENT: An organization invests money in plant and equipment because it expects a positive rate of return over cost in future. The revenue from theuse of the plant and equipment should be sufficient so as to cover the invested money, operating costs, and generate enough profit to satisfy the organization. Great uncertainty in these would make the cost of plant and equipment a more important strategic factor. The availability of plant and equipment is dependent on the technical development of the country and the government’s approach towards foreign technical collaboration.

v. FINANCIAL FACILITIES: Financial facilities are required start and operate the organization. The external sources of finance are share capital,

banking and other financial institutions, and unorganized capital markets. The recent changes in Indian capital market indicate the availability of plenty of finance both from the financial institutions as well as from general public. In fact the organization and working of Indian capital market can be compared favourably with many industrially advanced countries. The availability of finance coupled with various incentives attached is a facilitating factor. However, such facilities have been utilized by the few large scale and medium scale organizations.

vi. MANPOWER AND PRODUCTIVITY: w^Thile the availability of factors of production affects the development of the country as well as individual organizations, the level of productivity affects the organizational efficiency and profitability. The productivity of both human and physical factors is dependent on many factors, for example, the type of technology used, the production process applied, the organizational processes, and the use of managerial techniques.

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

- Does the economic system allow entering the business sector sought? Communist countries' economic system has lot of such barriers.
- What is the stage of economic growth and what is rate of growth? Is it maturing, declining, or at take-off stage?
- What is the level of income- national and per capita? Docs it offer market of large size?
- What are the incidents of taxes, both direct and indirect, in general and on specific products?
- What are the infrastructural facilities available and what are bottlenecks therein?
- Are critical raw materials and components available and at what costs?
- What are the sources of financial resources and what are their costs?
- Are adequate manpower- managerial, technical and workers- available and what are their salary and wage structures? What is the level of their productivity?

### 4.5.2 POLITICAL LEGAL ENVIRONMENT

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

Political system such as political processes, political organizations- political parties and Their ideologies, political stability, and extent of bureaucratic delays and red-tapism;

Defense and foreign policies like defense expenditure, maintenance of external relationships with other countries, defining most favoured countries from business point

Legal rules of the game of business- their formulation, implementation, efficiency, andeffectiveness.

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

a. Promoting environment and
b. Regulatory environment.

Promoting environment

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

Regulatory Environment

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

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

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

In analyzing political-legal environment, an organization may put the following questions:

1. How does the political system influence the business?

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

### 4.5.3 Technological environment

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

i. Technology is a major source of productivity increase. Though human beings are primarily responsible for handling technology, their efficiency is determined by the type of technology being used.
ii. Various jobs in an organization being performed by individuals are determined by the technology being used. If there is a change in technology, the jobs are changed because technology determines the level of skills required.
iii. Technology influences the social situations, that is, the size of groups, membership of group, patterns of interpersonal interactions, opportunity to control activities arc influenced in a variety of ways by technology.
iv. Organizations become more secured by developing efficiency through the adoption of efficient technology. However, as the technology becomes more complex, it becomes relatively more difficult for new organizations to enter the field.
v. There is a time gap in employing new technologies both within an organization and among organizations in a field. Time gap within the organization means that adjustment to technological innovation will be spread over a number of years and is not amenable to a direct, one- change solution, with the industry,. It means that if a new technology is adopted by an organization, others in the same industry will follow soon, however, because of time gap, the first organization will have some sort of monopolistic advantages.

Petrov has analyzed strategic implications of technological environment as follows:

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

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

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

### 4.5.4 SOCIO CULTURAL ENVIRONMENT

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

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

Thus, social and cultural environment, in its broad sense, includes many aspects of society and its various constituents. From business organisation’s point of view, it may include:

i) Expectations of the society from the business;
ii) Attitudes of society towards business and its management;
iii) Views towards achievement of work;
iv) Views towards authority structure, responsibility and positions,
v) Views towards customs, traditions, and conventions;
vi) Class structure and labour mobility; and
vii) Level of education.

The various elements of social and cultural environment affect the working of the organizations mainly in three ways: organizational objective setting, organizational processes and the products to be offered by the organization. Though these, they affect

the total functioning of the organization. The social and culture factors affect the basic objectives of the organization by prescribing the norms within which the organizational objectives are formulated. For example, to what extent, social responsibility will be an organizational objective is determined by the various social factors in which organization functions. Similarly organizational process are also designed keeping in view the various social and cultural factors otherwise they will not work. For example, the various control and decision processes in our social organizations are based on the basic values of joint family system and caste system. Similar is case with other organizational processes.

Social and cultural factors also affect the goods and services that can be offered by the organization. Since the organization works as mediator for converting inputs into outputs, and these outputs are given to the society, it can produce only those things which are accepted by the society.

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

In analyzing social and cultural factors, the organization can ask the following questions:

1. What are approaches of the society towards business in general and in specific areas?
2. How do social, cultural and religious factors affect acceptability, or otherwise, ofproduct?
3. What is the life style of people and what products fit that life style?
4. What is the level of acceptance of, or resistance to change?
5. What are the values attached to a particular product? Do people see possessive value or functional value in the product?
6. Do people buy specific products for specific occasions necessitated by social and religious requirements?
7. What is the propensity to consume and to save?

4.5. Self check questions

1. ______determines the extent to which the organizations have to face different constraints and controls by the economic factors.
2. ____consists of attitudes, beliefs, desires, expectations, education and customs of the society at a given point of time
3. Political- legal environment of a country can be bifurcated into two parts___
4. _____covers those factors which give shape to development of economic activities

and may include nature of economic system, general economic conditions, economic policies, and various production factors.

## 4.6 INTERNATIONAL ENVIRONMENT

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

1. **Economic Factors**
   - **a.** Rate of economic growth
   - **b.** Income distribution pattern
   - **c.** Size of market for company's growth
   - **d.** Infrastructure and physical facilities
   - **e.** Sources of funds and their costs
   - **f.** Availability of foreign exchange for remittances.
2. **Tax Factors**
   - a. Tax rate trends on various types of taxes- corporate, personal, and indirect taxes such as custom, excise, sales, local, etc.
   - b. Joint tax treaties with home country and other countries.
   - c. Duty and tax drawbacks on exports.
   - d. Availability of tariff protection.
3. **Political- Legal Factors**
   - a. Political system and stability of political processes.
   - b. Government's approach towards foreign investment.
   - c. Restrictions imposed on foreign investment.
   - d. Incentives provided on foreign investment.
4. **Human Resource Factors**
   - a. Local availability of human resources of various types.
   - b. Degree of skills and competence of different types of personnel.
   - c. Attitudes towards work and productivity.
   - d. Status of unionization and its approach towards management.
   - e. Availability of amenities for expatriate personnel and their families.
5. **Geographic and Competitive Factors**

b. Efficiency of transport system.
c. Proximity of site to export markets.
d. State of marketing and distributions system.
e. Profit margin on operations.
f. Competitive situation in the industry.

6. **Socio- Cultural Factors**

a. Attitudes of local population towards foreign companies and products.
b. Degree of acceptability of innovative products.
c. Life style of people and consumption pattern.
d. Peculiar socio- cultural differences affecting business prospects adversely.

In the case

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

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

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

## 4.7 CONCLUSION

This chapter attempts to clarify the concept of the environment. The environment is complex, dynamic, multi-faceted, and has a far reaching impact on an organization. It is divided into external and internal parts. The relevant environment can be classified into different sectors or components.

The components are the market, technological, supplier, economic, regulatory, political, sociocultural environment. The different components of the environment have to be monitored continuously by strategists for factors that may create opportunities or threats. Such a monitoring is done through the process of environmental scanning. Organizations use this process to monitor their relevant environment to identify the opportunities or threats which affect their business

## 4.8 SHORT ANSWER QUESTIONS

1. What is a economic environment? Explain the components which are included in a economic environment of a country?
2. Explain political and legal environment
3. What are the features of environmental scanning?
4. Discuss the benefits of environmental scanning for business point of view.

## 4.9 LONG ANSWER QUESTIONS

1. What do you mean by environmental analysis? Discuss the role that it plays in Strategy' formulation.
2. What are the different environmental factors that an organization should monitor for its Strategy formulation? How can technology be used as a tool for generating competitive advantage?
3. How the international environment is affecting the businesses? What is included in it? How it should be monitored?

## 4.10 REFERENCES

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## 4.11 ANSWERS OF SELF CHECK QUESTIONS

4.3 1.a holistic exercise in which total view of environment is taken rather than viewing trends piecemeal..

2. there is continuous scanning of the environment to pick up the new signals or triggers in the overall pattern of developing trends

4.5 1. Economic system

2. social and cultural environment

3. promoting and regulatory environment

4. economic environment

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 5** **AUTHOR- SHAMINDER KAUR**

# TYPES OF STRATEGIES

## STRUCTURE


5.1 Objectives
5.2 Introduction
5.3 Basis of Strategy
  5.3.1 Cost Leadership strategy
  5.3.2 Differential Strategy'
  5.3.3 Focus Strategy'
5.4 Direction of Strategies
  5.4.1 Stability or status quo
  5.4.2 Expansion or Growth Strategy
  5.4.3 Diversification Strategy
5.5 Short answer questions
5.6 Long answer questions
5.7 References
5.8 Answer of self check questions


## 5.1 OBJECTIVES

The objectives of the chapter:

1. To identify the various avenues of growth for organizations.
2. To specify various issues involved in each type of growth strategy'.

## 5.2 INTRODUCTION

After successfully done with the external and internal evaluation or analysis, as explained in chapter four and chapter five, the next step the company is to take is that of identifying alternative strategies which match their resources and capabilities with the external threats and opportunities. That is, identification of alternative strategies is a significant aspect of strategic management because it provides the alternatives which may be considered and selected for implementing them so that the company gets the desired results. At this stage of discussion, the strategists have to solve effectively two problems. Problem one is that of identifying what alternative strategies are available to them? Problem two is that whether the company's strengths and weaknesses allow these strategies to be used for its betterment? If so to what extent? To start with the strategists are to know what strategy o strategic alternatives are open to them. Hence, this chapter plans to study the strategic alternatives that are open. That is, evaluation of a strategy is

postponed to next chapter. This chapter ends with chapter based questions.

## 5.3 BASIS OF A STRATEGY

How far an organization goes in for searching strategic alternatives depends on the approach it follows for strategic decision making. According to Mr. Henry Mintzberg, as discussed in chapter one, there are three basic approaches namely, the extent of identification of strategic alternatives differ. Irrespective of the approaches the managers follow for identifying the strategic alternatives, they culminate into a number of strategies. The following figure makes this clear by classifying the various strategies:

These strategies can be classified in a number of ways. Generic strategies are business-level strategies or overall strategies which enable the firm to complete effectively in their line of business, to build and sustain competitive advantage and to yield a decent return on investment. According to Michael E.Porter a firm can chose from three competitive approaches-namely cost leadership, differentiation and focus

5.3.1 **Cost Leadership strategy:** Cost leadership is a strategy that allows the firm to excel its competitors by producing goods or services at the lowest cost. By doing so, the firm is able to survive successfully and compete away the competitors. Lower cost implies lower price and turns the unit price competitor. A firm can attain the status of a cost leadership by: charging lower prices resulting in extra sales matching the product and processes structures that result in reduced process cost, managing projects scientifically that reduces time over-run and cost over-run, adapting effective and efficient management practices.

5.3.2 **Differential Strategy:** The differential strategy is an attempt to gain a competitive advantage by producing a product or making available a service that bestows the additional benefit to the customers. The company is likely to charge a premium price as additional benefit cost the firm. Further, for value adding it has to get some margin. This kind of competitive advantage can be possible through innovative marketing, providing new and effective design, use of engineering skills to make the product or service that stands out.

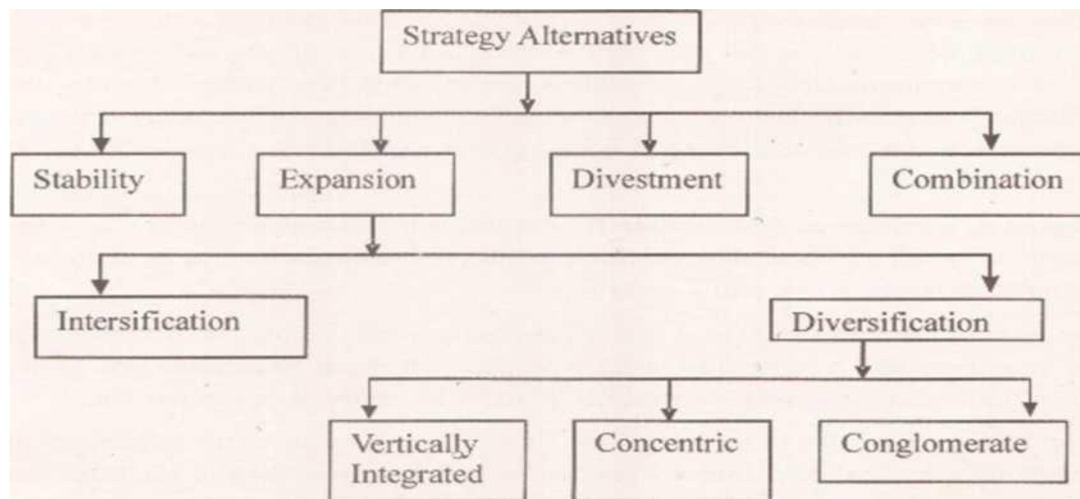
5.3.3 **Focus Strategy:** Whenever a company plans to serve the needs of a specific segment or a customer group based on income, age, geographic area or a product line, it follows focus strategy. This is strategy to create niche marketing opportunities. The company follows premium price strategy.

5.3. Self check questions

1. Which strategy that allows the firm to excel its competitors by producing goods or services at the lowest cost
2. What is a focus strategy?
3. In which strategy, the company is likely to charge a premium price as additional benefit cost the firm?

## 5.4 DIRECTION OF STRATEGIES:

A firm can follow its strategies on the basis of cost leadership, differentiation or combination of the two and focus as we have noted earlier. The strategy followed may be directed to attain objectives as follows. That is these are four possible directions. These are: Stability or status quo, growth or expansion, diversification and retrenchment. It pays to understand each direction in which a strategy is targeted.




5.4.1 **Stability or status quo.** A stability strategy or status quo or neutral strategy or stable growth policy is one which aims at maintaining the existing business course without any significant variations and additions. Thus, stability signifies that a firm stays with the same business or product markets and functions as at present, maintaining more or less the same level of effort as at present. The firms adopting the stability route do seek and plan for business growth and profit improvement in a mild or modest way. That is, stability strategy' does not call for a redefinition of the business of the firm.

Features of Stable Growth Strategy:-

1. **Status Quo Orientation: -** Stability strategy is fundamentally safety oriented status quo strategy. It is fairly frequently employed strategy'. A firm opting stability strategy stays with the same business, same product market position and functions remaining at same level of effort as at present.
2. **Incremental Improvements:-**This strategy is an attempt to enhance functional efficiency through better deployment and utilization of resources.
3. **No Redefinition of the business:-**Stability strategy does not involve a redefinition of the business of the corporation. Hence, the strategy does not permit the renewal process of bringing in fresh investment and new products and markets for the firm.
4. **Fairly a Quite Modest Strategy:-**Stability strategy does not mean a total lack of concern about business growth and improvement in profit.

Reasons for stability strategy

1. **Level of Managerial Satisfaction:** When the managers are happy with the present performance, there will be tendency to continue the same. That is, the company is performing well by generating fairly sufficient return on investment and cash-flows and is expected to generate the same or higher level with the same operation.
2. **Managerial Reading of Future:**In case the management predicts the environment remain unchanged with least threats from external forces and least opportunities which are worth exposing.
3. **Retention of core competence:**A firm wants to capitalize on past experience that has given strategic advantage or the core competence. Such companies with a excellent past track prefer to maintain the existing products and markets than going in for new products and markets. That is, if the organization's competitive advantage lies in the present business, that is products and markets, there is nothing wrong in following in following a stability strategy.
4. **The degree of Resistance to Change:**By nature, some organizations are slow to accept the change or quick to resist change. Such firms very often prefer not to change. That is management is conservative and risk avoider.
5. **Fear or Loss of Control:**In case of family based or private companies, they do not want to expand or grow above a particular level. It is because; such expansion and growth may warrant public issue especially when these are need for issue of equity capital.
6. **Lack of Resources:**The term 'Resources' is used in a broad sense which means and includes both physical and human resources which automatically includes business capabilities.
7. **Threats by external Environment:-** Many a times, it so happens that the firm has enough internal strengths with little weaknesses where the firm tries to adjust itself with the external opportunities and threats and tries to capitalizes on opportunities and combating the threats.

**Types of Stability Strategies**

1. **Incremental Growth Strategy:**As per this incremental growth strategy-, the organization continues the last year's achievement level accommodating the inflation rate that is ongoing. That is, the firm's objectives either equal or slightly less the industry level. Some firms pursue lower market share in the industry' as a whole.
2. **Market Concentration Strategy:**This is known by other names as profit strategy, end game strategy or harvesting strategy'. This is a strategy under which the main objective of the firm or any of its strategic business units into generates cash. In the wake of generating cash the firm is ready to sacrifice the present market share.
3. **Pause Strategy:**Pause strategy' is "breathing spell" strategy. The basic objective or the firm under this strategy is to make the present factors of production more productive to assure future rapid growth.
4. **Sustainable Growth Strategy:-**Sustainable growth strategy aims at pulling on with the existing business as a precaution measure particularly when the external environmental factors are not clear. That is, the firm is facing a threat which is possible but is not clear.

### 5.4.2 Expansion or Growth Strategy

A firm turns to expansion strategy when it seeks sizeable growth. A firm tries to grow by- exploiting the opportunities in the environment. These opportunities may stem from either existing business of the firm or outside. It means intensification and diversification. In case3 of intensification, the firm follows the growth within the existing business of it. While in case of diversification, the firm follows growth by entering the businesses that are well outside the existing businesses of the firm. A company is following an expansion strategy when: (i) it serves the public with more products/services with additional markets and finding more customers by enhancing Market share, (ii) Increases substantially the scope and scale of the existing business by redefining the same with corresponding increases in the existing business by redefining the same with corresponding increases in marketing efforts like promotions product quality and range.

Thus a growth strategy is different from stable growth or stability strategy. When a firm - increases the level of objectives higher than what it has achieved in the immediate past in terms of market share. Sales revenue has achieved in the immediate past in terms of market share, sales revenue or strategic decisions centre round increased functional performance in major respects, it is a case of growth strategy. When new products are added to the existing line or dissimilar products arc taken up for production and marketing or the business activities are expanded through acquision, merger or amalgamation of firm is a case of growth strategy. In other words, growth strategy differs from stability strategy in the sense that former implies exponential growth while the later implies and extrapolation of growth based on past performance.

Taking the industrial economy of India there are a very successful companies whose growth rate is breathtaking. What Birlas and Goenkas achieved over last 50 years has been achieved by Ambanis within last 15 years through Reliance Group which is number one recognized as one of the "Fortune 500" companies all over the world. We have some companies which were no: known during 1970s which are right on top namely, Nirma for soaps and detergents, Anchor for switches and cables, Jyoti Udyog limited for whiteners and bathing soaps. Himalaya Drugs for Ayurveda medicines. There are some companies which are quite old but still kicking and alive maintaining their prime of youth. TISCO is the company which is the world's best producer of steel-of high quality at least cost. Dabur-another name for ayurvedic products. Maruti Udyog whose parent company Susuki known for producing small cars for the last 30 years. The success of these companies can be attributed to the growth strategies they follow which kept them evergreen.

**Features of Expansion Strategy:**

1. **It is the mark of Exponential Growth**: Expansion policy is quite opposite of stable growth strategy. In case of stability strategy, the rewards are limited while they are very high incase of expansion strategy.
2. **It Involves Redefinition of the Business:**Expansion strategy calls for a redefinition of the business of the firm. That is, it has to redefine its products, markets and function to achieve the goals. This means that the process or renewal is only possible through fresh dose of investments and new businesses or products, markets and functions.
3. **It is Highly Versatile Strategy:-**The expansion strategy is highly versatile. That is, it offers good many permutations and combinations for growth. A firm which is opting for expansion strategy can generate many alternatives within the strategy by altering the variables regarding the products, markets and functions and choose one which is the best from its unique situation.
4. **The Two Routes to Expansion:-**The expansion strategy has two braches through which expansion can be achieved. These are intensification and diversification.
5. **It is a Generic Strategy:**it is very common strategy which is resorted by a firm. A firm which has grown wants to grow further as these is scope for expansion. No body can come in the way of expansion as no organization comes in the way of bright prospects for an employee outside the unit, if not inside the unit.

**Need for Growth Strategy**

1. **Survival Rests on Growth:** Anybody can survive in the short-run, but not in the long- run necessarily. That is, growth is a must for the very survival of the organization especially when the external environment is troubled or volatile. Any organization which is not growing will be thrown out by existing, and new entrants in the industry'.
2. **Growth is Imperative for efficient and effective utilization of resources:** Growth is a source of opportunities. A company which grows either by intensification or diversification or both will grow bigger ready to grant the

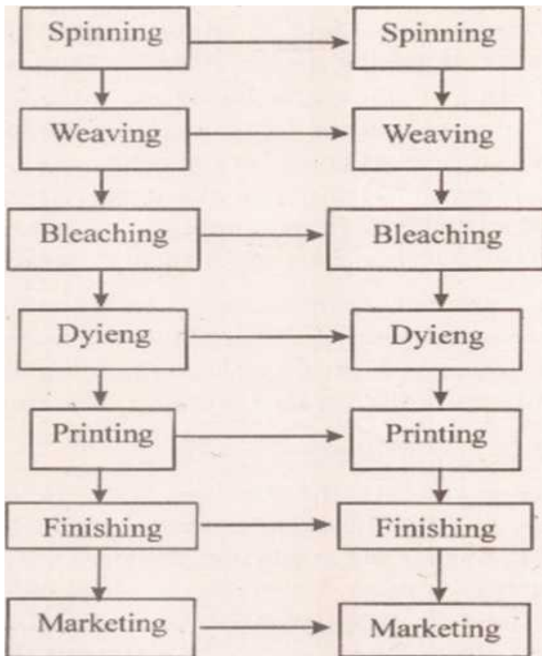
economies of large sale in the fields of production, marketing, finances and manpower resources.

3. **Growth is Managerial Motivation:** Managerial motivation plays significant role in getting the work done. The managers who have positive attitude, accepting challenges of change for better, and believe in actual progress that promise, it is motivation which keeps them on toes to reach new heights.
4. **Growth has Intangibles:** An organization which is on the path of progress and rising to the newer heights is liked by one and all. Employees, customers, investors, suppliers, lenders, creditors and government of the nation. It is a growing organization that satisfies all the segments of society.
5. **Moving From Loss to Profit Wedge:** Business is a game. Like life game has success or failure. The taste or success will not be understood unless one has faced what a failure is. Opposite is also true. The aim of business house is to earn the maximum profit through consumer satisfaction.

**Variants of Growth Strategy:**

1. **Market Development Strategy:** Market development strategy is an attempt to increase the sales by developing new markets by expanding geographical markets or by attracting other market segments so for not touched. The geographical markets can be expanded by extending different supply-chains.
2. **Product Development Strategy:** Product development strategy- involves the modification of the existing products or creation of new products in related items which are marketed to current and potential consumers through the established supply chains. Those companies which have been in the line for long, they have to modify their products or come out with new products or come out with new products in the same line to continue their successful showmanship still over a longer period.
3. **Innovative Strategy:** Innovative strategy is one which is to do with creating new product life cycle thus, making the existing similar products obsolete. The purpose of this strategy is to create new products, new ways of marketing which enhances the consumer satisfaction.
4. **Integration Strategy:** Integration strategy is one of the ways to share the benefits of synergist effects. Any integration is taking place to grow financially strong, have the benefits of research and development, economies of production and marketing. This combining attempt, on the part of competitive and complementary units, is to strengthen the core competences and competitive advantage, integration or combination is an attempt to bring under one management the resources of two or more firms.

The integration may be horizontal or vertical. The following figure gives a picture of horizontal and vertical integration




Vertical lines denote vertical integration and horizontal lines denote horizontal integration.

**Horizontal Integration**

Horizontal Integration ispossible when two competing units come together. That is, horizontal integration is possible when two or more firms engaged in similar activities think of jointing hands for their betterment. Thus, ACC-Associated Cement Company is the clear case of horizontal integration where these companies get better off in the areas of production, finance, marketing, manpower, research development than that when they were alone. Integration is the order of the day particularly with the sweeping breeze of globalization. Other examples of horizontal integration are:Brooke Bond and Lipton doing together: TOMCO taken over by HLL; Universal Luggage (Aaristocrat) taken over by Blowpast (VIP). The earst while firms namely Deepam Hospital Erode Private Limited amalgamated with Lotus Hospitals and Research Centre in 1996-now called as Lotus Hospitals. Rohit Mills a sick unit taken over by Arvind Textiles in 1996. Nirma Ltd. Merged with Nilnita Chemicals in 1996 under the name of Nirmal ltd.

The main advantages of horizontal integration arc (i) Killing of Competition the earlier competition, (ii) Taking tax advantage by accepting sick unit or units, (iii) Better utilization of resources because of fuller utilization of capacity resulting in quality improvement, cost reduction, (iv) Sharing in common the benefits of research and development, financing, manpower, managerial and marketing branches.

Vertical Integration

Vertical integration takes place when a firm accepts earlier activities or the lateractivities then what it is engaged in the series of activities that start converting raw'-materials till the handing over tof the end products to the class of consumers. Taking the case from the above figure, dyeing unit takes over the spinning, weaving, bleaching and

printing, finishing and marketing is a case of vertical integration. Thus, it implies either backward or forward or both backward and forward integration. Continuing the same dyeing firm, when it takes over the earlier stages-Spinning, weaving, bleaching- it is case of backward integration. The same dyeing firm takes over, printing, finishing and marketing is a case of forward integration. In our case, dyeing firm has both backward and forward integration. To take solid cases, Vimal Textiles unit, has its showrooms (retail) in all cities. Bombay Dyeing a textile unit has its own showroom (retail) in selected cities of India. This is an example of forward integration. Khatau Junker Ltd.merged with a marketing company Indokum in 1996 is a case of forward integration.

Backward integration or upstream development involves addition of activities to ensure the supply of a firms input. It is moving lower on the production process or moving to earlier stages of manufacture to get inputs at the lowest price quality remaining at highest level and quantity fairly high. Polyester cloth manufacturers go n for polyester yarn manufacturing.

### 5.4.3 Diversification Strategy

To understand diversification strategy, there is need to review the entire expansion strategy'. To start with, expansion strategy is a highly versatile strategy offering several permutations and combinations for growth. A firm opting for the expansion propositions regarding products, markets and functions and pick one that suits it most. Expansion strategy holds within its holds within its fold two major strategy routes namely, intensification and diversification. Diversification is to divert into new lines, markets that harping on the existing lines and markets. That is, diversification strategy in which growth objective is achieved by adding new products or services to existing products and services. In other words, diversification strategy calls for expanding the activities to different product lines and markets without abandoning the existing product lines and markets.

Reasons for Diversification:-

- It brings throne synergistic benefits.
- It Spreads the Risks.
- Better utilization of resources.
- Developing competitive edge.
- Diversification makes firm dominant in markets.

**Retrenchment strategy:** Retrenchment strategy is the strategic option which entrails reduction of any existing product or service line along with the level of objectives set below the past achievement. Reasons that force the manager to go in for this retrenchment strategy can be:-

- Poor Performance.
- Threat to Survival.
- Redeployment of Resources.
- Insufficiency of Resources.
- Getting Improved Managerial Efficiency.

**Variants of Retrenchment Strategy:**A firm may defend its survival and existence, or best serve the interests of owners in the face of internal and external crises in a number of ways. These sub-strategies of retrenchment Can be of four types namely:-

- Turn-around Strategy
- Divestment Strategy
- Harvest Strategy
- Liquidation Strategy

*I.* **Turnaround strategy:** Turnaround or cut back strategy involves those strategic actions which an organization takes to complete in the same business in turnaround situations. Turnaround situation may be improvement in organizational lower actions of the management. Downward trend is caused by environmental and internal factors such as lower price realization for outputs, lower profit margins, raw-material supply problems as to quality, quantity, tune and other cost increases, strikes and lockouts, increased competition, recession managerial laxity. All these contribute to lower level organizational performance, by whatever criteria they are expressed, and the firm is not bale top achieve its preset objectives. This calls for turnaround strategy.

**Approaches to Turnaround Strategy**

- **Change in the top Management:**before designing and implementing the turnarounds, one should verify whether the existing top management is able undertake the bold steps of turnarounds or there is need for change in top management. This changeover in to or in part or no change over will depend on the management qualities.
- **Designing Strategic Turnarounds**: When the business firm has a present operating health and the firm has lost its position strategically in which there has been a distinct decline in sales and market share or market share position. Resultantly the basic method of differentiating among the turnarounds is ascertained as per the magnitude of sales and market share revival expected. There are three possible alternatives.
- **Designing operating turnarounds:**As noted earlier, the operating turnarounds concentrate on the firm's internal efficiency. Therefore, any strategy wants to follow is to improve its internal efficiency. Experts have suggested four such strategies: -

1. Revenue Generating Strategy
2. Cost Cutting Strategy
3. Asset Reduction Strategy
4. Combination Strategy

*II.* **Divestment Strategy:-**'Divestment' or 'Divestitures' strategy is quite opposite to expansion strategy because it involves selling off or liquidation of part of SBUs by the corporate office. It is a strategy of shedding business units or product division or segments of business operations to redeploy the resources so released for other more promising purposes.

1. **To better utilize the Resources Available:**

An organization may have pretty good competitive position and satisfactory

earnings in a product market. However, there is need for deployment resources may be financial, technical, managerial, which is present by its absence. This situation warrants the appropriate strategy to divest or withdraw from vulnerable segment for better utilization of available resources in some other promising product market.

To write off hidden acquisition losses- Whenever the firm acquires another business or the assets in part, the firm has to accept the good assets along with some unwanted or bad assets hidden in the package. It is these unwanted assets or unwanted operations of acquired business are to be sold off at reasonable prices to recover thecost of acquisition cost.

2. **To turn Promises into Performance:**

It is quite possible that the actual performance remains far from promises or prospects of a firm or its subsidiary because of unexpected emergences of very strong competitors, the operating costs rise and demand for products fail as completed away by the competitors. In this situation it is worthwhile to go in for divestment strategy' to save the skin.

3. **Firm's individual size- a Mismatch:**

Taking the scale of operation of some of the units, as compared to total operations of the firm and relative markets, may be small part of the enterprise activities. At the same time, they involve disproportionately very large managerial efforts. It may also be true that the prospect of increase profit may be limited by unit's market share. This mismatch is to be adjusted. Either the small contribution of those units must be enlarged so that additional efforts put in will be perfectly matched. This call for either do away with such units by divesting or increase their capacity so that the efforts put in tally with the scale. This also calls for investment though divestitures attempts.

4. **To simplify the range of Enterprise Activities:**

A firm which has diversified into new product and markets much beyond the polar of viability, a strategic review or reassessment of the quality and the extent of business diversity, will reveal a strong case of simplification. In case of say, Britania Biscuit Company, it produces, at present, more 100 varieties of biscuits.

5. **To manage Financial Crises:**

At times, the firm may be facing acute financial crises warranting immediate liquidation as last resort, use the very existence and survival of the company is threatened. In such case, divestment is the only strategy*. Hence, the immediate problem of the firm those operations responsible for deterring usual cash inflows whereby the firm can deploy the resources in core areas of business or meet the financial liquidity position. This liquidity position has come in the way of even in case of very strict and highly disciplined companies of the world, and here India. There are many companies which have not been able to pay electricity bill though fixed and current assets are running in lakhs and crores of rupees. It is because; a company which is after high rate profitability has to sacrifice to a certain extent liquidity. Those who prefer high rate of liquidity are to be happy with comparatively low profitability.

**3. Harvest Strategy:** Harvest or asset reduction strategy' is a strategy' whereby the firm

reduces its assets to minimum, even sacrificing the future profits for the purpose of generating enough hand cash. It is already stated that a firm has to choose between liquidity and profitability'. It is because a reduction in one will lead to increase in another. That is higher the degree of liquidity, lower will be the degree of profitability. The harvest strategy' calls for systematic step by step disinvestment in a business unit to utilize best the cash-flows as the company exits from an industry. At the starting stage, the management eliminates the new investment, cuts back research and development expenditure, reducers maintenance expenditure while encashing the benefits of past goodwill.

As the firm loses its market share, the firm tries to increase its short-run cash-flows by adopting a harvest strategy. The cash generated through harvest strategy is reinvested elsewhere in the firm. Once the cash flows begin to decline, the firm goes in for liquidation strategy.

**IV. Liquidation Strategy:** in case the firm not succeeded in the earlier described strategies, it resorts to liquidation strategy as the last resort. As a last strategy, this liquidation strategy is to sell of or close down the firm to avoid bankruptcy and fairly better deal for shareholders than running the risk of making the firm to suffer from losses.

**Need for Liquidation Strategy:**

1. **When the Future of Business is not Bright:** A company may have at present at its Zenith point of performance with no definite future, it is worth while to close it for its future possible development. There is no point in crying over split milk. Before the milk is spoilt, the firm can use it for other purposes. The situation is such that something is better than nothing it is because today is better than tomorrow as there signs of fast decay. The spread of gangrene should be stopped by losing a part of body that stops further decay.
2. **The firm has accumulated losses with no come back:** Due to [J] ad financial policies, the firm gets into the pandoras box which has no point of return. The firm goes on increasing losses with every extra step it takes,. There are no hopes of coming out this rut of stagnation. In case some other firms have offered to take such a firm which is caught in the hot pangs of losses, it is worth to take advantage. The companies get tax concessions when a good business house takes over suffering company at pretty good prices.
3. **When the Retaining Value is Less than sale value:** Business is a game of ups because of mismanagement so much so that it is beyond the capacity of present management to regain the good old past. In such case, it pays to sell it off than navigating the ship which has broken hull and bottom cracked.
4. **Better business offers:** In a bid to diversify the existing business a good business house may come forward to acquire another business at a pretty

high price than its net worth. There will be no such occasions for a is losing its grip. That is, for a firm which is in imminent danger of sinking, it is god sent opportunity knocking at a door.

5.4. Self check questions

1. What is a product development strategy?
2. Which integration is possible when two or more firms engaged in similar activities think of jointing hands for their betterment.
3. Explain market development strategy.
4. Which strategy is called breathing spell strategy?

## 5.5. SHORT ANSWER QUESTIONS

1. What is a generic strategy?
2. What is diversification strategy? Discuss the ways in which pattern of diversification can be arranged?
3. Explain turnaround and liquidation strategy?
4. What do you understand by horizontal integration?

## 5.6. LONG ANSWER QUESTIONS

1. Explain the types of generic strategies?
2. What is a growth strategy? Explain its need and variants in detail.
3. What are the various types of stability strategies?

## 5.7. REFERENCES

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## 5.8 ANSWERS OF SELF CHECK QUESTIONS

**5.3** 1. Cost Leadership strategy

**2.** Whenever a company plans to serve the needs of a specific segment or a customer group based on income, age, geographic area or a product line

3. Differential Strategy

5.4 1. Product development strategy- involves the modification of the existing products or creation of new products in related items which are marketed to current and potential consumers through the established supply chains

2. Horizontal integration

3. an attempt to increase the sales by developing new markets by expanding geographical markets or by attracting other market segments

4. Pause strategy

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 6** **AUTHOR- SHAMINDER KAUR**

# TYPES OF STRATEGIES-II

**STRUCTURE**

6.1 Objectives
6.2 Mechanism of Strategies
6.3 Interned Growth Development Strategy
 6.3.1 Exporting
 6.3.2 Licensing
 6.3.3 Franchising
 6.3.4 Joint Ventures
 6.3.5 Wholly owned subsidiary
6.4 External Growth Development Strategy
 6.4.1 Strategic alliances
 6.4.2 Merger
 6.4.3 Acquisition
6.5 Conclusion
6.6 Short answer questions
6.7 Long answer questions
6.8 References
6.9 Answers of self check Questions

## 6.1 OBJECTIVES

The objective of the chapter:

- To study the mechanism of strategies which involve internal development, joint venture and mergers and acquisitions.

## 6.2 MECHANISM OF STRATEGIES

This is the third strategy alternative. Earlier the two were discussed namely; the basis of strategy where we touched cost leadership, differentiation and focus strategies. The second alternative-dealing with direction of strategy where we touched stability, expansion and retrench strategies. Under this, third and last alternative-mechanism of strategy we are concerned with the possible mechanisms of internal development, joint venture and merger acquisitions.

## 6.3 INTERNAL GROWTH DEVELOPMENT STRATEGY

Internal development is the mechanism of developing technological and managerial ability and generation of internal financial resources for having competitive edge over competitors. In these days of fast developing global environment, the intangible assets are more difficult to get namely, brand loyalty, customer relationship,

human resources, intellectual property rights say patents, copyrights, trade marks and financial resources. Hence every effort is made by the firms that want to touch the sky because there is always room at the top. That is, a firm tends to exploit these resources and to get what is maximum for developing internally.

### 6.3.1 Exporting

It is one of the most traditional way of expanding the market beyond national boundaries. It can be: (a) Direct and (b) Indirect.

Exporting is one of the ways of expanding market beyond national boundaries. It can be direct or indirect export or both.

"Direct Exporting" implies self efforts to export to other countries through its own sales organization without the interference of intermediaries. There can be a separate export department or a separate company created for this purpose. Instead the firm may open sales branch or subsidiary sales organization in foreign country or countries supporting or supplementing home organization, it may also appoint home base sales representatives who are to travel and book orders abroad, it may also appoint distributors who buy the firm's products and sell, alternatively, the agents may appointed to sell on commission basis. The strength of direct exporting lies in: (i) better up dated consumer knowledge to which mix strategies can be moulded, (ii) The export house has the full control over export operations as it is done under his full command, (iii) Intensive market cultivation is possible that helps in building up sales and reputation. However, weak points are: (i) It is more risk-ridden as it is the firm's show, (ii) It involves heavy investment in terms of time, treasure and talent, (iii) The returns are not matching to costs incurred and efforts put in, particularly in case of small exporter.

"Indirect Exporting" is like domestic marketing. That is, the exporting house will not export on its own, it will sell its products in the home country to others who are totally responsible for exporting. Thus, the intending export house sells either to a merchant exporter house in the country or to a visiting or a resident buyer or to an export consortia. Indirect exporting is exporting without tears. The plus points in favor of indirect exporting are: (i) it makes possible without risk,
(ii) No investment of high order, (iii) No organizational problems, (iv) The firm concentrate on production than distribution by utilizing the know-how and experience of intermediaries. However, the minus points against indirect exporting are: (i) High profit go to intermediaries, (ii) It is risky to depend on middlemen who work on commission basis as they may not do their best, (iv) The best producer cannot call himself as the exporter and the incentives given by them cannot be claimed.

### 6.3.2 Licensing

Licensing is the method of entry under which the manufacturer enters into an agreement into an agreement with a license in the foreign country granting him the right to use the manufacturing process, a patent design or a trade-mark or the technical or the non-technical facility in return for an agreed fee or royalty.

### 6.3.3 Franchising

Like licensing, franchising is another easy and economic way of entering foreign markets without much risk and commitment of resources.

### 6.3.4 Joint Ventures

Joint venture is a fine partnership of finance, technical know how and marketing abilities. This can be for manufacturers or marketers or both joint ventures emerge when a domestic investor buys an interest in a manufacturing unit located in a foreign country or any investor of a foreign country buys an interest in a manufacturing unit of domestic investor already in operation or when or domestic investor and investor from foreign country join hands to start a new venture in one of the countries.

### 6.3.5 Wholly owned subsidiary

Another way of expanding business operation is the establishment of wholly owned subsidiary in foreign country. There are countless examples of such subsidiaries of MNCs. To illustrate, one cannot afford to forget these. Coca-Cola India is subsidiary of Coca-Cola of America.

Hindustan Lever is subsidiary of Unilever of England. Nestle India is subsidiary of Nestle SA of United Kingdom. Proctor and Gamble of India is subsidiary of Proctor and Gamble of America. Elf Lubricants India is subsidiary of Elf Lubricants France. Mac Millian India is subsidiary of MacMillian of England and so on. A wholly owned subsidiary is one where 100 percent of equity shares are held by another company which grants supreme power of control. A compared to licensing and franchising, this way expanding business in foreign country is both costly and risky.

6.3. Self check questions

1. What is licensing?
2. What are the benefits of indirect exporting?

## 6.4 EXTERNAL GROWTH DEVELOPMENT STRATEGY

The other side of the picture is external growth strategy along side of internal growth strategy that is examined in previous pages. This external growth covers the discussion on mergers and acquisitions. This also includes joint ventures and strategic alliances.

### 6.4.1 Strategic Alliances

In the fast changing global markets of today, strategic alliances have become a necessity. Foreign collaboration or strategic alliances with the foreign companies' one of the mechanisms followed by Indian companies as their growth strategy. These strategic alliances between Indian partners and MNCS have on increase with the liberalization of Indian Economy. The inflow of foreign direct investment (FDI) in India took a gigantic leap during the last decade- 1991-2001.

**Motives behind the Strategic Alliances**

The most important motives behind strategic alliances are:

1. The convergence of Consumer Needs and Preferences.
2. Inability to maintain Competitive Advantage.
3. Strategic alliances help in reducing Fixed Costs.

4. To do away with Cascade Model of Expansion.
5. Moving Focus from Return on investment to Return on Sales.

**Strategic Alliance as Growth Strategy**

Strategic Alliance as Growth Strategy is used by Indian business community particularly in the post-liberalization period which is evident from the foregoing investments in different industries.

Merits of Strategic Alliances

The advantages that accrue from strategic alliances of foreign collaboration can be narrated from the angle of host country and the guest country or the foreign investor companies or the MNCs.

**Merits enjoyed by host country**

1. Economies of Scale due to increased capacity utilization.
2. Having the fruits of latest technology.
3. Reduced cost, improved quality and increased production.
4. Easy availability of working Capital and long term capital for expansion.
5. Improved competitive capability at home and foreign market.
6. Use of advanced managerial skills and knowledge.

**Merits enjoyed by the guest or investor company**

1. Perfect knowledge of local markets.
2. Use of developed distribution networks.
3. Ready and emerging market for products.
4. Easy clearance through bureaucratic set up added with sops. Availability of cheaper materials and labour.
5. Close and effective rapport with politicians and decision makers.

Demerits:

Strategic alliances are not free from drawbacks. These are:

1. No investment in core sectors
2. Closure of small industrial units
3. Local partners are relegated to side.
4. No matching technology
5. Over exploitation of markets and inputs.

6.4.2 **Mergers and Acquisitions**

Mergers and acquisitions or combination which is otherwise called as an integration have given their interpretation, that is mergers stand for amalgamations, absorption and reconciliation particularly asset.

Types of Mergers:

1. **Horizontal Mergers:-** Horizontal merger calls for the uniting of two or more firms in thefield. In our example, the best one is that of A.C.C. that took place in 1934.
2. **Vertical Mergers:-** Vertical merger refers to the integration of companies having supplementary- relationships-either production or distribution of products and services orboth.
3. **Circular Mergers:-** Circular merger involves the bringing together of production or services that are unrelated but marketed through the same channels, allowing shared dealership.
4. **Conglomerate Merger:-** Conglomerate merger means the unification of different kinds of businesses under one flagship company. This is more or less similar to vertical integration. There are countless examples of such mergers. These business houses go on taking over other businesses.

**Reasons for Merging:**

Merger as a growth strategy' is pretty old to the world of business all over the world of business all over the world including India. Many business firms go in for merger instead of internal source of growth because of certain reasons. The benefits that occur to merging units are to seen from the angles of both merging and merged firm.

*From the angle of merging firm:-*

***Reasons for merging are:***

1. **Easy and Quick entry:** The merging company has the quick and easy entry' point into the ready made business- that production and market buildups. Again, the ready start ups synergies that are inbuilt. The firm which finds it difficult to get a license can do well as merger opens the back door.
2. **Reduced Competition and Dependence:** In a developed country, the Competition can be reduced easily as it is now a big unit. In an underdeveloped nation, the firm attains semi-monopoly or monopoly position. Similarly, vertical integration brings home easy and ready supply of materials and manpower where dependence on outside sources is reduced.
3. **Faster Rate of growth:** The combined resources at the disposal of the firm which is merging enable the firm to forge ahead with bold and ambitions growth. It can set high rates of growth. It has the benefits from every possible area- production and operations, finance, marketing and distribution, research and development, skilled manpower and so on. Being big, than before, it enjoys the economies of scale in almost all the spheres.
4. **Availing Tax Concessions:** Availing Tax Concessions which has come from the government should be availed. Each and every company has to pay taxes. The wise company is one which not only pay taxes is time as per the demands made by the government but also it takes full advantage of tax concession which are available under the provisions of the act. Merger gives a golden opportunity of reducing tax burden when the two or

more independent firms come under the same management and control. Merger should not be thought as a means to reduce the tax burden.

5. **Benefits of Synergy:** Synergy means getting more surplus by combined operation by putting less. The usual way of explaining synergy is to put in the terms of input and output. It is said 3+3=7 or more. That is, if two firms work together the output or outcome increases more than proportionately. The synergistic benefits are: (a) operating synergy stems from fuller utilization of existing facilities. All the inputs are best utilized to give higher output, (b) investment synergy arises because the finance already invested is how :.s best used, the investment in research and development activities bear fruits and firm has the easy access to capital market to raise funds. The inputs get cheaper, (c) Marketing synergy rises as the firm uses the existing sales force, channels of distribution, warehousing, transportation, and advertising, (d) Managerial synergy flows in as the managerial talents are best used otherwise which were underutilized.

**From the angle of merged firm:-**The merged firm stands to gain as a counter-part of merging firm as they become one single whole. These merits are:

*1* **Merger as a liquidation strategy**From the angle of merged company, merger is nothing more than liquidation strategy. One way think liquidation strategy is negative in approach as it is the unavoidable strategy resorted to before the company dies its premature death. The rationale behind this liquidation strategy is to save the company from further deterioration. In way it is wiser and positive strategy. Take that the company which suffering from losses increasingly in spite of its best efforts. It pays to resort to mercy killing.

*2* **Future Growth Prospects:-**Merger grants the growth opportunities to the ailing business house. This is felt especially when the future is bright but the present is bleak which is not likely to be overcome by the present management, it may be also true that present financial and non-financial status does not allow any quick recover}'. It is such strategy which is supported by the government also. It is simple that no public likes tohave a weak and dyeing firm as none gets any benefit.

*3* **Bringing in balanced growth:-**Very few firms are lucky enough to have the balanced growth pockets in the business empire. However, it is generally the pouches of imbalance are created, though the business empire built is free from what successful business needs is a good and able business founders and or leaders. Say a group of technocrats has framed the organization based on technical competence but not real business acumen and wisdom.

*4* **A boon to small firms:-**There are many benefits of being small because small is not only beautiful but equally effective. However, small is not equally effective and beautiful in all cases. Sooner or later one will have to reverse the slogan as bigger is beautiful and more effective. Not all small firms will remain small to take advantage of being small under the umbrella of legal provisions. The urge to

grow bigger is always there. Each firm wants to take birth, grow and expand by intensification and diversification.

5. **Golden opportunity to family owned firms:-**Merger is the finest slot for the family owned business units where such firms can extend the owning family involvement in other business fields by diversifying their holdings and investments. Those family owned business houses can extend their identity in other fields thus having the cake and eat it too. Their small sized cake gets larger in view of the benefits of diversification flowing to them.

*WHY MERGERS FAIL*

1. **No systematic assessment of synergistic merits:-**The intending parties of merger have not attempted to assess the synergistic advantages that flow from merger. Merger offers different types of synergies or synergistic merits based on the type of merger and other factors. There are two types of problems, which the managers of merged and merging firms, are likely to by pass. The parties of merger have perceived or dreamt of certain merits that accrue from merger and in actual practice, they are present by their absence. That is the calculated benefits are not there which they realize only when the merger process gets cleared.
2. **Absence of Serious Consideration of the Financial Stake:-**Pricing of mergers is very frequently characterized by an attitude of recklessness and on several occasions there is pretty high over pricing where the premium prices are paid by merger company t merged company. The main reason for over pricing is the unrealistic calculation of future earnings of a merger. This implies on inadequate scrutiny of the merger plan. The gap between the first discussion of a merger negotiation and the final public announcement is rarely conducive to a serious analysis of the financial aspects and the other implications of merger plan.
3. **Inadequate Familiarity of the Management:-**Inadequate familiarity of the management of merging firm of firms with the business of the merged firm or firms is another reason for merger failure. This is mainly due to the fact that the management expertise; can be carried over from one type of activities to another lack of financial discipline is the root cause of - the loss of good health. Sick firms are liked by none because sick unit is a bundle of problems from ever one's angle. Stake holders do not get even the minimum return; community is not getting the desired goods and services at expected price and quality.

**How to make Effective Mergers?**

Mergers call for a very complex set of decisions regarding financial arrangements, organizational change and adjustment and realignment of inputs to get the benefit of combining.Based on the experience of those who handled mergers and acquisitions, certain guidelines canbe given for making the mergers successful. The successful arc those which effective. These are:

1. Draw up a separate Plan and Program of Merger
2. Clarification and Re-alignment of Executives

3. create Effective Management Information System
4. Bring about Complementary Merger

1. **Draw up a separate Plan and Program of Merger:** Thepersons of the both the units merging and merged should design a plan and chalk out a programme that ensures smooth ;transition from pre-merger to the post-merger stage. This plan should clearly state the merger objectives particularly those which relates to earnings.
2. **Clarification and Re-alignment of Executives:** It should be clarified as to propose merger does not pose any threat to the present management team. The fact that the future management particularly of merged will be protected and made more competent. It is these executives who are to complete the process of mergers. Ti is these persons who are to smell and anticipate and trash out with one another which leads to creation of a climate of mutual trust.
3. **Create Effective Management Information System:** There is need for effective Management Information System that is responsible for two way communication arrangement where each one responsible for planning and implementation will be getting adequate ,timely and clear information for making decisions. The top management has to exercise control over the planned merger. Both for planning the merger and structuring the organization cannot be done without people because organization and organizational efforts for the people.
4. **Bring about Complementary Merger:** Merger is merger of merged company and merging company. Generally, the combination of merger occurs when their aims are coinciding like a key and lock, cup and saucer, male and female which are made for each other. That is merged firm is planning to attain high growth prospects and fruits of it which it is not getting present. Again, the merging company has currently good growth prospects but not very much happy and looking for another to join the hands. In effect, the synergistic benefits turn to be positive when one doing in some areas of business very well and another is doing very well where the first is weak. For instance, firm A having very strong production facilities but not equally good in marketing. Firm B is very' good in marketing area but not in production area. In case, these two companies merge, there will be perfect synergy created resulting in positive benefits that two and two will be more than four.

### 6.4.3 Acquisitions ,

Acquisitions are also called as takeovers. Acquisition or takeover is different from merger though some people use these words as equivalent and hence they make no difference between the two. Acquisition implies that a company unilaterally relinquishes its independence and adapts to another firm's plans. That is, acquired firm loses its legal status and totally becomes a part of and parcel of acquiring firm. In simple terms, one company takes over the control of another company. This done either through the mutual agreement between acquiring and acquired company which is called as friendly take

overor against the wishes of the acquired company which is better known as hostile takeover.

**Nature of Acquisitions:**

Acquisition or takeovers have the features which help us in knowing the nature of these:

- They form part of a well considered company development plan.
- The process of acquisitions is unilateral.
- The structure of top management will have fewer problems.
- Contractual regulations are simpler and consist mainly of price and a number of guarantee clauses.
- Time taken for an acquisition is shorter than for a merger.

**Types of takeovers or acquisitions:**

- Amalgamations
- Acquisitions/Takeovers
- Sale of Assets
- Holding company acquisition

1. **Amalgamations:-** The intending companies will voluntarily go into liquidation form a new company that will take over agreed assets and liabilities of the both at an agreed purchase consideration. Thus, A and B will be dissolved to form a new company C which takes over the A and Bs net assets.
2. **Acquisitions:-**It is a case where one company acquires another company's total or controlling interest. Subsequently, the acquired company operates as a separate division or subsidiary. Here no firm dies but will be under the full control of acquiring company.
3. **Sale of Assets:-**A company can sell its assets to another company and cease to exist. If company A sells its assets to B Company, it is acquired and A companies goes out of existence.
4. **Holding Company Acquisition:-**It is quasi form of merger. It involves the acquisition of either the total or the majority of firm's share capital or stock by a company. The purpose is to manage and control another company. If A company buys 66.67% and more the equity capital in B, B company is the subsidiary of A Company where B does not go into liquidation but its management and control is resting with Company A.

***Reasons for Acquisition***

1. **It is cheaper to Acquire the Business:-** It is much cheaper to buy or acquire an existing business than to build it from zero level. It is time consuming and costly in terms of teething troubles and so on.
2. **Economies of large scale:-**An independent firm may or may not reap the benefits of large scale all alone. In case it acquires or acquired by similar firm, the resources are doubled. Mere size results in economies of large scale. These economies arc in the areas of production, marketing, financing, research and

development and manpower.

3. **Adequate and Easy Terms Working Capital:-** Acquisition not only secures the necessaryworking plant and equipment more quickly than building up its own, but also helps the firm by making available desired amount of working capital. It means that by making available the much needed working capital, the problems of supply of inputs and distribution of final products are solved.
4. **Access to Resourceful Management:-** Management or managerial competencies play important role in running the business, in expanding it either by intensification or diversion and reaching new heights. The firms which have failed need both financial and managerial resources to repair the existing loss and achieving new heights or progress and prosperity. This is possible by acquisition.
5. **Fresh Lease of Life:-**Acquisitions grant fresh lease of life in case of firms which are sick and are the verge of collapse. The firms turn sick because of mismanagement. Basically the lack of financial discipline is the root cause of the loss of good health. Sick firms are liked by none because sick unit is a bundle of problems from every one's angle. Stake holders do not get even the minimum return; community is not getting the desired goods and services at expected price and quality.

**How to make acquisitions successful**

Each problem has a solution. Otherwise, it is not a problem, just has every organization has a problem. In fact, it is not an organization if it does not have problem or problems. The experts in the field have suggested certain guidelines to make the acquisitions successful. These guidelines are divided into two phase's namely pre-acquisition steps and post-acquisition steps.

*1.* **Pre-Acquisition Steps:-**By its very nature, pre-acquisition phase is expected to be proactive rather than reactive. It gives greater degree of success if the firm is taking it up well before copy it. This pre-acquisition phase has two steps. These two steps are to be handled by two separate teams.

- **Screening:-**Well before acquisition, it is but essential to screen and investigate the main stays of the firm such as financial status, product market position, physical conditions of production facilities, human resources, prevailing corporate culture, managerial compatibility of the acquired company. In depth and critical screening enhances the acquiring company's knowledge of the strengths and weaknesses and the risk factors so that the firm can come to sound conclusion.
- **Negotiation:-**The negotiation or the process of arriving at just price for the takeover of the firm. In a bid to bring about the deal there is a possibility of making unwanted higher commitments. The timing acquisition is very important. The acquiring company should negotiate to finalize the deal when the acquired company is facinga short-term problems or it is facing a down turn in the business. It is this opportune time which makes the acquiring company to pay a reasonably low price.

2. **Post Acquisition Steps:-**In spite of Kaleidoscopic screening and skillful negotiation, acquisition need not succeeded so long as it has not perfectly integrated into the acquiring company. The post-acquisition phase has three stages. These are:-

*Stage I:*

**Cleaning and Founding:-**Generally , the acquired unit is in bad shape featured low productivity, low employee morale because of poor management. This unwanted shambles is to be removed, cleaned up, print up into a viable shape. To configure a desired shape the activities involved arc

(a)Removal of existing top management and installation of new and strong team takenfrom next layer of management.
(b)Installation of an effective financial reporting system in the acquired company atearliest.
(c)Cocktail the financial strength and the purchasing power of acquiring company to , reduce procurement costs and wastes.
(d)Utilize the idle capacity to earn revenues that guarantee sufficient cash flows.

**Stage II:**,

**Strategic and Organizational Revival:-**this phase is to do with the regaining the strength lost. In this period, the acquiring firm is expected to: (i) redefine the vision, values and vital principles which should be pursued.

(ii) Develop management in the light of vision values and vital principles.
(iii) Upgrade the organizational skills.
(iv) invest in core technology and distribution

**Stage III:**

**Integration of people and operations:** Unto, the last stage, the integration was controlled with a few persons interfacing each other. In this stage, however, this interface is broadened with more two way flows of people to forge ahead the acquiring and acquired company. This warrants management to:

(i) integrate the functional areas namely production, marketing, purchasing financing and the like.
(ii) Implement integrated information technology System or enterprise reengineering process (ERP)
(iii) Streamline the two way flow of people at different levels. This way the acquired and acquiring firms are integrated in systematic way to ensure the success if integration. Any integration is hardly complete unless and until the people and their culture is unified and harmonized.

6.4. Self check questions

1. What is a vertical merger?
2. Explain a circular merger.
3. What is a wholly owned subsidy?

## 6.5 CONCLUSION

The chapter comprehensively deals with a range of corporate level and business level strategies. Corporate level strategies are basically about the choice of direction that the firm adopts in order to achieve its objectives. They are basically about decisions related to allocating resources among the different businesses of a firm, transferring resources from one set o" businesses toothers and managing and nurturing a portfolio of businesses so that the overall corporate, objectives are achieved. There are four grand strategic alternatives: stability, expansion, retrenchment, and any combination of these three. These strategic alternatives are termed as grand strategies. Each grand str ategy is defined along four sets of internal/external, related/unrelated, horizontal/ vertical, and active/passive dimensions, and it is on this basis that the structure of the strategic alternatives that are present before a firm is formed. Each of these range of strategies have been described in the chapter. For each of these strategies, an attempt has been made to point out the reasons why the particular strategy is adopted, under what conditions, and their various advantages and disadvantages are given individually. Business strategies are related to the individual businesses in an organization. The real action occurs at the level of business strategies as the competitive forces in the market tire confronted by a firm at the level of business strategies. These are of three types: Cost leadership, differentiation; and focus. An action needs to be taken for achieving the aims of the business strategies. There are special conditions under which these strategies work the best. Each business strategy has a set of benefits and risks associated with it.

## 6.6 SHORT ANSWER QUESTIONS

1. What is the difference between a merger and acquisition?
2. Discuss the reasons of acquisition? How to make an acquisition successful
3. What are the reasons for adopting merger strategy? Discuss the reasons for failure of merger strategy
4. What is amalgamation and takeover?

## 6.7 LONG ANSWER QUESTIONS

1. What do you mean by strategic alliance? What are the reasons for forming such an alliance?
2. What are the different types of mergers? What are the reasons and benefits of merging of two or more companies?

3. What are the various types of internal growth development strategies?

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## 6.9 ANSWERS OF SELF CHECK QUESTIONS

6.3 1. manufacturer enters into an agreement with a license in the foreign country granting him the right to use the manufacturing process, a patent or technical or non-technical facility in return for an agreed fee

2. it makes possible without risk,No investment of high order, No organizational problems

6.4 1. the integration of companies having supplementary- relationships-either production or distribution of products and services orboth.

2. bringing together of production or services that are unrelated but marketed through the same channels, allowing shared dealership.

3. where 100 percent of equity shares are held by another company which grants supreme power of control

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 7** **AUTHOR- SALONY KANSAL**

# STRATEGIC CHOICE

**STRUCTURE**

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 7.3.1 Focusing on alternatives
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7.8 Corporate Portfolio Analysis
7.9 The BCG Matrix
7.10 SWOT Analysis
 7.10.1 Strengths and Weaknesses
 7.10.2 Opportunities and Threats
7.11 Conclusion
7.12 Short answer questions
7.13 Long answer questions
7.14 References
7.15 Answers to self check questions

## 7.1 OBJECTIVES

After studying this lesson, student should be able to:

- Understand the process of Strategic Analysis and Choice
- Understand the Organizational Capability Profile and SWOT Analysis

## 7.2 INTRODUCTION

We start the chapter with a description of the process of strategic choice. This consists of four steps of focusing on alternatives, considering the selection factors, evaluation of strategic alternatives, and making the strategic choice. We have taken up strategic analysis in two sections. First we focus on the analytical techniques used for corporate level strategies. Then we discuss the techniques used for business level

strategies objectives

## 7.3 PROCESS OF STRATEGIC CHOICE

The process of strategic choice is essentially a decision-making process. Decision-making consists of setting objectives, generating alternatives, choosing one or more alternatives that will help the organization achieve its objectives in the best possible manner, and finally, implementing the chosen alternative. To make a choice from among the alternatives, a decision-maker has to set certain criteria on which to accept or reject alternatives. These criteria are the selection factors. They act as guides to decision-making and considerably simplify the process of selection which would otherwise be a very difficult task. Considering, the strategy which will best meet the enterprise's objectives. The decision involves focusing on a few alternatives, considering the selection factors, evaluating the alternatives against these criteria, and making the actual choice."

The four steps in the process of strategic choice are described below:

### 7.3.1 Focusing on alternatives

The aim of focusing on a few alternative is to narrow down the choice to a manageable number of feasible strategies. Theoretically, it is possible to consider all the alternatives. On the other hand, a decision-maker would, in practice, limit the choice to a few alternatives. Such a situation frequently poses a dilemma before the decision-maker: considering too many alternatives would make the process unwieldy and unproductive but it only a few alternatives are considered, the decision-maker may unwittingly ignore others which he would have considered. To resolve this dilemma, a decision-maker had to focus on a reasonable number of alternatives. It is still difficult to tell what the 'reasonable' number could be.

For deciding on what would be a reasonable number of alternatives, it is advisable to start with the business definition. (For explanation of business definition, see Section 3.4.) The three dimension along which a business is defined (customer groups, customer functions, and alternative technologies) enable a decision-maker to think in a structured fashion and systematically move in one or more dimensions, generating a number of feasible alternatives.

Focusing on alternative could also be done by visualizing a future state and working backward from it. This is done through gap analysis. A company sets objectives for a future period of time, say three to five years, and then work backward to find out where it can reach through the present level of efforts. By analyzing the difference between the projected and desired performance, a gap could be found.

This shows how gap analysis work. How wide or narrow the gap is, its importance, and the possibility of its being reduced influence the focus on alternatives. Where the gap is narrow, stability strategies would seem to be feasible alternatives. If the gap is large, due to expected environmental opportunities, expansion strategies are more suitable. If it is large due to past and expected bad performance, retrenchment strategies may be more suitable.

### 7.3.2 Considering the selection factors

These alternatives have to be subjected to further analysis. Such an analysis has to rely on certain factors. These factors are termed as selection factors.

The selection factors can be broadly divided into two groups: the objective and subjective factors. Objectives factors are based on analytical techniques and are hard facts or data used to facilitate a strategic choice. They could also be termed as rational, normative, or prescriptive factors. Subjective factors, on the other hand, are based on one's personal judgment and collective or descriptive.

### 7.3.3 Evaluation of strategic alternatives

Evaluation of strategic alternatives basically involves bringing together the results of the analysis carried out on the basis of the objective and subjective factors. There is no set procedure and strategists may use an approach which suits the circumstances. What is important is to observe that neither the objective not the subjective factors can alone help in evaluation.

Strategic choice could be defined as “the decision to select from among the grand strategies have to be considered together. The method of performing the evaluation is of considerable interest to management researcher and academicians.

### 7.3.4 Making the strategic choice

An evaluation of strategic choice should lead to a clear assessment of which alternative is the most suitable under the existing conditions. The final step therefore is to make the strategic choice. One or more strategies have to be chosen for implementation. A blueprint that will describe the strategies and the conditions under which they would operate has to the made.

We have divided objective factor analysis into two parts; corporate-level strategic- analysis and business-level strategic analysis. Corporate-level strategic analysis would focus on techniques for analyzing business within a corporate umbrella, while business-level strategic analysis would highlight the techniques used to analyze the businesses individually from the view-point of the industry' to which they belong and the competitive situation that these face.

## 7.4 ETOP (ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE)

Environmental Diagnosis is the assessment of environmental factors in the terms of their being an opportunity or threat and the significance of their impact. Environmental Diagnosis is analogous to diagnosis of a patient in medical Science where it is used to identify the diseases. However, in strategic management, Environmental Diagnosis does not use only to identify threats (diseases but opportunities also.

After the data are collected for relevant environmental factors and analysed, the process of determining the impact of these factors, either negatively or positively and the degree of impact is undertaken. This exercise is mostly in the form of opinions which may help the organization to arrive at a decision whether to react to, or ignore, or

anticipate the opportunities or threats discovered.

**Preparation of ETOP (Environmental threat and opportunity Profile)**

Environmental threat and opportunity Profile also known as environmental impact matrix is a summarized depiction of environmental factors and their likely impact on the organization. When the environmental analysis is undertaken on formal and systematic way. it is imperative that the results are structured. ETOP is the most useful way of structuring the results of environmental analysis. It can be prepared in the following way:

1. **Environmental factors:** Since ETOP is the presentation of environmental analysis in structured way, its process follows that of environmental analysis. Thus, the starting point is the identification of different components of relevant environment. Usually, each major component is divided into sub components as is done in the case of environmental analysis. Thus, economic environment may be divided into the rate of economic growth, rate of inflation, monetary' policy, and fiscal policy and so on or competitive environment may be divided into threats of entry and exit, competitive position of Competitors etc.
2. **Assessing Importance of Environmental Factors:** At this stage, importance of environmental factors is assessed. The degree of importance can be in qualitative terms like high, medium, or low, or it can be quantified like 3,2,1.it may be mentioned that all the environmental variables, even the relevant ones, will not have same degree of importance.
3. **Assessing Impact Factor:** An environmental factor which is relevant may either presentthreats or provide opportunities depending upon the nature of environmental factors and their behaviour. Positive impact of a factor is opportunity and negative impact is threat. Impact factor may also quantified.
4. **Combining Importance and Impact Factor:** Combination of Importance and Impact Factor can give a clear picture of the industry sector. If both variables have been quantified, these can be combined by multiplication. Such figures for various industry sector can be compared easily.

   ETOP can be presented in two forms: matrix form or descriptive form. In matrix form, Importance and Impact Factor are presented in tabular form and often quantified. In descriptive form, impact of various factors is described in terms of their being positive or negative.

| Environmental Sector | Impact |
|---|---|
| Socio-economic | (+) opportunity (-) threat<br>(+) Continued emphasis on infrastructure development including power supply for industry', transport and domestic consumption<br>(-) Severe resource constraints |

| Technological | (+) higher growth in industrial production and technology upgradation |
|---|---|
| Supplier | (-) Increasing scarcity of technology because of cartel formation |
| Government | (+) Liberalisation for technology import |
| Competition | (-)Increasing role of power plant consultants (-)Increasing difficulty in retaining specialists and highly qualified personnel Table: BHEL: ETOP |

7.4. Self check questions

1. What is Environmental threat and opportunity profile?
2. How ETOP can be done?

## 7.5 ORGANISATIONAL CAPABILITY PROFILE

After organizational analysis exercise is over, the results are structured in the form of organizational capability profile (OCP).OCP is a summarized statement which provides an overview of strengths and weaknesses in key result areas likely to affect future operations of the organization. Information in this profile may be presented in qualitative and quantitative terms. Where the information is presented in qualitative terms, strengths and weaknesses are described in the form of narration. However these narrations do not show the degrees of strength and weaknesses. For example, if accompany finds that it is strong in marketing area, it does not show how much strong it is in that area though it may serve the purpose of the company. Quantitative presentation of strength and weaknesses solves this problem. In the quantitative presentation, all the factors appraised are assigned degrees/values along a scale. Such values may be on five-point scale with 5 denoting the highest value and 1 denoting the lowest value for strength and weaknesses. It may be mentioned here that values assigned to a factor arc subjective depending on the perception and judgement of appraiser. Table presents a summarized form of organization id capability profile.

| **Factor Apprised** | **Degree of strength/weaknesses** |
|---|---|
| **Production/operations factor** | |
| Plant location | |
| Operations/production system | |
| Cost structure | |
| R&.D System | |
| **Marketing Factors** | |
| Product-related | |

Price-related
Promotion-related
Distribution-related
**Financial Factors**

Sources of funds and costs
Usage of funds
Management of funds
**Personnel and management factors**

Personnel system
Quality and motivation of
personnel Industrial
relations General
management system
Organizational climate

7.5. Self check questions

1. What do you mean by organizational capability profile

2. How the degree of strength and weakness can be judged?

## 7.6. EXHIBIT : ORGANISATIONAL ANALYSIS OF KCSA

Kantilal Chunnilal& Sons appliances (Private) Limited, Surat(herein referred to as KCSA) manufactures domestic heating appliances under the brand name "Sphere hot". The product range includes domestic water heater, snackchef, toaster, and auto iron. Their contributions in the company's sales are 55 per cent, 20 per cent, 15 per cent, and 10 per cent respectively. The company enjoys market leadership in some of the products. In order to strengthen itself further, the company took the help of an outside management expert to prepare its capability profile. The OCP was prepared on the basis of information provided by the top management of the company and by analyzing its summing in the market field.

| OCP Factors | Degree of strengths | Level of significance | Scores |
|---|---|---|---|
| **Marketing Factors:** | | | |
| 1. Competitive position | 5 | 8 | 40 |
| 2. Product Mix | 3 | 7 | 21 |
| 3. Distribution channel | 4 | 7 | 28 |
| 4. Promotional efforts | 2 | 6 | 12 |
| 5. Market Research | 1 | 5 | 05 |

| | | | |
|---|---|---|---|
| 6. Price | 4 | 10 | 40 |
| **Production factors** | | | |
| 1. Location | 4 • | 8 | 32 |
| 2. Capability utilization | 5 | 8 | 40 |
| 3. Raw material availability | 4 | 8 | 32 |
| 4. Cost Structure | 3 | 7 | 21 |
| 5. Research and development | 2 | 7 | 14 |
| 5. Technical Knowhow | 5 | 10 | 50 |
| **Finance Factors:** | | | |
| 1. Capital Cost • | 4 | 7 | 28 |
| 2. Capital Structure | 2 | 8 | 16 |
| 3. Financial Planning | 1 | 8 | 08 |
| 4. Liquidity | 4 | 8 | 32 |
| 5. Raising funds from outside | 3 | 10 | 30 |
| 6. Accounting Procedures | 3 | 8 | 24 |
| **Personnel and general factors:** | | | |
| 1. Quality of top Management | 2 | 10 | 20 |
| 2. Quality of other personnel | 4 | 8 | 32 |
| 3.Industrial Relations | 5 | 8 | 40 |
| 4.Organisation Structure | 1 | 8 | 08 |
| 5.Corporate Image | 4 | 8 | 32 |

## 7.7. STRATEGIC ADVANTAGE

Strategic advantages are the outcome of organizational capabilities. They are the result of organizational activities leading to rewards in terms of financial parameters, such as profit or shareholder value and of non financial parameters, such as market share or reputation. In contrast, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly, such advantages or disadvantages are the outcome of the presence or absence of organizational capabilities. Strategic advantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage-the higher the profitability the better the strategic advantage. They arc comparable in terms of the historical performance of an organization or its current performance with respect to its competitors. Competitor analysis represents a necessary adjunct to performing an industry analysis. An industry analysis provides information regarding potential sources of competition (including the possible strategic actions and reactions and effects on profitability for all companies competing in an industry). However, a structured competitor analysis enables a company to focus its attention on those companies with

which it will directly compete, and is especially important when a company faces a few powerful competitors. Competitor analysis is interested ultimately in developing a profile on how competitors might be expected to react in response to a company's strategic moves.

7.7.. Self check questions

1. What is a strategic advantage?

2. such advantages or disadvantages are the outcome of the presence or absence of _____

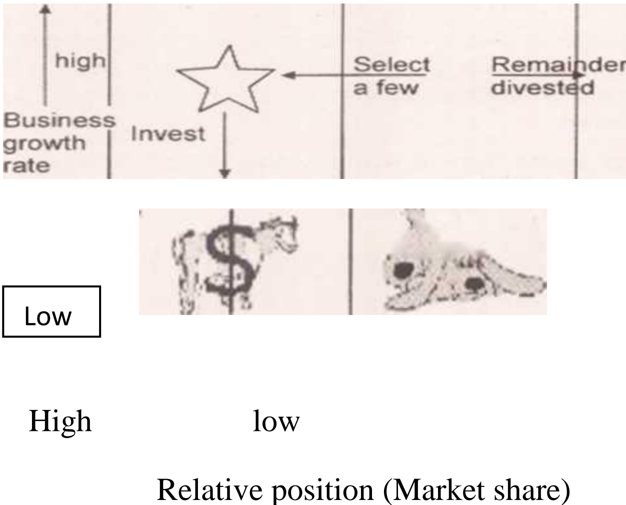
## 7.8. CORPORATE PORTFOLIO ANALYSIS

Corporate Portfolio analysis (or simply, portfolio analysis) is set of techniques that evolved during the mid-1960 and soon become a management fad. During the 1970s, a tendency to discredit these techniques arose when it was realized that the assumptions did not always hold good.Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual product or businesses in a firm portfolio.There are number of techniques that could be considered as corporate portfolio analysis techniques. The most popular is the Boston Consulting Group(BCG) matrix or product portfolio matrix.

## 7.9. THE BCG MATRIX

To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. The BCG matrix is a tool that can be used to determine what priorities should be given in the product portfolio of a business unit. It has 2 dimensions: market share and market growth. The basic idea behind it is that the bigger the market share a product has or the faster the product's market grows the better it is for the company, product portfolio method.

Placing products in the BCG matrix results in 4 categories in a portfolio of a company:



**Stars**

(=high growth, high market share)

use large amounts of cash and are leaders in the business so they should also generate large amounts of cash.
frequently roughly in balance on net cash flow.
However if needed any attempt should be made to hold share, because the rewards will be a cash cow if market share is kept.

**Cash Cows**

(=LOW growth, high market share)
profits and cash generation should be high , and because of the low growth, investments needed should be low. Keep profits high.
Foundation of a company

**Dogs**
(=low growth, low market share)
avoid and minimize the number of dogs in a company.
beware of expensive 'turn around plans'.
deliver cash, otherwise liquidate

**Question Marks**
(= high growth, low market share)
have the worst cash characteristics of all, because high demands and low returns due to low market share.

if nothing is done to change the market share, question marks will simply absorb great amounts of cash and later, as the growth stops, a dog.

either invest heavily or sell off or invest nothing and generate whatever cash it can.
Increase market share or deliver cash

Using the BCG Matrix can help understand a frequently made strategy mistake: having a one-size-fits-all-approach to strategy, such as a generic growth target (9 percent per year) or a generic return on capital of say 9,5% for an entire corporation.

**In such a scenario:**

A. Cash Cows Business Units will beat their profit target easily; their management has an easy job and is often praised anyhow. Even worse, they are often allowed to reinvest substantial cash amounts in their businesses, which are mature, and not growing anymore.

B. Dogs Business Units fight an impossible battle and, even worse, investments are made now and then in hopeless attempts to 'turn the business around.

C. As a result (all) Question Marks and Stars Business Units get mediocre size investment funds. In this way they are unable to ever become cash

cows. These inadequate invested sums of money are a waste of money. Either these SBUs should receive enough investment funds to enable them to achieve a real market dominance and become a cash cow (or star), or otherwise companies are advised to disinvest and try to get whatever possible cash out of the question marks that were not selected.

7.9.. Self check questions

1. low growth and high market share are ____

2. _____ use large amounts of cash and are leaders in the business so they should also generate large amounts of cash

## 7.10. SWOT ANALYSIS

SWOT analysis means analyzing strengths, weaknesses, opportunities and it is a useful strategic planning tool and is based on the assumption that if managers carefully review internal strengths and weaknesses and external threat and opportunities, a useful strategy for ensuring organizational success can be formulated. It is a simple technique for getting a quick overview of a strategic situation so that such strategies can be formulated as to produce a good between the company's internal competencies (strength and weaknesses) and environment (opportunities and threats).

### 7.10.1.Strengths and Weaknesses

A "strength" is a positive characteristic that gives a company an important capability. It is an important organisational resource which enhances a company, competitive position. Some of the internal strengths of an organisation are:

- Distinctive competence in key areas
- Manufacturing efficiency
- Skilled workforce, adequate financial resources Superior image
- Economies of scale
- Superior technological skills
- Insulation from strong competitive pressures
- Product or service differentiation
- Proprietary technology.

A "weakness" is a condition or a characteristic, which puts the company at disadvantage. Weaknesses make the organization vulnerable to competitive pressures. These are competitive liabilities and strategic managers must evaluate their impact on the organization's strategic position when formulating strategic policies and plans. Weaknesses require a close scrutiny because some of them can prove to be fatal. Some of the weaknesses to be reviewed are:

- No clear strategic direction
- Outdated facilities
- Lack of innovation is Complacency
- Poor research and developmental programs
- Lack of management vision, depth and skills

- Inability to raise capital
- Weaker distribution network
- Obsolete technology
- Low employee morale
- Poor track record in implementing strategy
- Too narrow[7] a product line
- Poor market image
- Higher overall unit costs relative to competition.

7.10.2.Opportunities and Threats

An "opportunity" is considered as a favourable circumstance, which can be utilized for beneficial purposes, it is offered by outside environment and the management can decide as to how to make the best use of it. Such an opportunity may be the result of a favourable change in any one or more of the elements that constitute the external environment. It may also be created by a proactive approach by the management in moulding the environment to its own benefit. Some of the opportunities are:

- Strong economy
- Possible new markets
- Emerging new technologies
- Complacency among competing organizations
- Vertical or horizontal integration
- Expansion of product line to meet broader range of customer needs
- Falling trade barriers in attractive foreign markets

A "threat" is a characteristic of the external environment, which is hostile to an organisation. Management should anticipate such possible threats and prepare its strategies in such a manner that any such threat is neutralized. Some of the elements that can pose a threat are:

- Entry of lower cost foreign competitors cheaper technology
- Rising sales of substitute products
- Shortages of resources
- Changing buyer needs and preferences
- Recession in economy
- Adverse shifts in trade policies of foreign governments
- Adverse demographic changes

SWOT analysis involves evaluating a company's internal environment in terms of strengths and weaknesses and the external environment in terms of opportunities and threats and formulating strategies that take advantage of all these factors.Such analysis is an essential component of thinking strategically about a company's situation.

**Management**

1. Does the company use strategic management concepts?
2. Are company objectives and goals measurable and well communicated?
3. Do managers at all hierarchical levels plan effectively?
4. Do managers delegate authority well?

5. Is the organization’s structure appropriate?
6. Are job description and job specifications clear?
7. Is employee morale high?
8. Is employee turnover and absenteeism low?
9. Are organisational reward and control mechanisms effective?

**Marketing**

1. Are markets segmented effectively?
2. Is the organisation positioned well among competitors?
3. Has the company’s market share been increasing?
4. Are present channels of distribution reliable and cost effective?
5. Does the company have an effective sales organisation?
6. Does the company conduct market research?
7. Is product quality and customer service good?

**Research and Development**

1. Does the company have R&D facilities? Are they adequate?
2. If outside R&D companies are used, are they cost-effective?
3. Are the organization’s R&D personnel well qualified?
4. Are R&D resources allocated effectively?
5. Are management information and computer systems adequate?
6. Is communication between R&D and other organizational units effective?
7. Are present products technologically competitive?

**Computer Information Systems**

1. Do managers in company use the information system to make decisions?
2. Is there a chief information officer or director of information systems position in the company?
3. Are data in the information system updated regularly?
4. Do managers from all functional areas contribute input to the information system?
5. Are there effective passwords for entry' into the information system?
6. Are strategies of the company familiar with the information systems of rival companies?
7. Is the information system user friendly?
8. Do all users of the information system understand the competitive advantages that information can provide companies?
9. Are computer workshops provided for users of information system?
10. Is the company’s information system continually being improved in content and user friendliness?

7.10.. Self check questions

1. ______ is considered as a favourable circumstance, which can be utilized for beneficial purposes, it is offered by outside environment

2. What is SWOT analysis?

## 7.11. SUMMARY

OCP is a summarized statement which provides an overview' of strengths and weaknesses in key result areas likely to affect future operations of the organization. Strategic advantages are the outcome of organizational capabilities. They are the result of organizational activities leading to rewards in terms of financial parameters, such as profit or shareholder value and of non financial parameters, such as market share or reputation. There are number of techniques that could be considered as corporate portfolio analysis techniques. The most popular is the Boston Consulting Group(BCG) matrix or product portfolio matrix. SWOT analysis means analyzing strengths, weaknesses, opportunities and it is a useful strategic planning tool and is based on the assumption that if managers carefully review* internal strengths and weaknesses and external threat and opportunities, a useful strategy for ensuring organizational success can be formulated

## 7.12. SHORT ANSWER QUESTIONS

**1.** What are the steps in the process of strategic choice?

**2.** What do you understand by OCP?

**3.** What is a corporate portfolio analysis?

## 7.13. LONG ANSWER QUESTIONS

1. Explain the strategic implementations of each of the following types of businesses in a corporate portfolio:(a) Stars (b) Questions marks (c) cash cows (d) Dogs.
2. What is SWOT analysis? How' is it relevant for strategy formulation? Give example of SWOT analysis technique of any famous company.

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## 7.15. ANSWERS OF SELF CHECK QUESTIONS

7.4 1. assessment of environmental factors in the terms of their being an opportunity or threat and the significance of their impact

2. each major component is divided into sub components as is done in the case of environmental analysis, , importance of environmental factors is assessed and impact of various factors is described in terms of their being positive or negative.

7.5 1. OCP is a summarized statement which provides an overview of strengths and weaknesses in key result areas likely to affect future operations of the organization.

2. Both in quantitative and qualitative terms

7.7 1. Strategic advantages are the outcome of organizational capabilities

2. organizational capabilities

7.9 1. Cash cows

2. stars

7.10 1. Opportunity

2. involves evaluating a company's internal environment in terms of strengths and weaknesses and the external environment in terms of opportunities and threats and formulating strategies that take advantage of all these factors

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 8** **AUTHOR- SHAMINDER KAUR**

**STRUCTURE**


8.1 Objectives
8.2 Introduction
8.3 Synergistic approach
  8.3.1 Areas of Synergistic effect
8.4 Gap Analysis
8.5 Corporate level strategic analysis
  8.5.1 BCG Matrix.
  8.5.2 GE 9 Cell Matrix.
8.6 Business level strategic analysis
  8.6.1 Experience Curve Analysis
  8.6.2 Industry analysis
8.7 Me Kinsey7-S Model Framework
8.8 Competitor Analysis
8.9 Conclusion
8.10 Short answer questions
8.11 Long answer questions
8.12 References
8.13 Answers of self check Questions


## 8.1 OBJECTIVES

1. To understand the students about the synergistic approach and its areas.
2. To aware the students about the Corporate level and business level strategic analysis.

## 8.2 INTRODUCTION

An evaluation of strategic choice should lead to a clear assessment of which alternative is the most suitable under the existing conditions. The final step, therefore is to make the strategic choice. One or more strategies have to be chosen for implementation. A blueprint that will describe the strategies and the conditions under which they would operate has to the made.

We have divided objective factor analysis into two parts; corporate-level strategic analysis and business-level strategic analysis. Corporate-level strategic analysis would focus on techniques like BCG Matrix, GE 9 Cell Matrix for analyzing business within a corporate umbrella, while business-level strategic analysis would highlight the techniques like Porter’s Five forces Model of Competition in an industry' etc. used to analyse the businesses individually from the view-point of the industry- to which they belong and the competitive situation that these face.

## 8.3 SYNERGISTIC APPROACH

Synergistic approach can be used as a means for generating competitive advantage to an organization if the managers are sufficiently aware about how synergistic effect is developed. Concept of synergy and its effect has been derived from systems approach which deals with the phenomenon of putting various elements of a system in which a way that each element contributes positively to other elements. The net result is that the sum total of combined contribution is greater than what the individual elements could have contributed independently.

“Synergy' is the process of putting two or more elements together to achieve a sum total greater than the sum total of individual elements separately. The effect is described as 2+2= 5 effect."

Synergistic effect does not generate automatically by putting different elements together but depends on the complementarily of these elements. Thus, synergistic effect in the process of strategy formulation refers to the degree of complementarities between present skills and resources and the future skills and resources which would be required for a strategy. The higher the degree of complementarily that exists between the present strategic posture and the contemplated posture, the greater is the opportunity for realizing positive synergy. A simple example of Synergistic effect may be of opening of a restaurant by motel owner in side by area. In this case, the joint income of motel and restaurant may be much more than what they can earn individually if located at different places.

### 8.3.1 Areas of Synergistic effect

There may be many possible areas of synergistic effect of an organization depending on its strengths and weaknesses. Since the synergy depends on the complementarily of present and future strategic postures, this can best be understood by analyzing an organization’s strengths band taking suitable strategic actions in order to affect the results of the strengths. For this purpose, different types of synergistic effects in various functional areas of operations may be analysed.

1. **Production Synergy.** Production Synergy can be achieved if the present production facilities, processes and skills can be used to produce the contemplated products. The Production Synergy may be best achieved by merging the firms manufacturing same or substantially similar products. There is a little chance for Production Synergy, if the organization takes over dissimilar product because the present production strength does not contribute in any way in the future product. For example, taking up of production of bearings by metal box which was primarily known as metal packaging manufacturer could not generate synergistic effect.
2. **Marketing synergy.** Marketing synergy refers to the situation when the organization can take the advantages of its present marketing facilities- sales force, distribution channel, physical facilities, promotional techniques for the ensuring product though the product may be substantially different from present one. For example, a soap manufacturer may take the marketing of hair oil. In this case, the company can take advantages of its present marketing facilities because, in both the cases, the same type of marketing facilities will be required although

there is no production synergy if the production of hair oil is taken up because of the difference in the production process and consequently the requirement of different production facilities.

3. **Research and Development Synergy.** The research and development synergy will be achieved if the company's technologies supporting the development of both the present and the contemplated product lines are substantially similar. For example, the research and development at Hindustan Lever Limited offers unique synergy because it contributes to the development of chemical products of different types for different end users. It has discovered the raw' materials from minor seed oils for synthetic detergent which is claimed to be much cheaper and effective than the present raw material. In its research and development efforts, the company has undertaken simultaneous functions of developing heavy chemicalsalso which has enabled the company to enter in this field too. Since the basic research and development facilities arc common both minor oil seeds and heavy chemicals, the company enjoys the research and development synergy.
4. **Financial Synergy.** The financial synergy is virtually unrelated to the degree of similarity between the present and the contemplated strategic postures because the skills and techniques of financial management have a high degree of transferability across both industry and organizational lines. The possible synergy which lies in this area is the extent to which the organization can raise the funds for investment through larger capital base, increased borrowing power, and greater earning through the spreading of administration overheads over a larger volume of operations. In fact, this synergy has been used by several companies to take over other companies or diversify in those areas which were unknown to them. However, the success of such strategy may be doubtful if other considerations are taken into account.
5. **General management Synergy.** General management synergy occurs when the skills, experience, and knowledge of managers are transferable from the present strategy to the contemplated one. The transferability of these elements of management depends on how these elements are acquired. Basically knowledge requirements for managers are twofold: (i) general knowledge of the processes and techniques of management which can be learned through management education; and (ii) technical knowledge about the specific industry or organization which can be learned through experience in a particular industry or organization. The first category of knowledge is easily transferable to all types of organisations and industries as these are methodological. The second type of knowledge however, is not as freely transferable because it requires learning period on the part of managers. However, if the movement is from one industry to another, the transferability is limited in that it requires more time in understanding the requirements of the new industry.

This approach has certain techniques like Gap Analysis, Corporate portfolio Analysis, Porter's Five Forces Model of Competition , Me Kinsey's 7s Framework, GE 9 Ceil Model, Competitor Analysis

8.3. Self check questions

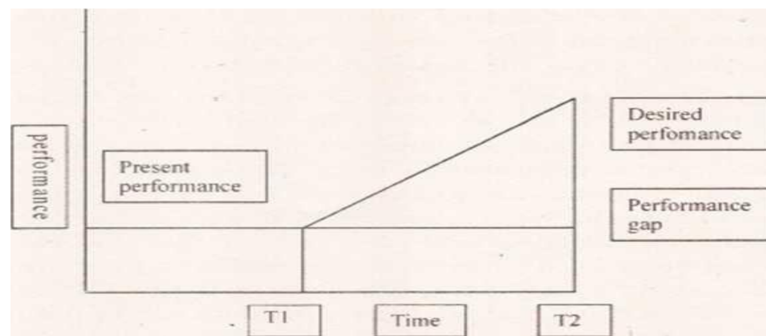
1. What is a production synergy?

2. Which effect is described as 2+2= 5 effect?

## 8.4 GAP ANALYSIS

In this approach, the central focus is on examination of whether an end that has been established is likely to be achieved by the existing strategy. If the answer is yes, the organization may continue its strategy. If the answer is negative, the organization must go for a alternative strategy. Thus, gap analysis essentially emphasizes what the organization wants to achieve, whether it is achieving it or not and how it can achieve.

There may be a gap between what the organization's mission suggests and what it achieves. Sometimes this gap may exist because of the failure of certain strategic actions; sometimes it may be felt because of the change in organization's mission and the present strategies are not able to achieve that mission. In this case, the organization requires tofind out strategic alternatives. Finding out alternatives in such a case involves diagnosis and analysis of gap which will unfold the various alternatives through which gap can be fulfilled. The gap between what is desired and what is being achieved and how this gap is to be fulfilled may be derived in a figure:




The figure shows how the gap between what is desired and what is being achieved widens as the time passes (Tl and T2) if no suitable action is taken. Therefore, the organization must identify the actions (strategies) which will be able to fill the gap. At the initial stage, lot of ideas may be generated based on formal and informal discussion, brainstorming sessions, and other idea generation techniques. At the subsequent stage, many of these ideas are dropped on the basis of certain initial criteria established in the light of organizational mission and objectives, strategic intent, business definition, strengths and weaknesses. The remaining ideas go for further processing in the form of strategic alternative evaluation.

## 8.5 CORPORATE LEVEL STRATEGIC ANALYSIS

Corporate-level strategic analysis treats a corporative entity as constituting a portfolio of business under a corporate umbrella. The analysis focuses on the question of

what should a corporate entity do regarding the several businesses that are there in its portfolio. It is to be noted that corporate-level strategic analysis is relevant to the case of a diversified corporation which has several businesses. For companies that are single-business entities, business-level strategic analysis is sufficient.

We start with a description of the corporate portfolio analysis techniques which from a major chunk of the analysis done at the corporate-level.

**Corporate portfolio Analysis**

Corporate portfolio analysis (or simply, portfolio analysis) is a set of techniques that evolved during the mid-1960s and soon became a management fad. During the 1970s, a tendency to discredit these techniques arose when it was realized that the assumptions did not always hold good. However, currently it is accepted that these techniques are useful, not as purely prescriptive, but as an important and decisive part of a set of criteria-normative as well as descriptive-that assist strategists in exercising a strategic choice.

Corporate portfolio analysis could 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. The main advantages in adopting a portfolio approach in a multiproduct, multibusiness firm is that resources could be channelized at the corporate level to those businesses that poses the greatest potential.

8.5.1 **Boston Consulting Group (BCG) matrix,** such as the one shown in Exhibit 8.3 provides a graphic representation for an organization to examine the different business in its portfolio on the basis of their relative market shares and industry growth rates. As shown in the exhibit, businesses could be classified on the BCG matrix as either low or high according to their industry growth rate and relative market share. The vertical axis denotes the rate of growth in sales in percentage for a particular industry. The horizontal axis represents the 'relative market share, which is the ratio of a company's sales to the sales of the industry's largest competitor or market leader. In order to get the maximum benefit out of the experience curve, the BCG matrix indicates that it is necessary to be the market leader. The result of combining the industry growth rate and relative market share, each along a high and low dimension, is a four-cell matrix. Each cell of this matrix has been given interesting and appropriate name by the Boston Consulting Group.

The four cells of the BCG matrix have been termed as stars, cash cows, question marks (or problem children), and dogs. Each or these cells represent a particular type of businesses. These different type of business, whit some contemporary examples form the Indian corporate would, are described below:

Stares are high-growth-high-market share businesses which may or may not be self- sufficient in terms of cash flow. This cell corresponds closely to the growth phase of the product life cycle (PLC). A company generally pursues an expansion strategy to establish a strong competitive position with regard to a 'star' business. In the current Indian context, there are many businesses which could be considered as 'stars'.

As the term indicates, cash cows are businesses which generate large amounts of cash but their rate of growth is slow'. In terms of PLC, these are generally mature

businesses which are reaping the benefits of the experience curve. The case generation exceeds the reinvestment that could profitably be made into ‘cash cows’. These businesses can adopt mainly stability strategies. As ‘cash cow’ industries lose their attractiveness and tend towards a decline, a phased retrenchment strategy may be feasible. The cash generated by ‘cash cows’ it reinvested in ‘stars’ and ‘questions marks’. Companies which are well-entrenched in an established market enjoy the advantages of ‘cash cows’.

Business with high industry growth but low market share for a company is ‘question marks’ or ‘problem children’. They require large amounts of cash to maintain or gain market share. ‘Questions marks’ are usually new products which have a good commercial potential. The logic of the experience curve dictates that the company obtaining an early lead can expect cost advantages and market leadership and can successfully create entry barriers. ‘Questions marks' therefore, may become ‘stars’ if enough investment is made, or they may become ‘dogs’ if ignored. There are several industries in India where many companies find themselves holding businesses which are ‘questions marks’. Holiday resorts, light commercial vehicles, home improvement precuts are a few of the examples.

Those businesses which are related lo slow-growth industries and where a company has a low relative market share arc termed as ‘dogs’. They neither generate nor require large amounts of cash. In terms of PLC, the ‘dogs’ are usually precuts in late maturity of a declining stage. The experience curve for the company shows that it faces cost to be gain market share at the expense of rival firms, a possibility that is remote owing to the high costs involved. So retrenchment strategies are normally suggested.

It is clear that its major advantage it that is offers a facility for a visual examination of the portfolio of the businesses of a company. However, there arc some limitation too which arise from the assumptions on which the BCG matrix is based.

8.5.2 **GE Nine-cell Matrix** Another corporate portfolio analysis techniques is based on the pioneering efforts of the General Electric (GE) Company of the United States supported by the consulting firm of McKinsey & Company. The vertical axis represents industry attractiveness, which is a weighted composite rating based on eight different factors. These factors are : market size and growth rate; industry profit margin; competitive intensity; seasonality; cyclicality; economies of scale; technology; and social, environmental, legal and human impacts. The horizontal axis represents business strength competitive position, which is again a weighted composite rating based on seven factors. These factors are: relative market share, profit margins, ability to compete on price and quality, knowledge of customer and market, competitive strengths and weaknesses, technological capability, and caliber of management. As can be seen from the list of the factors, good use can be made of industry, competitor, and SWOT analyses information for determining the weightage and rating to assign to each factor. The two composite values for industry attractiveness and business strength/competitive position are plotted for each business in a company's portfolio. The piecharts denote the proportional size of the industry' and the dark segments represent the company’s market share.

The nine cells of the GE matrix are grouped on the basis of low to high industry'

attractiveness, and weak to strong business strength. Three zones of three cells each are made, denoting different combination represented by green, yellow, and red colours. From this reason, the GE matrix is also known as the stoplight strategy matrix. The different combinations can be seen in Exhibit. 8.4. Based on the green zone, the signal is ‘go ahead’ to grow the build, indicating expansion strategies. Businesses in the green zone attract major investment. For the yellow zone, the signal is wait and see’, indicating hold-and-maintain type of strategies aimed at stability and consolidation. From the red zone, the signals is ‘stop’, indicating the retrenchment strategies of divestment and liquidation, or the rebuilding approach for adopting turnaround strategies.

The GE nine-cell matrix offers some distinct advantages. Compared of the BCG matrix, it offers an intermediate classification of medium and average rating. It incorporates a larger variety of strategic variables like the market share and industry size. The GE matrix is also a powerful analytical tool to channel corporate resources to businesses that combine medium to high industry attractiveness with an average to strong business strength/ competitive position. On the other hand, the major drawback of the GE matrix is that it only provides broad strategic prescriptions rather than the specifics of businesses strategy'.

8.5. Self check questions

1. In terms of PLC, which businesses are generally mature businesses which are reaping the benefits of the experience curve
2. For the yellow zone, the signal is indicating ______ type of strategies aimed at _____
3. ____ may become ‘stars’ if enough investment is made, or they may become ‘dogs’ if ignored

## 8.6 BUSINESS LEVEL STRATEGIC ANALYSIS

Every' organization is part of an industry'. Almost all organizations face competition either directly or indirectly. Thus, the industry' and competition are vital considerations in making a strategic choice. The industry provides the context in which an organization operates while competitors via for the same set of customers by offering more or less identical products.

In this section we start with a reference to the experience curve and life cycle analysis and then goes on to describe the industry and competitor analysis. Finally, the technique of strategic group analysis is taken up for discussion.

### 8.6.1 Experience Curve Analysis

The concept of the experience curve is akin to a learning curve which explains the efficiency increases gained by workers though repetitive productive work. An experience curve is based on the commonly-observed phenomenon hat unit cost decline as a firm accumulates experience in terms of a cumulative volume of production.

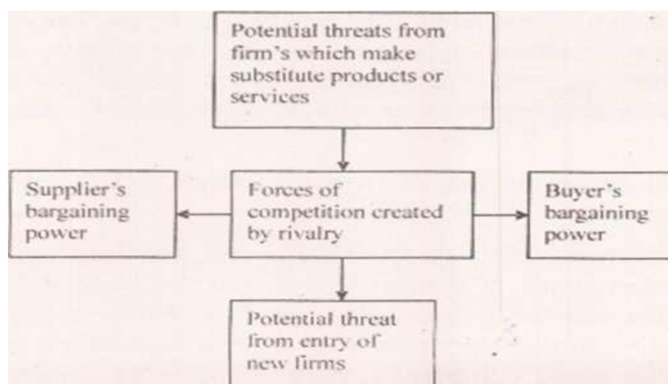
The concept of the experience curve is relevant for a number of areas in strategic

management. For instance, the experience curves are considered a barrier of new firms contemplating entry in an industry. It is also used to build market share and discourage competition. For quite some time till the 1990s, the experience curve phenomenon seems to have worked in favour of Bajaj Auto, which had been the market leader for the past several years in the two-wheeler industry in India. Only much later did Bajaj Auto face any serious competition for LML Ltd and Kinetic Engineering Bajaj Auto has had primary strategic advantage in terms of costs. Other competitors, including some like Gujarat Narmada who could not sustain themselves, have found it extremely difficult to compete with Bajaj due to the cost differentials that existed. Thus, the experience curve does yield competitive advantage to a firm if it is a first-mover in an industry and is successful in cornering a large market share.

### 8.6.2 Industry analysis

An industry is defined as a group of offering products or services that are close substitutes of each other. The close substitutes are those products or services that satisfy the same basic customer needs. For example, tea is a close substitute for coffee as it is considered a healthier alternative with a lower caffeine contents, and its antioxidant properties help the body to develop resistance to cancer and heart disease. Any analysis of the tea or coffee industry' would have to consider the other stimulant as a close substitute.

Michael E. Porter has made an immense contribution to the development of the ideas of industry and competitor analysis, and their relevance to the formulation of competitive strategies. He advocates that a structural analysis of industries be made so that a firm is in a better position to identify its strengths and weaknesses. A model consisting of five competitive forces has been proposed - threat of new entrants' rivalry among competitors, bargaining power of suppliers, bargaining power of buyers, and threat of substitute products - that determine the intensity of industry competition and profitability. The following figure depict Porter's five forces model of competition:




**Threat of new entrants:** Any industry that is perceived as being profitable tends to attract new entrants. These new entrants are firms that are interested in investing in the industry to share the growth prospects. Such new entrants augment the existing production capacity and often possess a desire to make large investments and secure a

substantial market share. So, higher entry barriers serve to keep potential entrants away from an industry.

The entry barriers may arise as a consequence of several factors such as those given below:

1. Economies of scale in production and sale of products leading o lower costs for existing firms.
2. Capital requirements being very high may prevent new entrants from making investments.
3. Switching costs from the existing products or services to a new one may discourage customers from making new commitments owing to the costs incurred in buying new ancillary' equipment, retaining employees or establishing new networks of relationships.
4. Product differentiation by existing firms based on the distinctiveness perceived by the customers through effective advertising, reputation as a service provider, the brand loyalty of customers towards existing firms, or some other such factor.
5. Access to the distribution channel can be monopolized by the existing firms on the basis of their long term relationship with distributors.
6. Cost disadvantages independent of the scale may arise from proprietary products technology; exclusive access to raw materials, favorable location, and benefits of governmental subsides.
7. Government policies through licensing and other means can prevent the entry of new firms into an industry.

Despite the formidable hurdles posed by existing firms, new firms do enter industries if they find those to be promising. The popular strategy for doing so is to find market niches not served by existing firms and to gradually build up a presence in the industry.

**Rivalry among competitors:** Competition is normally a game in w'hich one player loses at the expense of the other. A move on the part of the player may cause other player to make countermove, or initiate efforts to protect themselves from the damage posed by the initial move. In this manner, firms within an industry are mutually dependant. The situation in an industry keeps changing with the actions and reactions of the constituent firms. The desire to be the market leader or to comer a larger market share leads to rivalry among competitors. When the rivalry is weak, there is likely to be lesser competition; when the rivalry is high the level of competition is higher. This has implications for existing firms as well as those firms contemplating an entry into the industry.

The dimensions of such rivalry among competitors are several. Some of the major ones are described below:

1 Competitive structure refers to the number of competitors, their size, and their diversity. Different types of competitive structures have different implications for the existing firms and for the new entrants. Structures vary from being fragmented to consolidated. A fragmented structure means that there are a large number of small or medium sized companies, none of them in a position to dominate the industry. A

consolidated consists of a few' large companies (an oligopolistic market)

2 or just one large firm (a monopoly). Such a structure has a closely knit group of companies whose actions and reactions are matched: the action of one lead to reaction from others. The intensity of competition may range from being neglect to fierce rivalry. In some industries, the competitors may adopt a policy live and let live', in others there might be cut throat competition leading to under pricing or severely fought competition battles on the basis of other factors such as delivery, advertising or after sales service. An industry with greater diversity poses a higher potential challenge to existing firms or new entrants for devising competitive strategies.

3 Demand conditions refer to the nature of the customer demand existing in an industry. A high demand or a growing demand tends to moderate competition as each firm has enough for itself and need not grab it from others. Stagnant demand may lead to competitive strategies designed to snatch the market share from others. Declining demand may cause companies to maintain the market share. Existing firms or new entrants need to consider the demand conditions in the industry for the purpose of formulating business strategies.

4 Exit barriers restrict the firms in an industry and prevent them from leaving even though the returns might be low or might even be sometimes negative. The exit barriers are the economic, strategic or emotional factors which prevent companies firm moving out after the divestment of their businesses. Economic factors could be the high investments committed to plant and equipment that have no alternative usage, and high fixed costs of exit, such as, high retrenchment costs or high severance pay owing to labour agreements.

5 Collectively the three factors of competitive structure, demand conditions and exit barriers determine the business strategies that a firm is likely to adopt.

6 As we described these three factors constituting the force if competitive rivalry within an industry, you must have noticed that business strategies are critically dependent on the industry environment. The nature of industry environment varies across industries and also with time. There might be embryonic or introductory industries, growth or sunrise industries, mature or stable industries, and declining or sunset industries. Each of these industries would require a different approach to the formulation of business strategies.

7 An industry is the mature stage today might be a declining industry tomorrow. Such is the dynamic nature of strategic management that anything that a firm might do today does not grantee success tomorrow unless there is a willingness to respond to environment conditions as they arise.

**Bargaining power buyers:** The bargaining power of buyers of firms in an industry'' constitutes the ability of the buyer, individually or collectively, to force a reduction in the price of products or services, demand a higher quality or better service, or constitutes a negative feature for existing firms or new entrants of an industry'. A low buyer bargaining power enables a firm to pass on cost increases to buyers or to make

the buyer accept a lower quality of product at a higher price.

1 When the buyer are few in number.
2 When the buyer place large orders.
3 When alternative suppliers are present and are willing to supply at a lower price or on favourable selling conditions.
4 When the switching costs of buyers from one supplier to other is low.
5 When the buyer itself chares a low price for its products and is sensitive to price increase.
6 When the purchased product constitutes a high percentage of buyer's costs making it look around for lower priced supplies.
7 When the buyer itself has the ability to integrate backwards and create its own captive supply source.

**Bargaining power of suppliers:** Line the bargaining power of buyers, suppliers to firms in an industry too have a level of bargaining power. The bargaining power of suppliers constitutes their ability, individually or collectively, to force an increase in the price of products or services, or make the buyer accept a lower quality if product or level of service. A high supplier bargaining power constitutes a negative feature for existing firms to negotiate price increase in its favour or to make the supplier offer higher quality of inputs at a lower price.

The bargaining power of suppliers is high under these conditions:

1 When the suppliers are few and the buyers are many.
2 When the product or services are unique and are not commonly available.
3 When the substitutes of the products or services supplied are not freely available.
4 When the switching costs of a supplier from one buyer to the other is low.
5 When the supplier is not critically dependent on the products or services supplied.
6 When the buyer buys in small quantities and, therefore, is not important to the supplier.
7 When the supplier have the ability to integrate forward and use their own supplies for production of the end product or service.

**Threat of substitute products:** Substitute products or services are those that apparently are different but satisfy the same set of customer needs. We referred to the example of tea and coffee as substitute products. We could also include aerated drinks as another form of substitute in the category of products serving the customer's needs for drinks. Other examples could be alternative modes of transportation; postal, fax and courier service; and electrical gadgets like bulbs and tube lights. The platform for substitutability in ever case is serving the customer's need.

For industries where close substitutes are available the level of price chargeable is restricted by the price of the substitute available. Thus, firms have to formulate their business strategies keeping in view the intensity of the competitive force arising out of the presence or absence of the threat of substitutes.

In the context of strategic choice, the purpose of industry' analysis is to determine the industry attractiveness, and to understand the structure and dynamics of the industry with a view to finding out the continued relevance to strategic alternatives that are there before a firm.

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

8.6. Self check questions

1. The bargaining power of suppliers is high in case of _____

2. _______ of firms in an industry'' constitutes the ability of the buyer, individually or collectively, to force a reduction in the price of products or services, demand a higher quality or better service

## 8.7 MC KINSEY 7-S MODEL FRAMEWORK

The 7-S Model was developed in the late 1970s by the consultation at Competitor analysis Me Kinsey and company to assist managers to do away with the difficulties in implementation that is associated with change in the organization. The Me Kinsey 7-S Framework configures as follows:

The above 7-S Model shows that change is complex and intricate due to organizational immune system, difficult paradoxes and many interconnected variables involved. It also emphasizes the effective change can be brought about only one shot effort. Really, it is daunting challenge to the managers. Point lies in not taking these variables in isolation because of their interconnectivity. That is dividing and dissecting them into water tight compartments, as is quite common in any analytical approach, will not be of any help to arrive at right solution. Instead of holistic approach that analyses, for this 7-S model is quite unavoidable. To understand as to how 7-S model works, it is imperative to know what each ‘S’ means and what is its implication.

### 1. Strategy

Strategy covers vision, mission, objectives, goals and major action policies and plans. A strategy targets at gaining competitive advantage over rivals. The 7-S framework inculcates that execution of strategy poses more problems than formulation.

### 2. Structure

Structure- the skeleton of the whole organizational entity- stands for more durable organizational arrangements and relationships. Structure divides the organizational roles and tasks amongst the numerous members and integrates them through reporting relationships. The functions of structure are:

1. Dividing the whole organization into activities, departments, setting division of labour and delegation of authority.
2. Facilitating coordination and control of various activities in the framework of organizational mission, purposes and goals.

3. Reduction of uncertainty that stems from unpredictable human behavior via the mechanism of control system.
4. Prediction future and designing the future course of action. There is need for change in the structure of organization with the change in the strategy. Each strategy needs a specific type of structure.

**3. Systems**

Under the umbrella of 7-S framework, systems signify rules and regulations including procedures that support the organization structure. Thus, we have production planning and control system, budgeting and budgetary control system, performance evaluation system and so on. Change in strategy is implemented through changes in the systems. To repeat, a system specific is needed for a given strategy.

**4. Style**

Style stands for the patterns of actions taken by the top management over a period of time. Style is visible through reporting relationship amongst the three levels of management or managers, organization culture a reflexion of value system. The style has to change with the change in strategy, system and structure. In case, the style is not changed, the strategy fails.

**4. Staffing**

Staffing is that vital process that deals with recruiting and selecting matching persons for the organizational posts or positions, training and developing them, placing them in their posts so as to get out each one of them. High performing companies are the "best Employers' Almost all CEOs or leaders have given NUMBER ONE PLACE to manpower that they can boast of because manpower is the super power that moves all other essential of business. Latest techniques of productivity improvement all have come to stay because men in the organizations have accepted them to improve their knowledge, skills, attitudes and behavior to have edge over their rivals.

**5. Skills**

A skill is an ability or proficiency in performing a particular task. It is an acquired or learnt ability to translate knowledge into performance. It is the competency that allows for superior performance in the field in which the employee has acquired the ability. Mere perfect acquisition of knowledge is one thing and applying it is another. Thus, skills are the dominant capabilities and competencies possessed by the organization. These people's skills help in generating and sharpening the competitive advantage collectively. Each company known for skills. Here, organization is people'. These skills are invisible and intangible existing in the organization. Skills are the product of organizational structure, systems and culture. Managing change calls for change in skills and improving of existing ones.

**6. Super Ordinate Goals**

Super ordinate goals stands for company's vision, mission, values and philosophy, in the back-drop of which organization's goals and objectives are set and strategies are formulated. The supporters of Me Kinsey model speak of super ordinate goals and they mean by it a set of values and aspirations that goes beyond the conventional formal

statement of corporate objectives. These are but essential as they inspire the members of the organization and provide a definite direction towards the peak-height of success. Naturally, all the targets and hence activities of the organization are leading to attainment. Hence, they have deep meaning and top relevance for the organization and the people who make the organization.

8.7.. Self check questions

1. ___ are patterns of actions taken by the top management over a period of time

2. What is a structure?

## 8.8 COMPETITOR ANALYSIS

While industry analysis and strategic group analysis focus on the industry as a whole or on subsets of firms competes directly. Competitor analysis, therefore, deals with the actions arid reactions of individual firms within an industry or strategic group. It becomes especially important in the case of oligopolistic industries where there are a few powerful competitors and each needs to keep track of the strategic moves of the others.

According to Porter, the purpose of conducting a competitor analysis is to:
Determine each competitor’s probable reaction to the industry and environmentalchanges. Anticipate the response of each competitor to the likely strategic moves by the other firms, anddevelop a profile of the nature and success of the possible strategic changes

Components of competitor analysis: A competitor response profile can be built on the basis of the four components of competitor analysis. These four components are: future goals of competitorits current strategy', the key assumptions that the competitor makes about itself and about the industry, and its capabilities in terms of strengths and weaknesses. We briefly describe each of the components here in terms of the questions that need to be posed to describe them.

Future goals of competitor deal with questions such as these: How do our goals compare to our competitor’s goals? Where will emphasis be placed in the future? What is the attitude toward risk?

Current strategy of competitor deal with questions such as these: How are we currently competing? Does this strategy support changes in the competition structure?

Key assumptions made by the competitor deal with questions such as these: Do we assume that the future will be volatile? Are we operating under a statue quo? What assumptions do our competitors hold about the industry and about themselves?

Capabilities of competitor deal with questions such as these: What are our strengths and weaknesses? How do we rate compared to our competitors?

Based on a thorough analysis that can help predict their likely strategic moves which can be either offensive or defensive type. The response profile could be based on a firm posing questions such as these to itself: What will our competitor do in the future?

Where do we hold advantage over our competitor? And how will this change our relationship with our competitor. The information collected in the response profile is a vital input for the purpose of business strategy' formulation by any organization.

It must be noted that the approach outlined above is a highly structured and systematic one and can be used profitably where competition is an important consideration in strategic choice. In India, competition is not new to industry but it has been particularly pronounced after the successive liberalization measures taken by the government after 984, and particularly after 1991. Another case is of the FMCG industry in general, where competitiveness in several subsectors such as soaps and detergents, cosmetics, bakery and confectionary products, and ethers, has increased by leaps and bounds. It is in such a scenario that competitor analysis becomes relevant.

Porter's five-forces analysis of the Indian paints industry and note that the level of competition has increased. Looking to the moves and countermoves of the top companies it is observed that Asian Paints dominated the decorative paints segment of the paint industry in India with a market share of 40 percent. GoodlassNerolac was the market leader in the industrial paints segment with a 45 percent market share. Generally the companies in the Indian paints industry were attempting to create a balance among the two segments so that they did not face the extreme demand fluctuation of either if the two segments. GoodlassNerorac's change of business strategy by refocusing on the decorative paint segment in order to take advantage of its brand value can ne seen in this context. This move constituted a competitive threat to others, especially Asian Paints. Among the two Asian Paints was stronger in terms of cost reduction, marketing and distribution infrastructure, and global reach.

Competitor analysis is' important because competitive forces shape the strategies adopted by rivals and because these strategies of rival firms, in turn, shape the competitive forces. It is useful for a firm if it takes the results of competitor analysis into account while exercising a strategic choice.

## 8.9 CONCLUSION

Concept of synergy and its effect has been derived from systems approach which deals with the phenomenon of putting various elements of a system in which a way that each element contributes positively to other elements. The net result is that the sum total of combined contribution is greater than what the individual elements could have contributed independently. So for this various approaches can be undertaken i.e. corporate portfolio analysis which consists of set of techniques that help strategists in taking decisions regarding individual businesses in a firm's portfolio. Under this we discuss GE 9 Cell Model, BCG Matrix and business level strategic analysis is done through experience curve analysis, life cycle analysis, industry analysis (Porter's Five Forces Model of Competition), strategic group analysis (Me Kinsey 7S Framework) and competitor analysis.

## 8.10 SHORT ANSWER QUESTIONS

**1.** What do you mean by competitor analysis?

**2.** What is gap analysis

**3.** What is a synergy? Explain different types of synergies.

## 8.11 LONG ANSWER QWUESTIONS

**1.** Explain Porter's Five Forces Model of Competition.

**2.** What are the set of techniques that help strategists in taking decisions regarding individual businesses in a firm's portfolio

**3.** What are the 7 S under Me Kinsey 7S Framework.

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## 8.13 ANSWERS OF SELF CHECK QUESTIONS

8.3 1. Production Synergy can be achieved if the present production facilities, processes and skills can be used to produce the contemplated products

2. Synergy

8.5 1. Cash cow

2. hold and wait, stability and consolidation

3. question marks

8.6 1. When the suppliers are few and the buyers are many, When the product or services are unique,When the substitutes supplied ae not freely available and When the switching costs of a supplier from one buyer to the other is low

2. bargaining power of buyers

8.7 1. Style

2. Structure- the skeleton of the whole organizational entity- stands for more durable organizational arrangements and relationships

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 9** **AUTHOR- SHAMINDER KAUR**

# IMPLEMENTATION OF STRATEGY

**STRUCTURE**

9.1 Objectives
9.2 . Introduction
9.3 Stages of an organizational Development
9.4 Organizational Systems
- 9.4.1 Information system
- 9.4.2 Control System
- 9.4.3 Appraisal System
- 9.4.4 Motivation System
- 9.4.5 Development system
- 9.4.6 Planning system

9.5 Conclusion
9.6 Short answer questions
9.7 Long answer questions
9.8 References
9.9 Answer of self check questions

## 9.1 OBJECTIVES

The objective of the chapter is to understand the organization system in detail consisting of Information System, Control System, Appraisal System, Motivation System, Development System, and Planning System.

## 9.2 INTRODUCTION

The section on organizational design and change deals with the process of development of organizational structure and how changes have to be brought about so that the structure continues to satisfy the requirements of strategy'. Six organizational systems of information, control, appraisal, motivation, development, and planning are described with an overview of these organizational systems.

## 9.3 STAGES OF AN ORGANIZATIONAL DEVELOPMENT

Organizations too follow a life cycle constituting of the introduction, growth, maturity, and decline phases. The life cycle of organizations could be divided into four stages that are not distinct and may overlap.

Stage I organizations are small scale enterprises usually managed by a single person who is the entrepreneur owner manager. These organizations are characterized by the simplicity of objectives, operations, and management. The form of organization is also simple and could be termed as entrepreneurial. The strategies adopted are generally of the expansion type.

Stage 2 organizations are bigger than stagel organizations in terms of size and have wider scope of operations. They are characterized by functional specialization or process orientation. The organizational form is simple functional (typically divided into the finance, marketing, operations and personnel departments) or process oriented (divided into process based departments arranged in a particular sequence according to the technology' employed). The strategies adopted may range from stability to expansion.

Stage 3 organizations are large and widely scattered organizations generally having units or plants at different places. Each division is semi-autonomous and linked to the headquarters but functionally independent. The divisions may have a simple functional form depending on their particular needs. The strategies adopted may either stability or expansion.

Stage 4 organizations are the most complex. They are generally large multiplant, multiproduct organizations that result from their adoption of related and unrelated diversification strategies. The organizational form is divisional. The corporate headquarters assume the responsibility of providing strategic direction and policy guidelines through the formulation of corporate level strategies. The divisions formulate their business level strategies and may adopt Stage I, II, and III type of structures.

The stages of development theories present a convenient way to understand the way the structure may evolve as the organization moves from one stage to another. But in practice, many variations can occur. It is not necessary that all organizations should pass through every stage of development. Nor does every organization exhibit the characteristics of exclusively one stage.

## 9.4 ORGANIZATIONAL SYSTEMS

The organizational structure provides the mechanism for the distribution of authority and responsibility within the organization. The net result in a framework of organizational units, such as departments and divisions that consist of several positions of authority. Another way to look at organizational structure is to view it as a means of subdividing the total authority and responsibility among different organizational units and positions. Since the organization has to perform a set of tasks designed to achieve its objectives, a need arises to evolve systems that would bind the different units and positions so that the performance of activities takes place in a coordinated manner. These systems could be collectively referred to as organizational system. We describe six types of organizational systems while laying special emphasis on the role that each of the systems plan in strategy implementation. The six organizational systems described as follows:

1. Information System.

2. Control System.
3. Appraisal System.
4. Motivation System.
5. Development System.
6. Planning System.

### 9.4.1 Information system

A structure subdivides the total responsibility while the information system serves to coordinate the divided responsibility. If a strategy is to be effectively implemented, organizational arrangements that provide the information to managers to perform their tasks and relate their work to others are necessary. The information system, therefore, serves two important purposes: it enables the managers to know what they need to grasp in order to perform their tasks and also to coordinate their activities with others.

A broader term 'management information system' (MIS) is used to denote the organizational arrangements designed to aid managers in performing their activities. Only synonymous terms such as 'toted system' or 'integrated system' are also indicative of the fact the information system is basically devised to link the different activities being performed in an organization and to ensure that it works in a coordinated manner. Technological advancement in the processes in and usage of information has been achieved by increasing the application of computers as an aid in management. An other term 'computerized information system' (CIS) is often used to denote the organizational arrangement that is based on the usage of computers to provide information to managers. It is also proposed that with an appropriate design, a CIS that is consonant with the strategy, structure and style of an organization's administrative system will contribute to more effective management.

In the design and administration of the information system, strategies have to concern themselves with the need to have appropriate organizational arrangement that will support the implementation of a particular strategy. The table exhibits the key dimensions of CIS as relevant to the different types of generic strategies. The key dimensions are three, namely, policy stance (strict and flexible), hardware configuration (mainframe, microcomputers), and the system (transaction processing systems).

| Generic Strategies | Stability | Retrenchment | Growth |
|---|---|---|---|
| Key Dimensions | Rigid policy stance | — | Flexible policy stan |
| | Mainframe computers | - • | Microcomputers |
| | Transaction processing systems | + | |
| | - | - | Decision Support systems |

Corporate level stability strategies require an efficiency orientation that leads to increased efficiency without any appreciable increase in the volume of activity. In such

a situation, an information system that requires a certain level of rigidity for the efficient performance of clearly- defined responsibilities, based on access to a mainframe computer and transaction processing system, aimed at repetitive, programmed decision-making, would be more feasible. On the other hand, a growth strategy would require a decisional orientation that needs quick action and a creative response. In such a situation, an information system that adopts a flexible policy stance, uses microcomputers, and adopts a decision-support system would be more feasible.

### 9.4.2 Control system

Control has traditionally has considered as a major management function. While controlling, the manager essentially deals with “the measure and correction of the performance of activities of subordinates in order to make sure that enterprise objective and plan devised to attain them are being accomplished:. In other words, control ensures that the implementation of strategy takes place according to predetermined plans.

Basically, control operates in a cyclic manner as shown in Exhibit 10.11. It is viewed as a four-step process consisting of : (i) establishing standards (ii) measuring actual performance (iii) evaluation actual performance against standards, and (iv) determining corrective action to bring performance in line with the predetermined plan. Standards arc in the form of budgeted performance. Measurement of performance is done through an appraisal system discussed in the next subsection. The actual performance is evaluated wit reference to the standards, positiveor negative variation is observed. Corrective action follows so that the performance corresponds to the standards. This is the manner in which any control system works.

In practice, there are several issues that strategists have to consider so that the control system works effectively and satisfies the requirements of the strategy' being implemented. The first issue is the need for a control system. The need for control arises from the fact that the resultof subdivision of responsibility and the creation of structure comes from the dispersal of the totalstrategic tasks among different organizational units. Since, the activities of each of these units are to be coordinated, controls are necessary'. Controls are in fact devices to enforce strategic behavior so that the organization, as an entity moves towards the predetermined goals. All types of organization-successful or failing-need controls.

### 9.4.3 Appraisal system

The achievement of organizational objectives has to be monitored if the implementation of strategy' is to take place. The appraisal system performs this critical role of evaluating managerial performance in the light of organizational objectives. Managerial appraisal is an important element in the total control system that has been discussed in the preceding subsection.

Several issues regarding the appraisal system have to be considered by individual managers, groups, and divisions. Appraisal also provides inputs to the personnel functions such as, salary determination, rewards and incentives, payments, management, development, placement and promotion. From the viewpoint of strategy' implementation, the major issues relate to the choice of factors used in managerial appraisal relevance of the appraisal method to strategy, and the procedure of appraisal.

The choice of factors used in managerial appraisal is critical to the success of the appraisal system as a component of strategy implementation. It is better to use multiple criteria rather than a single criterion like return on investment of profit, as no single measure can encompass the total contribution of an individual (or group) either to immediate or longer term result or to the efforts of others.

There are several appraisal methods available like rating forms, ranking appraisal, behavioral method, and so on. Rather than the method alone, its relevance to the nature of strategy is more important. For instance, stability strategies typically stress on improving efficiency in currentoperations and would require appraisal methods that primarily use current operations and would require appraisal methods that primarily use objective criteria.

There are several appraisal methods available like rating forms, ranking appraisal, and behavioral method and so on. Rather than the method alone, its relevance to the nature of strategy is more important. For instance, stability strategies typically stress on improving efficiency in current operations and would require appraisal methods that primarily use objective criteria. On the other hand, expansion strategies aim at performance improvement in the long run and short term inefficiency may have to be overlooked. An appraisal method that uses objective criteria and evaluates short-range performance is likely to be inappropriate. The reel need may be for a broad based appraisal method that takes into account long range performance.

The third major issue before strategists is the procedure of appraisal. Here, questions such as these have to be answered: who makes the appraisal? And when and how the results would be used? In an entrepreneurial structure, the owner manager is responsible for appraisal but s the structure becomes more complex, the responsibility for appraisal has to be shared by the other managers.

Only a system of appraisal that provides the strategists with an understanding of the problems before the managers, who are responsible for implementation, is an effective system. In this context, management by objectives (MBO) provides a participatory method of performance and objective- setting, where managers can be involved in appraisal so that they themselves and their superiors know what has prevented them from achieving the desired objectives.

### 9.4.4 **Motivation system**

The function of the control system is to enforce desirable behavior and the appraisal system serves to evaluate performance so that strategically desired behavior may be reinforced and undesirable behavior curbed. The motivation system plays a positive role in inducing strategically desired behavior so that managers are encouraged to work towards the achievements of organizational objectives.

Motivation is a complex behavioral phenomenon and it has been studies in depth by specialists in several fields. But, as yet, there is no complete understanding of how motivation works. However, it is known that incentives play an important role in motivation.

Strategists have to deal with the contentious issues related to the design and

administration of a motivation system as it is an important organizational arrangement to induce strategically desired behavior. There are no set rules to decide the quantum and nature of incentives and much depends on an organization's ability and willingness to provide money, its culture, the industry in which it exists, the general living and economic conditions, and the statutory obligations. Within organizations, the condition s to maintain a parity among managers who perform similar work or carry nearly equal responsibility, and to differentiate between the unequal grades of employee.

Strategic and structural changes are likely to have an impact on the design and administration of the motivation system. In entrepreneurial organizations, the motivation systems could operate in an informal manner as size of the organization is small and there is a direct contact between the owner manager and employees. As organizations become increasingly complex, the need for creating formal systems for motivation arises. Organizations in the expansionmode may require lesser monetary incentives as growth itself brings opportunities of better prospects for employees and ensures motivation. Conversely, stable organizations would need a mix of monetary and non-monetary incentives. The limit of monetary incentives may be reached in extremely large and complex organizations which provide creative outlets for individual managers who have reached the saturation level as far as monetary' incentives are concerned.

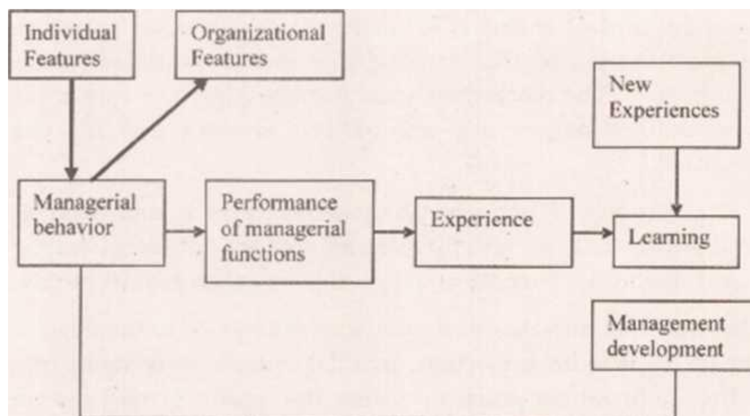
The phenomenon of motivation is extremely complex and multifaceted. If offers enough cope for strategists, CEOs, and managers for improvising. In nature it is related to another complex managerial phenomenon, that is, leadership, and is contingent upon the situations prevailing in given organization.

9.4.5 **Development system**

Management development is considered to be a “process rtf gradual, systematic improvement in the knowledge, skills, attitudes, and performance of those individuals in an organization who carry management responsibilities.

Management development is the outcome of the experience and learning that takes place due to the performance of managerial functions. It is logical to assume that development is a natural process and takes place irrespective of whether it is planned or not. Planned development takes place when new experience is provided in the form of education and training.

The strategic aim of a development system is to see that the new experience is provided in the light strategic tasks required for the implementation of strategy. Changes in strategy or the adaptation of new strategy results in a modified set of strategic tasks.



Strategic development System has to be activated in such a manner that it prepares the managers to perform this modified set of tasks. It can be seen that the development System performs a vital function in Strategy implementation. Practically, development System may consist of:

1. Recruitment of personnel, if not available within the Organization, to handle the emergingstrategic tasks.
2. Education and training of managers through internal and external training programs to impart knowledge, skills, and attitudes to managers for the performance of strategic tasks.
3. Career development of managers to prepare them to perform future strategictasks.
4. Organizational development in the form of planned intervention to ensure a smoothtransition from one phase to another and minimize resistance change.

The four components of the development system as indicated above may be used individually or jointly to implement the strategy of the organization.

Finally, we briefly refer to the planning system that acts as the link between the formulation of strategy and the implementation of plans.

### 9.4.6 **Planning system**

The role of planning system, per sc, does not include implementation as it is mainly related to the formulation of strategy'. But forward linkages between the formulation of strategy' and the implementation of plans do exist. For instance, the extent of participation of managers in planning and the relative involvement of line and staff managers does affect the manner in which a strategy is implemented. The practices of planning differ from organization to organization. In some organizations, the formulation of strategy is a centralized activity and plans are provided in a packaged form for implementation. Under decentralized planning, on the other hand, the participation of managers is of a higher order.

It is generally felt that when managers, who are ultimately responsible for the implementation of plans are actively' involved in the formulation of strategies, the probability of successful implementation is enhanced. This feeling is based on the assumption that participation affects commitment to Successful implementation in a positive manner. Hence, one find organization where planning committees act in a centralized structure, either as task groups or staff departments and mainly performs the function of formulating the strategies and overseeing their implementation.

Strategists are concerned with the mechanism of the planning systems and the way it should be changed to suit the requirements of a new or modified strategy. It would be natural to expect that the planning system would work better in a centralized manner in entrepreneurial and functional- structured organizations. In divisional organizations, the planning system could be decentralized one with the active involvement of SBU-level managers in the formulation as well as implementation of

strategy. Thus, it is important to adapt the planning system to the requirements of the strategy that is to be implemented.

9.4. Self check questions

1. What is a computerized information system?

2. What are the various methods of appraisal system?

3. What is the function of a development system for an organisation?

4. Which system enables the managers to know what they need to grasp in order to perform their tasks and also to coordinate their activities with others?

## 9.5 CONCLUSION

Organization systems like information, control, appraisal, motivation, development, and planning form the core of any structure. Each of these systems plays a significant role in strategy' implementation. Their design has to come from a consideration of the requirements of the strategy being implemented. In implementation, these systems have to be changed to suit the requirements of a new or modified strategy'. Finally this chapter presented an overview of Organization systems where a comprehensive assessment of system characteristics was done to explain how these changes in response to strategy' and structural changes. Stages of development theories is another issue that has attracted the attention of several authors attempting to explain how an Organization matures from simplicity to complexity in terms of structure.

## 9.6 SHORT ANSWER QUESTIONS

1. What are the different stages of organisation development?
2. What do you mean by motivation system?
3. How the appraisal system plays a significant role in strategy' implementation

## 9.7 LONG ANSWER QUESTIONS

1. Discuss the importance of strategic changes for the following organizational systems (a) Information, (b) Control, (c) Appraisal, (d) Motivation, (e) Development, (f) Planning

2. Describe in detail the structure of Management information System?

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## 9.9 ANSWERS OF SELF CHECK QUESTIONS

9.4 1. organizational arrangement that is based on the usage of computers to provide information to managers

2. rating forms, ranking appraisal, behavioral method

3. process of gradual, systematic improvement in the knowledge, skills, attitudes, and performance of those individuals in an organization who carry management responsibilities

4. Information system

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 10** **AUTHOR- SHAMINDER KAUR**

# STRATEGY IMPLEMENTATION

## STRUCTURE


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10.2 Concept of Strategy implementation

10.3 Issues in Strategy Implementation

10.4 Interdependence of strategy formulation and implementation

10.5 Forward Linkage

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## 10.0 OBJECTIVES

1. To identify the activities involved in strategy implementation

2. To activate a strategy and complete procedural requirements for implementation of the strategy.

## 10.1 INTRODUCTION

Strategy addresses what and why of actions, implementation addresses the who, where, when and how. Indeed, a strategy is never complete, even as a formulation, until it gains a commitment of organization's resources and becomes embodied in organizational activities. Therefore, to bring the results, the strategy will not affect organizational activities and achievement of its objectives. Therefore, it is imperative to understand the total implication of strategy implementation.

## 10.2 CONCEPT OF STRATEGY IMPLEMENTATION

Strategy implementation can be defined as a process through which a chosen strategy is put into action. Though this definition is very simple but does not specify what actions are required in strategy formulation. Steiner cut al have defined strategy implementation as follows:

"The implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structures, processes, and resources, in reaching organizational purposes.

McCarthy et al have defined strategy implementation as follows:

"Strategy implementation may be said to consist of securing resources, organizing these resources and

directing the use of these resources within and outside the organization."

## 10.3 ISSUES IN STRATEGY IMPLEMENTATION

From analytical point of view, we may classify the various functions relevant for strategy' implementation into the following categories:

1. Institutionalization of a strategy through its communication and acceptance, formulation of derivatives plans and programmed, translating general objectives into specific operational objectives, resource allocation, i.e. activating strategy;

2. Following various procedures to put the strategy in action, i.e., procedural implementation;

3. Design of organization structure and development of organizational systems; i.e. structural implementation;

4. Developing plans and policies for different functions, i.e. functional implementation;

5. Developing leadership styles, building organizational climate, and infusing values, ethical and social consideration, i.e. behavioural implementation.

Categorization of various functions and putting them in a particular order does not mean that (I) these are undertaken in the sequence in which many functions are taken on continuous basis, and (ii) these functions do not have relative importance in that order in which these have been categorized here; all of these are important, some at one point of time and others at other points of time.

## 10.4 INTERDEPENDENCE OF STRATEGY FORMULATION AND IMPLEMENTATION

The relationship between strategy formulation and implementation can best be described by their interdependence. These have been divided primarily from the point of view of orderly study as well as the skill requirements for these two aspects of strategic management. The requirement of strategy formulation is primarily conceptual and analytical skills while that of as reiterative in the implementation are intertwined. Both can be thought of as reiterative in the sense that both arcs affected by each other. There are two types of linkages between strategy formulation and implementation: forward and backward. Forward linkage deeds with the impact of the formulation on implementation while backward linkage is concerned with the impact in the opposite direction.

### 10.4.1 Forward Linkage

Strategy formulation has forward linkage with implementation in the sense that total implementation activities are geared according to strategy chosen for implementation. What would be organizational processes and systems will be determined by strategy for its successful implementation is dependent upon formulation.

### 10.4.2 Backward Linkage

Strategy' formulation has backward linkage with implementation as organizational tend to adopt those strategies which can be implemented with the help of the present structure combined with some additional efforts. The strategy is formulated in a particular environment which is dynamic. The feedback from the operations, a result of strategy implementation, gives notices of the changing environmental factors to which strategy should be seen in continuity rather than in

discrete form.  The formulation of strategy docs not end where its implementation begins; both should be taken as a continuous process.

Strategy' formulation should not be assigned to management below a certain level because of its dependence on contingent factors. As will be seen later, when the strategy' is put into action through the process of developing internal plans, the feedback mechanism emphasizes the need to continually assess implementation of strategy' and organizational performance to determine any change in the strategy-. Thus, those who are responsible for strategy' formulation cannot be relieved from the task of its implementation.

**Self-check Question:**

A. What do you understand by strategy implementation?

B. Explain any two issues in strategy implementation.

C. Define forward linkage.

## 10.5 FACTORS CAUSING UNSUCCESSFUL IMPLEMENTATION OF STRATEGY

Before going into details of how a chosen strategy is implemented. It is desirable to identify the factors which cause unsuccessful implementation of strategy' so that managers can take adequate safeguard against these factors. These factors are of following types:

1. Unsatisfactory' coupling of strategy and operational actions.
2. Insufficient attention to the negotiation of outcomes in decision situations, and
3. Defective strategy'.

**Unsatisfactory Coupling of Strategy and actions**

Unsatisfactory' coupling of the strategy- to the actions necessary' to implement it, both within the organization and in the external decision situations with which it is concerned may cause unsuccessful implementation of the strategy. This type of difficulty can result from several causes and conditions.  For example, unsatisfactory' coupling of the new strategy may be due to the lack of explicit decoupling from previous strategy' and commitment within the organization itself. Another reason for unsuccessful coupling may be because of different perspective of strategists and implementers. In most case s, majority' of people are concerned with the current operations. Their primary task is to ensure that the operations are conducted smoothly and efficiently. Their perspective is involved with the avoidance of change and of factors that could interfere with the operations in there are of responsibility. Strategists, on the other hand, seek out changes and determine whether it can be used to the advantage of the organization. These different perspectives can result in the two groups becoming alienated from each other.  For successful implementation of the strategy, a link between these two groups is necessary'.

**Insufficient Attention**

Another major factor causing unsuccessful implementation of the strategy' is insufficient attention to the negotiation of outcomes in the external decision situations. It is a tendency to assume, once the strategy- is formulated, that all that is necessary' for the success of the organization is the aggressive pursuit of the strategy'. However, this assumption holds well only as long as there is no change in the decision situations. If these situations change, there should be corresponding change in the strategy also. For this, it is organization is involved should be kept clearly in view throughout the implementation. If this is done, changes in the conditions surrounding those decision situations can be taken in stride. Contingency strategy made during the strategy' •formulation process can be brought into operation when appropriate.

**Defective Strategy**

Sometimes, there may be strategy which cannot be implemented within the context (if present and future organizational resources. Perhaps, every' one of us may be aware about 'who will bell the cat.' The story goes like this; perturbed with the sudden attack of the cat, a community of rats called a meeting to overcome this problem. In the meeting, an elder rat suggested, "Bell the ca so that whenever she comes, we shall escape on hearing the sound of the bell." On this, a younger rat asked, "Who will bell the cat?" Pat came the reply from the elder rat, "strategic decision making is my role, and implementation is yours. Though this a jest side of the situation, many organizations follow this pattern in their strategy' formulation and implementation process. The net result is that either strategy is denounced half way or put in cold storage incurring loss in both the situations. Therefore, strategic choice should always be correlated with the organizational capability to implement it.

**Activating Strategy**

Activation is the process of stimulating an activity so that it is undertaken effectively. Activation of strategy is required because only a very small group of people is involved in strategy formulation while its implementation involves many people in the organization. So long as a strategy or set of strategies requires the performance of following activities:

1. Institutionalization of strategy.
2. Formulation of derivative plans and programmed.
3. Translation of general objectives into specific objectives.
4. Resource mobilization and allocation.

## 10.6 INSTITUTIONALIZATION OF STRATEGY

The first basic role of the strategist in strategy implementation is the institutionalization of the strategy. Since, strategy does not become either acceptable or effective by virtue of being well

designed and clearly announced, the successful implementation of strategy requires that the leader acts as its promoter and defender. Often what happens is that leader's role is quite prominent in strategy formulation and his personality variables become influential factors in the strategy formulation. Thus, in practice, it becomes almost personal strategy of the top man in the organization. Therefore, there is an urgent need for the and his of the strategy because without it, the strategy is subject to being undermined.

Institutionalization of strategy involves two elements: -

1. Communication of strategy to organizational members.

2. Getting acceptance of strategy by these members.

**Strategy Communication**

The role of a strategist is not only to make the fundamental analytical and entrepreneurial decisions, but also to present these to the members of the organization in a way that appeals to them and brings their support. Thus, to get the strategy accepted and consequently, implemented requires its communication.

The form of communication may be oral through the interaction among strategist and other persons, particularly at higher level in meetings or in other ways of personal interaction. However, for a large organization with multi-locational units, such a form of communication may not be adequate, and well - documented written form may be required. Such a documented may contain, the context in which the strategy' has been formulated like organizational mission and objectives, environmental variables, and organizational variable, content of the strategy such as the contribution of the strategy, to the achievement of organizational objectives, changes required in existing organizational processes, and what is expected from personnel at different levels in the organization.

**Strategy Acceptance**

It is not just sufficient to communicate the context and content of a strategy but to get the willing acceptance of those who are responsible for its implementation. This will make organizational members to develop a positive attitude towards the strategy. This helps them to make commitment to strategy by treating it their own strategy than imposed by others. Creation of such a feeling is essential for the effective implementation of the strategy.

A major problem in strategy acceptance is that people offer resist a strategy, particularly when it makes significant departure from the old-established practices. The basic reason of resistance emerges from the feeling that the new way of doing things will put them in some adverse situation. For example, many of the modernization strategies have been opposed by trade union because of their perception that these would put the disinvestment and divestment strategies

have also been opposed by employees of all sorts and these strategies could not be implemented in many cases.

**Self-check question:**

A. What is the importance of activating strategy.

B. State the major problem strategist face in strategy acceptance?

C. Name the elements which helps in Institutionalization of strategy.

## 10.7 FORMULATION OF DERIVATIVE PLANS AND PROGRAMS

### Programmed

A programmed is a single-use plan that covers relatively a large set of activities and specifies major steps, their order and timing, and responsibility for each step. There may be several programmed in an organization; some of them being major, others being minor. These programmed are generally supported by necessary capital and operating budgets. For example, in the case of a takeover strategy, two types of costs are involved: price to be paid for takeover and operating cost involved in takeover process.

### Management by objectives

Management by objectives is a tool for defining objectives at individual level in an organization. After defining objectives through mutual agreement between a superior and his subordinate, the latter is allocated commensurate resources and his performance is measured against these objectives.

Wuthrich and Koontz have defined MBO as follows: -

“MBO is a comprehensive managerial system that integrates many key managerial activities in a systematic manner, consciously directed towards the effective and efficient achievement of organizational objectives.”

1. Setting of Organizational Purpose and objectives the first basic step in MBO is the definition of organizational purpose and objectives. Questions, such as. “Why should be or business” provide guidelines for the statement of purpose.

2. **Key Result Areas**: - Organizational objectives and planning premises together provide the teases for the identification of key result areas (KRAs). It may be emphasized that KRAs are derived from the expectations of various stakeholders and indicate the priorities for organizational performance. KRAs also indicate the present state of an organization’s health and the top management perspective for the future.

3. **Setting Subordinate's Objectives**: - The organizational objectives are achieved through individuals. Therefore, each individual manager must know in advance what he is expected to achieve. Every manager in the managerial hierarchy is both superior and subordinate except the person at the top level and the lowest level. Therefore, there is a series of superior and subordinate relationships.

4. **Matching Resources with Objectives:** - When objectives arc set carefully, they also indicate the resource requirement. In fact, resource availability becomes an important aspect of objectives setting because it is the proper application of resources which ensures objective achievement, therefore, there should be matching between objectives and resources.

5. **Appraisal:** - Appraisal aspect of MBO tries to measure whether the subordinate is achieving his objective or not. If not, what are the problems and how these problems can be overcome. Appraisal is undertaken as an on-going process with a view to find out deficiency in the working and to remove it promptly.

## 10.8 RESOURCE MOBILIZATION AND ALLOCATION

For implementing a strategy, an organization should have commensurate resources and these resources should be committed and allocated to various units and functions where these have optimum use. There are different types of organizational resources should be committed and allocated to various units and functions where these have optimum use. There are different types of organizational resources and each of these has specific nature and characteristics. These resources are broadly classified into two broad categories: financial and human. Financial resources are used to procure various physical r sources such as land, building, plant, machinery, raw materials etc.

### 10.8.1 Basis for Resource Allocation

**Capital Budgeting**

Capital budgeting is the planning of deployment of financial resources of an organization for the purpose of maximizing the long-term profit ability of the organization. In this budgeting various techniques like average rate of return, payback period, internal rate of return and net present value are used to determine where a rupee put will earn maximum profit.

**Performance Budgeting**

A performance budgeting is an input/output or cost/result budgeting. It emphasizes non - financial measurement of performance which can be related to financial measurement in explaining changes and deviations from planned performance. Historical comparisons of non-financial measurements of an activity are particularly helpful in justifying budget proposals and in showing how resources are being used.

**Zero-base Budgeting**:

Zero-base budgeting is based on a system where each function, irrespective of the fact whether it is old or new, must be justified in its entirety each time a new budget is formulated. It requires each manager to justify his entire budget in detail from scratch, that is zero base. Each manager states why he should spend any money at all. The process of ZBB involves the four basic steps: - (I) identification of decision units, that is cluster of activities or assignments within a manager's operations for which is accountable, (ii) Analysis of each decision unit in the context of total decision package, (iii) Evaluation and ranking or' ail decision units to develop the budget request (iv) allocation of resources to each unit based upon ranking. Thus, emphasis is placed upon resource allocation according to the contribution of each decision unit.

**Strategic Budgeting**

Strategic budgeting is comparatively a newer concept as a tool of resources allocation among various SBUs and units of an organization. Under strategic budgeting, in determining the resource needs of an organizational unit. Therefore, jobs and tasks should be defined in terms of the desired strategic results and performance rather than in terms of the functions to be performed. Specific objectives should be developed not only for the organization but for each major organizational unit, and through the efforts of subordinate for each major organizational unit and through the efforts of subordinate managers, for each job.

**Self-check question:**

A. Explain capital budgeting.

B. Define performance budgeting.

C. What do you understand by zero based budgeting?

## 10.9 PROCEDURAL IMPLEMENTATION

A procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished. Procedural implementation of strategy involves completing all those procedural formalities that have been prescribed by the government, both central and state.

### 10.9.1 STEPS IN PROCEDURAL IMPLEMENTATION

There are different steps involved in procedural implementation. However, these Maps vary from industry to industry, for example, some industries require license from the government such as cigarette, liquor, etc. many others do not require license. Foreign companies willing to undertake a project in India must complete more formalities as compared to their Indian counterparts. Further, with the process of economic liberalization on, there may be many changes in the procedural requirements. However, here, some major procedural requirements are presented.

These are as follows.

1. Licensing requirements-

2. FEMA requirements

3. Foreign collaboration procedure

4. Capital Issue requirements

5. Import and export requirements

6. Incentives and benefits

1. **Licensing Requirements:** Government of India has classified Indian industries into three categories based on the role to be played by different sectors such as public sector, large -scale private sector, and small-scale sector. There are certain industries reserved for public sector only such as atomic energy, defense products of strategic importance, etc. Earlier, there was a long list of industries in this category. As a matter of policy decision of gradual decreasing role of public sector, the list is getting pruned in each successive industrial policy. There are certain industries reserved for small scale sector though the list is gradually being pruned. In the remaining industries, private sector companies are free to participate. However, in many of these industries, industrial license is required particularly in those industries which are perceived to be injurious to public health. The licensing provisions have been provided under the Industries Development and Regulation Act, 1951.

Wherever industrial license is required, the applicant company must apply for industrial license by filling up the proforma designed by Secretariat for Industrial Approval (SIA). This Secretariat receives and screens the applications based on the guidelines formulated by Project Approval Board (PAB). Those applications which meet preliminary criteria are sent by SIA to PAB which takes final decisions for issuing or non- issuing industrial license. In certain cases, where PAB is not authorized to take final decisions, the matters are referred to Cabinet Committee on Economic Affairs. After a project is approved in principle, letter of intent is issued specifying the requirement which an applicant company should fulfill before getting industrial license. On the fulfillment of these requirements, industrial license is issued.

2. **FEMA Requirements**: There are various requirements prescribed under Foreign Exchange Management act. Earlier, these requirements were prescribed under the provisions of the Foreign Exchange Regulation act (FERA), 1973. Under the provisions of: he FEMA, all companies registered under the Companies act 1956 having foreign shareholding more than 50 per cent all foreign companies are required to obtain permission of Reserve Bank of India, the central bank of the country, regarding different activities like fresh investment, issue of shares and debentures, acquisition of an Indian business unit, etc. Such companies can approach directly to Reserve Bank of India.

3. **Foreign Collaboration Procedure:** A recent development in Indian corporate scene has been the emergence of joint venture projects in which foreign Collaborators not only bring technology but also participate in equity. Besides joint ventures, Indian companies may enter technology agreements for the import of technical know-how. In case of a joint venture, the approval must be received from project approval Board or Cabinet Committee on Economic Affairs as the case may be.

4. **Capital issue Requirements:** After the liberalization and abolition of Controller of capital Issues, there are very few restrictions on Capital issues of different types- equity, preference shares, convertible debentures, and non -convertible debentures. Under the provisions of SEBI Act, 1992, SEBI exercises some controls over capital issues to the public in the form of adherence to disclosure norms. For this purpose, SEBI vets the prospectus of the company intending to enter the capital market. While vetting the prospectus, SEBI makes it sure that relevant information has been provided in the prospectus, SEBI makes it sure that relevant information has been provided in the prospectus based on which investing public can analyze the worth of an issue of shares/debentures.

5. **Import and export requirements**: Import and export, requirements differ in two types of goods: those which are under the list of open general license (OGL) and those which fall under restrictive list. For items falling under OGL, there is not much requirement except that the companies going for import/export must inform Reserve Bank of India. In case of items put in restrictive list, import/export license is required from Ministry of Commerce.

6. **Incentives and Benefits**: Previously, there had been several incentives and benefits for establishing new undertakings of specific types in specified backward areas, provisions of supply of raw materials at concessional rates, concessional rate of interest on loans, sale tax subsidies, and exemption from payment of income lax for certain number of years, duty drawback on exports, so on. However, many of these incentives and benefits have been withdrawn and only few of them exist at present. Wherever such incentives and benefits exist, the companies concerned can avail these after fulfilling the required formalities.

## 10.10 PROJECT IMPLEMENTATION

Besides the completion of various regulatory formalities, strategy implementation requires project implementation. A project is a type of plan which can be thought in terms of planned actins integrated into a unity and designed to bring about a stated objective. Project Management Institute. However, generally, the project is referred to investment of substantial resources. Form this point of view, a project has the following characteristics:

- Project activity is definable in terms of specific objectives. Thus, each project contributes in some way towards the realization of organizational objectives. For example, project for opening a factory contributes to the organizational objectives by providing manufacturing facilities.

• Project activity is unique, infrequent, or sometimes even unfamiliar to the organization. It is not of routine type or repetitive type and therefore, the organization is required to act considering all relevant factors whenever any project is undertaken.

• Project activity is complex in respect to interdependence of various task accomplishments. A project contains a complex of goals, policies, procedures, rules, task assignments, steps to be taken, resources to be employed, and other elements necessary to carry out a givencourse of action.

**Phases of Project**

A project, generally, passes through five phases which are given as follows.

1. Conception Phase.

2. Definition Phase

3. Planning and Organizing Phase

4. Implementation Phase

5. Clean-up Phase

1. **Conception Phase**: Conception Phase of a project implementation is co-extensive with the strategy formulation. When an organization wants to grow through undertaking anew project, ideas are generated about which project to undertake in the light of organization's mission, its strategic intent, its business definition, its strengths and weaknesses and environmental variables. At this stage, several competing projects emerge which are arranged in priority based on some initial criteria.

2. **Definition Phase:** After the Conception Phase is over and various projects are arranged in priority, they go through definition phase. At this phase, two types of activities are undertaken. First, there are activities related to evaluation of overall suitability of different projects in term of marketing, technical, financial, and how various stakeholders particularly those who have direct financial stake in the new project would react about this.

3. **Planning and Organizing Phase:** After a project is finalized, it goes through plan. Any and organizing phase which includes getting necessary clearances from various authorities as discussed under procedural implementation: creation of project team; arrangement of funds, infrastructure, and other facilities; and drawing of schedules and procedures for project implementation.

4. **Implementation phase.** This is the actual phase of project implementation. At this phase, various activities like acquisition of land, construction of factory and other premises,

procurement of plant and machinery, installation of plant and machinery, etc. are undertaken. When all construction and erection work is over, testing, trial, etc. are undertaken.

5. **Clean phase.** When the project implementation is over, clean up phase is undertaken which includes disbanding of project infrastructure, and project team for further assignments and the project is handed over to those who run it.

## 10.11 USE OF PERT/CPM IN PROJECT IMPLEMENTATION

PERT (program Evaluation and Review Technique) was developed by the special project office of theU.S. Navy in 1958. Almost at the same time, engineers at the DuPont Company, U.S.A., developed CPM 9Critical Path Method). Though theft is some difference between PERT and £PM, both utilize the same principles. The basic difference between two is that CPM assumes the duration of every activity to be constant. In PERT, uncertainty in the duration of activities is allowed and is measured by three parameters - most optimistic duration, most likely duration, and most pessimistic duration. It contributes in prom act Implementation in the following ways:

1. It forces managers to plan because it is impossible to make a time-event analysis without planning and seeing how the pieces fit together. It also forces planning at lower levels because each manager must plan the activities foe which he is responsible.

2. It focuses attention on critical activities because a delay in their performance will delay the whole project unless managers are able to make up the time by shortening some future activities.

3. It presses for right action, at right point, and at right time in the organization.

A Project consists of several activities and sub activities. To complete the project, these activities, sub activities should be completed in a proper sequence and in allotted time. The whole process in the preparation of PERT/CPM is as follows:

**Identification of Activities.** Activities represent jobs that should be performed to complete programmed or project. Each activity takes some specific time under given conditions.

Sequential arrangement of Activities. There is always a technological sequence in the various activities of a project. Preceding and succeeding events should be located to bring the seamen. Preceding events are those which should be completed before a particular event can start. Succeeding events are those that immediately follow another event.

**Time Estimates of Activities**. All events are associated with a definite point of time and as such events provide a basis for measuring the progress of a programmed. Hence, there should be correct estimate of time taken by cache activity. However, the activities are performed in future and it may not be possible to forecast the future happening correctly, consequently the correct time estimate of activities. To overcome this problem, three-time estimates are taken: optimistic

time showing the least time of an activity, pessimistic time showing the maximum time of activity, and most probable time which lie in between the two. The expected time of an activity is calculated is calculated by 0+4m+p/6.

**Network Construction**. All the activities of a programmed are connected sequentially to form a network known as PERI' network. Following are rules for construction of PERT/CPM network:

One and only one arrow represents each completely defined activity.The length of the arrow does not depend upon the duration of the activity but is governed by the need for convenience and clarity.The start or termination of an activity is represented by code or a circle.Arrows originated at an event indicate activities that can begin only when all the activities terminating at that event have been completed.If an event takes precedence over another but there is no activity to connect them, a dummy arrow represented by dotted line is used.

For clarity, thick arrows or different colored arrows are used to show critical path activities after they have been identified through analysisEvents are distinguishing by numbers. No two events can have same number. Each event, which indicates termination of an activity, has higher number than the event which indicates termination of an activity, has higher than the event which indicates start of the same activity.

**Critical Path**. One the basis of analysis, critical activities is determined. These are represented by a critical path which shows that if activities on this path are not completed in time, the entire project delayed by the amount the event is delayed. Thus, based on estimates, the earliest or latest start time of an activity can be calculated.

## 10.12 **CONCLUSION**

This chapter lays down the framework within which the implementation the strategies can be done with the description of the interrelationship that exist between the formulation and implementation of strategies. The interrelationship has been described in terms of two types of linkages that exist: the forward and backward linkages. From these, it should be dear that formulation and implementation processes are interdependent. Any strategy leads to a series of plans, programs, and projects. The process of strategy implementation starts with project implementation. Whether bigger small, project pass through the phases of conceptions, definitions, planning and organizing, implementation, and clean up. Procedural implementation is concern with the major elements (Licensing requirements, FEMA requirements, foreign collaboration procedure, Capital issue requirements, Import and export requirements, Incentives, and benefits) of the governments' regulatory framework within which Indian company operates. As we took up one element of the regulatory framework, we pointed out the legal contexts which it operates, named the major government agencies involved in dealing with the elements and how that elements could be relevant to the corporate and business level strategies. The final aspect discussed in this chapter is of resource allocation. This deals with the procurement and

commitment of financial, physical, and human resources to strategic tasks for the achievement of organizational objectives.

## 10.13 GLOSSARY

- **Strategic Implementation**: The process of executing the chosen strategy by translating it into specific actions and initiatives to achieve organizational objectives.

- **Action Plan**: A detailed plan outlining the specific tasks, responsibilities, and timelines required to implement a strategic initiative.

- **Actionable Objectives**: Specific, measurable, achievable, relevant, and time-bound (SMART) goals derived from the overall strategic plan. These objectives break down broad ambitions into concrete milestones that guide daily operations and track progress.

- **Resource Allocation**: The process of assigning resources, such as personnel, budget, and equipment, to different strategic initiatives based on their priorities and importance.

## 10.14 SHORT ANSWER QUESTION

1. How does an organization translate its strategic objectives into specific action plans during strategic implementation?

2. What role do leaders play in driving strategic implementation within an organization?

3. How can organizations effectively communicate their strategic goals to ensure alignment throughout the entire workforce?

4. What are the key challenges that organizations may face during the implementation phase of their strategic plans?

## 10.15 LONG ANSWER QUESTION

1. What do you mean by strategy implementation? What are the issues involved in it?

2. What do you mean by procedural implementation? Discuss the steps involved in procedural implementation.

3. What are the phases of a project? Discuss the role of PERT/CPM in project implementation.

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## 10.17 SELF-CHECK QUESTION (ANSWER KEY)

10.4

A. Strategy implementation can be defined as a process through which a chosen strategy is put into action.

B. Following various procedures to put the strategy in action, i.e., procedural implementation;

Developing plans and policies for different functions, i.e. functional implementation.

C. Strategy formulation has forward linkage with implementation in the sense that total implementation activities are geared according to strategy chosen for implementation.

10.6

A. Activation of strategy is required because only a very small group of people is involved in strategy formulation while its implementation involves many people in the organization.

B. A major problem in strategy acceptance is that people offer resist a strategy, particularly when it makes significant departure from the old-established practices.

C. Institutionalization of strategy involves two elements: -

- Communication of strategy to organizational members.
- Getting acceptance of strategy by these members.

10.8

A. Capital budgeting is the planning of deployment of financial resources of an organization for the purpose of maximizing the long-term profit ability of the organization.

B. A performance budgeting is an input/output or cost/result budgeting. It emphasizes non -financial measurement of performance which can be related to financial measurement in explaining changes and deviations from planned performance.

C. Zero-base budgeting is based on a system where each function, irrespective of the fact whether it is old or new, must be justified in its entirety each time a new budget is formulated.

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 11** **AUTHOR- SALONY KANSAL**

## RESOURCE MOBILIZATION AND ALLOCATION

**STRUCTURE**

11.0 Objectives

11.1 Introduction

11.2 Resource Mobilization

11.3 Resource Allocation

11.4 Basis for Resource Allocation

11.5 Budgeting

11.5.1 Capital budgeting

11.5.2 Performance) budgeting

11.5.3 Zero-base budgeting

11.5.4 Strategic budgeting.

11.5.4.1 Preparation of position papers and

11.5.4.2 Preparation of budget

11.6 Strategic budgeting at Navin Industries

11.7 Problems in Resource Allocation

11.8 Summary

11.9 Glossary

11.10 Short Answer Questions

11.11 Long Answer Question

11.12 Further Readings

11.13 Self-check Question (Answer key)

### 11.0 OBJECTIVES

After studying this lesson, student should be able to:

- Understand the concept of resource mobilization.
- Understand resource allocation and commitment.
- The various basis of Resource allocation.

## 11.1 INTRODUCTION

For implementing a strategy, an organisation should have commensurate resources and these resources should be committed and allocated to various units and functions where these have optimum use. There are different types of organisational resources and each of these has specific nature and characteristics. These resources are broadly classified into two broad categories: financial and human. The success of the organisation depends on the quality of its resources and their utilization. Therefore, the organisation should feel concerned about how to mobile resources and allocate these to various units and subunits.

## 11.2 Resource Mobilization

Resource mobilization involves procurement of resources that may be required to implement a strategy, and depending on the nature of the strategy, type and volume of resources will be determined. For example, a strategy involving substantial expansion of business will require huge resources of different types as compared to a strategy involving market development. An organization's capacity to mobilize resources has reciprocal relationship with strategy. On the one hand, a strategy determines what type of resources will be required; on the other hand, resource mobilization capacity determines what type of strategy will be selected. For example, high competence of Reliance Industries to mobilize financial and human resources has enabled it to go for highly investment-oriented strategies. Resources can be owned, leased, or rented. What emphasis will be put on different sources depends on the nature of resources and resource procurement strategy of the organization. Traditionally, companies owned and controlled most of the resources that entered their business. But this situation is changing. Companies are finding that some resources are not performing as well as those that they could obtain from outside. Many organizations have decided to outsource less critical resources if these can be obtained at better quality or lower cost from outside the company.

## 11.3 RESOURCE ALLOCATION

After resource mobilization, resource allocation activity is undertaken. This involves allocation of different resources financial and human-among various organizational units and subunits. To understand the rationality of resource allocation, it is essential to understand commitment principle because resource allocation is a kind of commitment. Commitment Principle. Commitment involves adhering to a thing for which a person is committed. In the context of planning, commitment principle implies planning for the future impact of today's

decisions. Since the futurity of different decisions varies, risk involved in respective decisions also varies. Applying the concept of commitment principle in resource allocation implies that when resources are committed to a unit or a project, the organization takes a risk. The risk involved depends on the time taken to recover resource cost. Since a unit requires resources for varying periods-long-term for creation of physical assets; short-term for inventory', debtors, etc., cost recovery period also varies. Therefore, while allocating resources, commitment principle should be taken into consideration.

## 11.4 **BASIS FOR RESOURCE ALLOCATION**

While allocating the resources, an organization may take two alternative steps (I) Resources should be allocated at a place where these have their maximum contributions, or (ii) Resources should be put according to the needs of various organizational units/subunits. Both these alternatives may become complementary to each other if there is an objective evaluation of the resource requirement of various units.

**Self-Check Question:**

A. …………….. involves procurement of resources that may be required to implement a strategy.

B. ……………...involves allocation of different resources financial and human-among various organizational units and subunits.

C. ……………... implies that when resources are committed to a unit or a project, the organization takes a risk, The risk involved depends on the time taken to recover resource cost.

## 11.5 **BUDGETING**

Budgeting is the means through which resources ‘are allocated to various organizational units. However, the traditional budgeting which focuses just on the past resource allocation as the basis is not useful for resource allocation in any way because the conditions, both external as well internal, change making the past practices of resource allocation meaningless. Therefore, when budgeting is used as a tool for resource allocation, it must be oriented to the objectives of the organization and the way each unit of the organization will contribute to the achievement of these objectives. From this po int of view, following types of budgeting are more relevant:

11.5.1. Capital budgeting

11.5.2. Performance budgeting

11.5.3. Zero-base budgeting

11.5.4. Strategic budgeting.

## 11.6 **Capital Budgeting**

Capital budgeting is the planning of deployment of financial resources of an organization For the purpose of maximizing the long-term profit ability of the organization. In this budgeting, various techniques like average rate of return, payback period, internal rate of return, and net present value, are used to determine where a rupee put will earn maximum profit. This method, however, is more useful at the stage of considering the various alternative project proposals. From strategic management point of view, it does not offer much help, at the strategy implementation level. Also, if does not consider the allocation of human resources who' really matter in making a project successful.

## 11.7 **Performance Budgeting**

A performance budgeting is an input/output or cost/result budgeting: It emphasizes non - financial measurement of performance, which can be related to financial measurement in explaining changes and deviations from planned performance. Historical comparisons of non-financial measurements of an activity are particularly helpful in justifying budget proposals and in showing how resources are being used. These measurements are useful for evaluating past performance and for planning future activities.

## 11.8 **Zero-base Budgeting**

Zero-base budgeting (ZBB) is based on a system where each function, irrespective of the fact whether it is old or new, must be justified in its entirety each time a new budget is formulated. It requires each manager to justify his entire budget in detail from scratch, that is zero base. Each manager states why he should spend any money at all. The process' of ZBB involves the four basic steps: '

i. Identification of decision units, that is cluster of activities or assignments within a manager's operations for which he is accountable;

ii. Analysis of each decision unit in the context of total decision package;

iii. Evaluation and ranking of all decision units to dev-clop the budget request; and

iv. Allocation of resources to each unit based upon ranking.

Thus, emphasis is placed upon resource allocation according to the contributions of each decision unit. ZBB results into several benefits over traditional budgeting. Such benefits may be in the form of

i. Effective allocation of resources,

ii. Improvement in productivity and cost effectiveness

iii. Effective means to control costs

iv. Elimination of unnecessary activities

v. Better focus on organizational objectives, and

vi. Saving time of top management. However, ZBB may result into some problems if not followed properly. For example, it may result into extra paper work, difficulty in identifying decision packages, tendency to establish minimum level of efforts, etc. However, these problems can be overcome when an organization gains experience of ZBB.

## 11.9 **Strategic Budgeting**

Strategic budgeting is comparatively a newer concept as a tool of resource allocation among various SBUs and units of an organization. Under strategic budgeting, in determining the resource needs of an organizational unit, the basic question that is put is: ‘What sort of performance and results do we want to generate? ‘This should be followed by another question: ‘What key activities, organizational units, tasks, and jobs need to be set up and organized to produce ties results?’ The answer should suggest the kinds of skills, expertise, and funding which will be needed to allow the various organizational units to accomplish the designated results. Therefore, jobs and tasks should be defined in terms of the desired strategic results and performance rather than in terms of the functions to be performed. Specific objectives should be developed not only for the organization but for each major organizational unit, and through the efforts of subordinate managers, for each job. Every manage er in the organization needs to have his job spelled out in terms of expected results and the resources that may be required :o accomplish those results. One of the major advantages of setting up of careful network of verifiable results to be achieved and a requirement of resources for achieving these effectively is the opportunity to tie up the resources with results which ultimately helps in implementing the strategy. In strategic budgeting, there are two stages of budget- preparation:

11.5.4.1 Preparation of position papers and

11.5.4.2 Preparation of budget.

11.5.4.1 Preparation of Position Papers. Preparation of position papers provides the background on which strategic budget is prepared. Such position papers include environment, organizational resources and constraints, past performance, and direction for future activities.

### 1. **Position Paper on Environment**

The position paper on environment may include economic, regulatory, political, marketing, and competitive and technological factors. The paper may cover the environment’s trends likely to affect the organization’s performance specifying the assumptions involved. This position paper

is likely to provide reference base for the development of annual plan to ensure the required alignment between strategic plan and annual plan.

2. **Position Paper on Organizational Constraints and Resources**

This paper would specify, at a broad level, the resources available for achieving the targets by way of personnel, funds, technology, capital expenditure, etc. Similarly, the paper also suggests the likely constraints faced by the organization so that the resources arc deployed keeping these constraints in mind.

3. **Position Paper on fast Performance**

This would discuss the results of organizational performance in quantitative terms. The paper can show the performance based on strategic business units, or responsibility centers. Such an analysis would aid in deciding the relative emphasis to be provided to the different business lines so ‘that there is alignment better market needs and products and the process of organizational resource allocation among product/business.

4. **Position Paper on Future Direction of Activities**

This paper would suggest the various short-term and long-term targets to be fulfilled. The targets may be identified again for the organization as a whole and for different strategic business units and responsibility centers. The paper would also indicate the way the organization will take over various activities to match itself with the environmental requirement, like meeting the competitive threats. The paper may also include the various tactics to be adopted to meet the above objectives. These may include the fixation of levels for working capital, credit level, wastage of materials and other physical factors. The various position papers may be prepared by the corporate planning division, if it exists, or by respective functional executives, or by any other executive who has been entrusted specifically with the responsibility for preparing these, with the active collaboration of other functional and operational executives. These papers may then be discussed among functional and operational heads to identify issues pertaining to the organizational context. Subsequently the papers may be discussed at the corporate level so that specific guidelines are prepared. These position papers and policy guidelines would be sent to various levels of managers who may take up the job of preparing actual budgets.

#### 11.5.4.2 Preparation of Budget

The strategic budget is prepared through the interaction between corporate level and SBU level in the light of position papers. The process will go like the one given in Figure 1

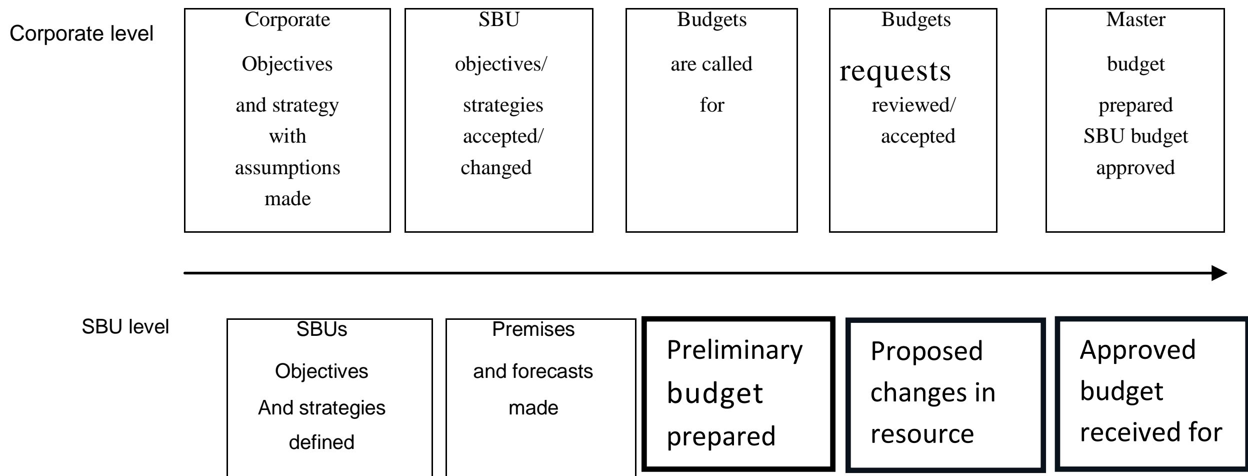


Figure 1: Process of strategic budgeting

Budget preparation will start when the SBU managers are communicated about the likely course of future action in the light of environmental factors, organizational resources, and constraints: and past performance. It is better to initiate the budget preparation from the bottom in the light of position papers. However, the exercise will not merely be restricted to taking previous figures with some pluses or minuses but everyone responsible in the organization must ask for resource allocation with details of various activities and the way these activities will contribute to the overall organize tonal objectives. Such demands for resource allocation will be integrated at successive levels and finally integrated in a master budget for the organization. Since budget demand at each on the chosen strategy of the organization, there is every possibility that master budget will show the allocation of various resources according to the needs and importance of various functions, products, or businesses, thereby ensuring the better use of organizational resources and achievement of organizational objectives.

Exhibit 11.6 presents the example of the process of strategic budgeting in a company to show how the process is carried on within a time frame.

**Self-Check Question:**

A. ……….. is the planning of deployment of financial resources of an organization for the purpose of maximizing the long-term profit ability of the organization.

B. …………. emphasizes non - financial measurement of performance, which can be related to financial measurement in explaining changes and deviations from planned performance.

C. …………….. is a tool of resource allocation among various SBUs and units of an organization.

## 11.10 STRATEGIC BUDGETING AT NAVIN INDUSTRIES

Navin Industries Limited (name disguised) is engaged in manufacture and sale of consumer durables as well as office equipment's. Besides manufacturing, it also procures these products from other manufacturers and sells under its own brand name. However, major portion of sales of about Rs. 150 crore comes from its own manufacture. It operates on all-India basis. The company has been organized around two' main product divisions-consumer durables and office equipment each maintaining its' own finance, marketing, and manufacturing functions. Other functions like personnel, R&D, legal, 'and secretarial are organized at the corporate level. The company is operating in highly competitive marketing environment and much emphasis is placed on product development. The company started corporate planning in 1975 probably because of high level of competition, rapid technological change, and a long gestation period for new investments. It prepares a five-year corporate-plan annually in the period December-March incorporating annual plans for certain parts of the operation. The budget is also prepared annually in the period January* March. The five-year plan is based on objectives set early in the planning cycle like return on investment, margin on sales determined by company guidelines and analysis of environment. The company sets less quantified market objectives, for example, market position as well as certain qualitative objectives reflecting general policies, for

for about one year. After the end of their stay in this unit, they are rotated by others. Thus, these three mechanisms fully integrate annual planning with five-year planning. The budgets almost divide five-year plan into operational plans, corporate financial guidelines take the problems of both annual and long -term planning, and rotation of staff brings operational management directly into planning. The company thus follows the strategic planning with strong planning-budget integration mechanisms. The mechanisms used imply that corporate plans are used as: he bases for operational decision making.

## 11.11 PROBLEMS IN RESOURCE ALLOCATION

Another issue, which must receive the attention of the strategists in resource allocation is the problem involved in its process whatever the basis of resource allocation is adopted. The problems emerge because:

i. Resources are limited,

ii. There are competing organizational units with each trying to have major share of the cake, and

iii. Organization's past commitment.

These factors taken together make resource allocation a rational political process, which we have seen, at the level of choice of strategy. In such a case, there is a possibility -that resource utilization becomes sub-optimal. Specifically, following problems in resource allocation in an organization may emerge:

1. Every unit in the organization tries to get maximum possible resources because allocation of more resources to a unit is considered, as more power vis-a-vis other units. Further, every unit wants to have flexibility in its operation and tries to hide its inefficiency. To some extent, grabbing more resources may do this. Power play by various organizational units may be due to lack of clear objective priority ordering. This problem may be overcome by clearly defining the expected contributions of a unit and the resources required for those contributions.

2. Organization's past commitment of resources works as hindrance in resource allocation if the problem is not addressed to properly. Though some techniques like zero base budgeting or strategic budgeting tries to overcome this problem by transferring the resources from the units where these are under-utilized to the units where these may be better utilized, the process is not simple. The managers of those units from where the resources are taken may show lot of resistance, as they feel neglected. To overcome this problem, the strategists' role of persuasion and motivation to accept the reality of the situation is the most important.

3. Sometimes, the organization itself may become resistant to change even if it is a loser. It has been found that in many cases, the organization puts its best managers to manage a declining product because it has been a pride of the organization in the past but presently it may not be of any strategic importance. Similarly, the organizational units that can boast the past glories may obtain major share of available resources, even though other business areas may offer more potential. This problem may be largely solved -by inculcating the habit of change in the light of new emerging business-situations.

## 11.12 SUMMARY

Resource mobilization involves procurement of resources that may be required to implementation strategy, and depending on the nature of the strategy, type and volume of resources will be determined. After resource mobilization, resource allocation activity is undertaken. This involves allocation of different resources financial and human-among various organizational units and ' subunits. Resources should be allocated at a place where these have their maximum contributions, or resources should be put according to the needs of various organizational units/subunits. The problem involved in its process whatever the basis of resource allocation is adopted. These are resources are limited, organization's pas t commitment etc.

## 11.13 GLOSSARY

- **Resource Mobilization**: The process of gathering, acquiring, and assembling the necessary resources, including financial, human, and technological, to support the strategic objectives of an organization.

- **Resource Allocation**: The strategic distribution and assignment of available resources, such as funds, manpower, and technology, to specific activities, projects, or departments within an organization.

- **Capital Budgeting**: The process of evaluating and selecting long-term investment projects, aligning financial resources with strategic priorities.

## 11.14 SHORT ANSWER QUESTION

1. What do you understand by resource mobilization? Why it is important?
2. Define resource allocation and how it is different from resource mobilization?
3. Define zero based budgeting.
4. Explain performance budgeting.

## 11.15 LONG ANSWER QUESTIONS

1. What is the role of resource mobilization and allocation in strategy implementation? What are the problems in resource allocation?
2. What are the different bases for resources allocation? How does strategic budgeting system operate in organisation?
3. Explain the process of Strategic budget preparation.

## 11.16 FURTHER READINGS


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## 11.17 SELF-CHECK QUESTION (ANSWER KEY)

11.4

A. Resource mobilization

B. Resource allocation

C. Concept of Commitment principle

11.5

A. Capital budgeting

B. Performance budgeting

C. Strategic budgeting

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 12** **AUTHOR- SALONY KANSAL**

# STRUCTURAL IMPLEMENTATION

**STRUCTURE**

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## 12.0 OBJECTIVES

After going through this lesson, student will be able to understand:

- Relationship between strategy and structure.

- Importance of matching the structure and the needs of strategy.
- The importance of structural change in strategy implementation.
- The benefits of strategy and limitations of different structural designs.

## 12.1 INTRODUCTION

Structural implementation of strategy involves designing of organisation structure and interlinking various units and subunits of the organisation created because of the organisation structure. Organisation structure is the pattern in which the various parts of the organisation are interrelated or interconnected. Thus, it involves such issues as to how the work of the organisation will be divided and assigned among various positions, groups, departments, divisions, etc. and the coordination, necessary to accomplish organisational objectives: will be achieved. Thus, there are two aspects of organizational design: differentiation and integration. Differentiation refers to 'the differences in cognitive and emotional orientations among managers in different functional departments and integration refers to 'the quality of the state of collaboration that are required to achieve unity of efforts in the organisation. Therefore, the organisation must emphasize on both the aspects: it must design organisation structure and provide systems for interaction and coordination among organization's parts and members.

## 12.2 STRATEGY-STRUCTURE RELATIONSHIP

There is close relationship between an organization's strategy and its structure. The understanding of this relationship is important so that in implementing the strategy, the organisation structure is designed according to the needs of the strategy. The relationship between strategy and structure can be thought in terms of utilizing structure -for strategy' implementation ecause structure is a means to an end and not an end. The master appropriate end is the objectives for which the organisation exists in the first place, as revealed by its strategy. Without coordination between strategy and structure, the most likely outcomes are confusion, misdirection, and splintered efforts within the organisation. Research evidence also suggests that structure follows strategy. According Chandler, changes in organizations strategy bring about new administrate problems which, in turn, require a new refashioned structure if the new strategy is to be successfully implemented. Chandler has found structure tends to follow the growth strategy of the organisation but not until inefficiency and internal operating problems provoke a structural adjustment. Thus, organizational actions proceed in a particular sequence; new strategy creation, emergence of new administrative problems, a decline in portability and performance, a shift to a more appropriate organisation structure, then recovery to improved strategy execution and more profit and performance. However, this sequence can be bro ken if suitable organisation structure is conceived at the starting point of strategy implementation. The relationship between strategy and structure, however, should not be viewed merely as one-way traffic, rather it should be viewed as two-way traffic. On the one hand, the structure should be according to the need the

strategy so that it is implemented effectively. On the other hand, structure of the organisation may play a critical role in influencing its choice of strategy'. Recognition of this two-way interaction between strategy and structure is crucial for a complete understanding of the criteria, which underlie structural design. It becomes obvious that a top management perspective in structural design is necessary when one understands that such a design is a result of overall strategy, and the success of the strategy is also dependent on that design. The interdependence of structure with strategy can be summarized by quoting Cannon who has derived from his long experience of his consulting firms in devising strategies and organizing companies. He observes:

"The experience of McKinsey supports the view that neither strategy nor structure can be determined independently of the other. If structure cannot stand alone without strategy, it is equally true that strategy can rarely succeed without an appropriate structure. In almost every kind of large -scale enterprise, examples can be found where well-conceived strategic plans were thwarted by an organisation structure that delayed the execution of the plans or gave priority to wrong set of considerations... good structure is inseparably linked to strategy...,"

Self-check Question:

A. ……….. involves designing of organisation structure and interlinking various units and subunits of the organisation created because of the organisation structure

B. ………. is the pattern in which the various parts of the organisation are interrelated or interconnected.

C. ………. refers to 'the quality of the state of collaboration that are required to achieve unity of efforts in the organisation.

## 12.3 FORMS OF ORGANISAZATION: STRATEGY RELATED BENEFITS AND LIMITATIONS

There are some well-known forms or approaches to organizational structuring: Functional; Product Divisions, Holding Company, and Matrix.

### 12.3.1 Functional Structure

A functional structure tends to be effective in a single business unit where key activities revolve around well-defined skills and areas of specialization. Concentration on performing functional area tasks increases specialization leading to greater operating efficiency and development of distinctive skills. The functional specialization promotes full utilization of capacity of resources, including technical skills — manpower, facilities, and equipment. These are strategically important considerations for single business organizations, dominant product enterprises and vertically integrated firms. What form the functional specialization will take varies according to customer product- technology considerations. For instance, a hospital is often compartmentalized according to the needs of its clients, i.e., outdoor, and indoor divisions which are further

departmentalized into pediatrics, orthopedics, cardiology, ear, nose, and throat, etc. A municipality is also departmentalized according to purposeful functional areas viz., fire, publicsafety, health services, maintenance of road, water and sewerage, recreation, education, etc. A technical instrument manufacturing firm may be organized around research and development, engineering, production, technical services, quality control, marketing, personnel, finance, and accounting. The problem with the functional structure is that it may not be easy to keep strategic coordination across different functional units. The functional specialists tend to have their own perspectives on how the task can be accomplished and this creates difficulties in achieving coordination. Because they talk in different languages, they may not have adequate understanding of and fail to appreciate each other's strategic roles and changes in the circumstances. Besides, the functional specialists often develop their own mind -sets and are more loyal to their own functional goals rather than the goals of the organization. This imposes considerable strain on the general manager in terms of resolving cross functional differences and clearing the clogged communication lines and enforcing cooperation. The functional form m ay also stands in the way of promoting entrepreneurial creativity, adapting quickly to major changes in' the customers, market, and technological scene and in pursuing opportunities that go beyond the conventional boundaries of the industry'.

### 12.3.2 Product Divisions

For a diversified enterprise producing a variety of products belonging to different industry groups, using different technologies and with plants at different locations, functional structure makes the job of the manager incredibly complex. In such an enterprise the needs of the strategy virtually dictate that different businesses be organized into different business (or product) divisions which may then be organized along functional lines. Putting all activities belonging to the same business under one roof facilitates implementation of strategies. With appropriate authority delegated to the general managers of the divisions, accountability for results can be stressed in such an arrangement. Reward system can be geared to motivate managers for improved performance by providing incentives. If entrepreneurially oriented and experienced persons are appointed as general managers of divisions, the performance of the entire organization may improve on account of better responsiveness and quick decision making. However, where activities are not or cannot be properly divisional Sed or where considerable interdependence exists between the components of the organization, as it may happen in a firm with related diversification, this form may result in the lack of cooperation among autonomy conscious managers and thus hinder coordination.

### 12.3.3 Holding Company

Holding company is one which has one or more subsidiary companies. According to Section 4 of the Companies Act, 1956, a company shall be deemed to be a subsidiary company if the other company is the controlling company i.e., it (I) holds more than half in nominal values of its equity share capital (of exercises or controls more than half of its total voting power); or (ii)

controls the composition of its Board of Directors; or if the subsidiary company itself is a holding company of another subsidiary company, then the latter will also become the subsidiary of the holding company of which the former is a subsidiary company. In India, holding company form has been adopted as one of the structural forms for organizing public sector enterprises. The well-known examples are: Fertilizer Corporation of India, State Bank of India, General Insurance Corporation. Some other public sector enterprises which have subsidiaries are: Steel Authority of India Limited, Coal India Limited, and National Textile Corporation. The extent of control, or involvement may vary from very little to quite substantial. Often, however, the holding company form is adopted because the management of the parent company wants to give maximum freedom to the managements of the subsidiary companies. The holding company may have shareholdings in a variety of connected or unconnected business operations. In such a situation, the holding company is virtually a conglomerate, and in another sense, it may really be an investment company. Therefore, it operates a portfolio of autonomous business units or investments. 'The subsidiary companies have their separate, legal entities and have their own names, thus retaining their own identities. The holding company may limit its role to decisions involving buying and selling of such companies. The business inter sets of the parent company may range from 100 per cent (wholly owned subsidiary) to 51 per cent. The parent - subsidiary relationship may emerge because of original planning of the promoter or it may come about due to subsequent developments e.g., growth of the enterprise (new activities/business organized as separate legal entities rather than as organic divisions). This kind of relationship may also emerge on account of acquisitions or takeovers. While holding companies in the Indian public sector typic ally consist of subsidiaries representing various geographic units, the subsidiaries in the case of holding companies in the private sector typically consist of companies with diverse interest, such as construction, shipping, hotels, mining, and engineering, etc. ITC is one such example of the holding company in the private sector. If a holding company consists of clusters of subsidiaries, representing diverse interests, these clusters may be organized into different divisions at the corporate headquarters. For instance, the various hotels of a company may all be affiliated to the hotel division at the headquarters. This enables the corporate management to formulate companywide business strategy, for example, for all the hotels and coordinate their activities, if necessary. The essential point in a holding company is the extent of autonomy the various subsidiaries have in relation to strategic decisions and this may be influenced by whether there are divisions in the parent company. The holding company form offers several advantages. It enables the spread of risk across many business ventures and facilitates the divestment of individual companies if circumstances so demand. The subsidiaries can benefit from their belonging to the membership of the group. The losses of one may be offset against the profits of another. Protection is thus afforded to loss - making units in bad times. The subsidiaries can have the benefit of cheaper finance for investment from the parent company for expansion or technology upgradation. They are not burdened with high central overheads since the head office usually has a lean staff. The holding company form may not be without some pitfalls, especially when subsidiaries are created because of takeover craze. The empire building

may lead to lack of internal strategic cohesion. Since the aim in the holding company design is to keep the center as slim as possible, the necessary' skills at the center to provide help to subsidiaries may not be available. This form may also lead to some duplication of efforts in the enterprise if taken as a whole. There may be very little synergy between different business interests.

### 12.3.4 Matrix Form Structural Dimensions

The key feature of the matrix form is that product (or business) divisional form is overlaid on the functional structure to form a matrix or grid, resulting dual authority for most of the members of the organization. The combining of the two structural forms usually results in a compromise between the functional specialization and line of- business specialization. The members in such an organization must learn to live a "new way of life." They must adjust to a different kind of organizational climate. For organizations which work in a dynamic or fast changing environment or where product life cycle is relatively short or where the organization must be constantly on the lookout for new products, matrix form is the answer. The business managers and resource managers in a matrix structure have important strategic responsibilities. The team approach implicit in a matrix promotes internal checks and balances the differing viewpoints and perspectives. Several well-known companies in the United States, such as General Electric, Texas Instruments, Boeing, Dow Corning, Citibank use matrix structures. Since matrix form is likely to generate some amount of conflict, friction, and misunderstanding, it must be carefully designed. It is a complex structure to manage. Apart from the expectation that everybody must communicate with everybody else in the grid, decisions may be delayed.

Self-check Question:

A. A……… structure tends to be effective in a single business unit where key activities revolve around well-defined skills and areas of specialization.

B. ……….. is one which has one or more subsidiary companies.

C. What are the two main characteristics of holding company?

A Brief Discussion on Forms

From the above discussion on various forms, it may be observed that there is no such thing as an ideal organization design. There are no universally applicable rules for matching strategy and structure. It is quite possible that two firms with similar strategies may work with two different structures. Of course, a structure that suits one strategy may be totally unfit for another. Further, a structure which has worked well in the past may not work well in the future. Changes in customer- product-technology relationships may make the structure of a firm strategically obsolete. An organization structure is thus dynamic. Changes are not only inevitable but typical. Experience shows that pragmatic considerations, such as the constraints imposed by the

personalities involved and the corporate culture influence the design of the structure. The design of the structure however should begin with a strategy-structure framework. The latter should get precedence over the organization's internal situation, including the personalities involved. Once the structure has been built keeping in mind this framework; it may be modified to adapt it to the peculiar situation of the organization. As already stated, there is nothing like the "best" form in organization design. Each form that we have discussed in this section has its own strategy related strengths and weaknesses. The adoption of one form does not preclude the use of one or more of the other forms. Many organizations are large and diverse enough to accommodate more than one form for their different lines of activities. The best organizational form is the one that best fits the overall situation. Some generalizations may however be made. Firstly, where the firm is engaged in a single product line or it uses continuous process or assembly type of technology, the structure tends to be functionally oriented because standards of performance and tightly sequenced integration are crucial. Secondly, where an organization operates in a tightly regulated environment (e.g., government agencies), it often has a more rigid, authoritarian, and bureaucratic organization structure because government rules and regulations must be observed. Such rules and procedures leave little latitude for individual discretion. Thirdly, where a firm's products are mostly custom made and there is a wide variety in the day-to-day work routine or where the process of production is high technology based, the structure tends to be decentralized and the organizational members have greater freedom of decision and action. Fourthly, the greater the diversity within an organization's business, the greater is the likelihood that the most effective organization form will be decentralized and multi -divisional. Finally, the more uncertain and diverse the organization's product-market environment, the more likely it

is that the firm will utilize a loose "organic" design (e.g., matrix) with considerable managerial latitude given to subordinates. It is not difficult to understand the logic that lies behind this. The structural flexibility is more conducive for the organizational units to adapt to their peculiar environments.

## 12.4 RELATING STRUCTURE TO STRATEGY

The close association of structure with strategy suggests that the organisation should relate its structure with its strategy. It should design the structure according to the needs of the strategy for - its effective implementation. Without coordination between strategy and structure, the most likely outcomes are confusion misdirection, and splintered efforts within the organisation. The structure is a means to implement a particular strategy and, therefore, the good structure is one, which best fits with the strategy. In evaluating whether the structure is designed properly to meet the needs of the strategy, two questions can be posed:

1. What functions and activities should be performed for the success of the strategy?

2. Is structure adaptable to the pressure of the external environment?

The answer of these two questions should point squarely at the functions essential to strategic success. However, in applying the test of consistence of strategy and structure, the strategist frequently meets three difficult. First, as he attempts to relate structure to strategy, he may find the strategy unclear, emerging. The basic question that should be put for answer before diagnosing the structural adequacy is: how definite is the strategy? If the answer to this question is uncertain, how does a manager test the adequacy of his organisation structure^ Therefore, if the strategy is precise, clear, and definite, the adequacy of organisation structure can be tested easily. Second difficulty results from the fact that symptoms of organisational malfunctions are not always explicit unlike the physical object. Things are to be interpreted based on various qualitative factors, which may become subjective. It is a common human tendency to cover up unpleasant things and organisational situations fall in this category*. Therefore, the strategist must build up his information system in such a way that he is able to monitor organisational adequacy. Third problem in applying the test of adequacy is that malfunctioning symptoms have multiple causes. Many of external factors may cause malfunctioning in the organisation and not the structure itself. For example, if the profit is down because of increased competition and consequence -lower price realization, the correction will be required in strategic posture and the organisation should be analyzed in the context of both internal well as external factors to pinpoint the exact nature of problem and consequently the remedial action. These problems must be kept in mind - while relating structure to strategy.

## 12.5 MECHANISM FOR RELATING STRUCTURE TO STRATEGY

The first aspect of structure-strategy fit relates to the type of functions that the organization structure should facilitate to perform. There are tests, which any good organisation structure should satisfy. First -implement the strategy properly, certain functions must be performed. Therefore, the structure should ensure that all the necessary activities are performed and there is no duplication in the performance of the -activities. Second, an activity's contribution to strategy should determine its rank and placement in the organisational hierarchy. Thus, key activities should never be subordinated to non-key activities. Revenue earning or result-producing activities should never subordinate to support activities. By making success causing for -the major building blocks for the structure, the chances are greatly improved that strategy will be effectively implemented. The second aspect of structure -strategy fit relates to the adaptive -character of the environmental pressure on the organisation. Organisation must interact continuously with its environment and this interaction some sort of changes are brought continuously in the organisation. If the change is a minor one and comes within the purview of established programs of action, the change will be absorbed within the system; major or rapid changes throw the organisation out of equilibrium seriously affecting its functioning. New equilibrium is reached by taking new programs. Therefore, the organisation structure should be able -absorb nose changes.

In relating structure to strategy, following strategic principles organizing may be helpful. These principles are not strictly in accordance -with traditional principles of organizing. These

principles are considered be especially pertinent for a firm with multiple products and multiple industry- market opportunities. These should also suit the smaller but growing firms in a dynamic volatile environment.

1. To the extent duplication and expense can be avoided, it is highly desirable to relate - significant areas of authority and responsibility to results desired with given markets, industries, or sets of customers. Organisation by market can produce the highest degree of strategic awareness.

2. It is better to delegate authority and decentralize strategic planning and operations for businesses, which are relatively, mature, predictable, and stable. This frees top management for strategic planning in the relatively unknown areas of opportunities.

3. Strategic planning for the unknown areas should be centralized, as this requires close supervision of top management. The critical early choices in unknown fields can pose major unpredictable risks on resource allocations and technological commitments, which are among the most important decision areas for the management.

4. In centralization - decentralization continuum, there should be centralized measurements. This implies after-the-fact measurement and not the control which is affected by the divisional heads.

5. Emphasis should be on result-centered rather than profit centered decentralization. It is not necessary to effect total profit and loss the divisional to delegate decision making authority' to lower echelon managers. Decentralization can be confined to those key operating and support areas that have within their make-up tradeoff issues, which a subordinate manager can resolve to affect timely and market knowledgeable strategic decisions. In other words, neither centralization nor decentralization are cut and dried propositions. Many graduations are available to resourceful management, and entrepreneurial type of responsibilities can be assigned with significant leverage for achieving results without handing over complete profit responsibility. Various forms of organisation structure and their suitability to strategies suggest that no one form is suitable for all situations. Therefore, many companies opt for combination of more than one form. Exhibit the organisation structure (partial at the top level only) of Hindustan Lever Limited, which is essentially a combination of functional and divisional structures. The company has constituted certain standing committees. Besides, ad hoc committees and groups are constituted whenever need arises.

## 12.6 STRATEGY AND STRUCTURE PROPOSITION

Whether strategy precedes structure or structure precedes strategy is again debatable. There are arguments for and against the two positions. Research findings are conflicting. As a matter of fact, strategy and structure are mutually interdependent. In most of the cases it is found that strategy and structure are interactive. Suppose a company decides to pursue

"differentiation" (based on quality improvement/new product development) through intensive R &, D efforts as its competitive strategy, this may involve the creation of a new or substantial revamping of existing R & D department. This would mean enlargement of the present organizational structure. If the quality control manager is made to report to the production manager, a conflict of interests may ensue and the thrust of the new strategy may be lost. The quality control manager may therefore be made to report to the chief operating manager. This would also imply change in the organization structure. This was a simple example where structure follows strategy. However, the opposite is also possible. And this would be the case when strategy must consider the prevailing structure. Let us take the example of a shoe chain store which believes in aggressive price competition as its strategy for market penetration. If the company has a centralized organization structure where the prices are to be determined by corporate headquarters, the managers of the local chain stores have only to implement the new price list received from the headquarters (i.e., change the price tags). On the other hand, if the structure is decentralized with authority for fixing or altering price vested in the stores' managers, the strategy for price competition would be quite different. Strategy however should not become a slave of the structure i.e.; it should not be constrained by the structure. The implementation of a new strategy must e envisage the necessary changes or modifications in the structure or organizational relationships. Since the landmark research study by Alfred

A. Chandler (Strategy and Structure, MIT Press, Cambridge Mass, 1962) several authors have veered round the view that organization structure follows the strategy of the enterprise. It has been suggested that the organization structure should be so designed that it matches to the needs of the strategy. Chandler found that changes in an organization's strategy bring about new administrative problems which in turn require a new or refashioned structure if the new strategy is to be successfully implemented. His survey of seventy large industrial firms, supported by in-depth study of four large corporations (General Motors, Dupont, Standard Oil, Sears Roebuck) revealed that structure tends to follow the growth strategy' of the firm but often not until inefficiency and internal operating problems provoke a structural adjustment. According to him the experience of these firms followed a consistent sequential pattern: a company adopts a new strategy' — new administrative problems arise, profitability and performance decline — a shift to more appropriate organizational structure takes place which leads to improved strategy execution and more profitable levels. Chandler found this sequence to be of repeated as firms grew and modified their corporate strategies. A logical conclusion of Chandler's study is that not all forms of organization structure are equally supportive of implementing a given strategy. The thesis that structure follows strategy has a strong appeal. How the work in an organization is structured is just a means to an end and not an end itself. Structure is a managerial device for facilitating the implementation and execution of the organization's strategy and, ultimately, for achieving the intended performance and results. The structural design of an organization helps people pull together in their performance of diverse tasks. It is a means of tying the organizational building blocks together in ways that promote strategy' accomplishment and improved performance. The top management, and for that purpose

also the general managers, must provide for thenecessary linkages between strategy and structure for improved performance.

## 12.7 STRUCTURAL CHANGE

If the present organisation structure does not adequately fit the need of chosen strategy - in the light of the above strategy-structure fit and strategic principles of organizing, top management should look for reorganization. Many companies have reorganized their structures recently because of the change in their strategies due to the following factors:

1. Rapid growth leading to problems of manageable size and communication;
2. Excessive diversification of product lines;
3. Increasing competition and environmental changes;
4. Changes in managerial styles particularly from centralized family decisions to decentralized decision-making;
5. Change in organisational climate and managerial commitments; and
6. Unsatisfactory work performance because of structural conflicts.

However, before taking reorganization, it is constructive for management to check off the following questions to ensure whether the firm can function efficiently without the reorganization:

1. Has firm clarified its mission and responsibilities to all concerned under- the existing structure?
2. Are there significant opportunities for improved direction and motivation in day-to- day operations?
3. Can procedures and practices be improved within the existing structure?
4. Should any key personnel reassignments be made?
5. Having exhausted the above, what, if any, organisational changes should be made? If the change is required, it should be total package of articulated and efficient structure,

effective back-up systems, and motivated people dimensions. Initially, the process reorganization was the responsible of line management, usually the chief executive. It was; therefore, a highly intuitive process largely inspired by management's desire to solve certain existing problems, make key personnel changes, or take up the fad of the time. However, the trend has channel. Now most of the large organizations have either organisation development department or take the help of external consultants because the emphasis is on planned change. Since the

organisation is a complex system of mutually dependent parts, it is logical that organisational change involves an alteration or modification of one or more parts of the system. Thus, what is needed is an operational scheme of organisation of parts so that the focus and the direction of the change sought may be clearly identified for any given situation and the extended and interactive effects of a change in anyone part of the system or on the other parts may be anticipated and traced. Thus, structural reorganization should be in the context of other interactive subsystems of the organisation, viz. technology, behavioural, technical, and procedural, goals and values, and managerial. Therefore, mere restructuring of organisational relationships is not sufficient but an integrated approach is required.

## 12.8 SUMMARY

Successful implementation of strategy, among several other factors, depends upon the appropriateness of the organization structure. The latter must meet the needs of the strategy. The various forms of organizational structuring may not be equally supportive of a particular strategy at hand. In designing an appropriate structure, tasks and functions which are critical to the achievement of strategy must be first identified. The organization designer should then think of other supporting and routine activities which relate to the critical tasks and place. In this way various building blocks would be formed., Though strategy and structure are interactive and interrelated, it has been often observed that structure follows strategy. Since structure is a tool to realize the aims of strategy, it helps people pull together in the performance of their diverse tasks to accomplish those aims. The experience of many firms indicates that organization structure evolves through different stages. The Stages Model provides useful insights into why structure tends to change in accordance with changes in size, geographic spread, technologies, and strategies of an enterprise. Various forms of organization structuring are available: Functional, Product Divisions, Strategic Business Units, Holding Company, Matrix, etc. Each form has its benefits and limitations when looked from a particular strategy point of view. There is nothing like the “best” or ideal structure. The best organization structure is the one that best fits the overall situation.

## 12.9 GLOSSARY

- **Organizational Structure**: The framework defining the hierarchy, roles, and relationships within an organization, influencing how activities are coordinated and controlled.

- **Functional Structure:** A type of organizational structure where activities are grouped based on common functions or specialized tasks.

- **Divisional Structure:** An organizational arrangement where activities are grouped by products, services, geography, or customer segments.

- **Matrix Structure**: An organizational structure that combines elements of both functional and divisional structures, often incorporating dual reporting relationships.

- **Strategic Business Unit (SBU):** A semi-autonomous unit within an organization that operates as an independent business, responsible for its own strategy and performance.

## 12.10 SHORT ANSWER QUESTION

1. What do you understand by functional structure?
2. Define holding company.
3. Define organisational structure.
4. What do you understand by SBU?

## 12.11 SELF ASSESSMENT QUESTIONS

1. What do understand by structural implementation of a strategy'?
2. What is matrix organisation? Discuss its relevance for strategy implementation?
3. Explain different types of Organisational structures.

## 12.12 FURTHER READING


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## 12.13 Self-check Question (Answer Key)

12.2

A. Structural implementation

B. Organisational structure

C. Integration

12.3

A. Functional

B. Holding companies

C. (i) holds more than half in nominal values of its equity share capital

(ii) controls the composition of its Board of Directors;

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**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

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# BEHAVIOURAL IMPLEMENTATION

**STRUCTURE**


13.0 Objectives

13.1 Strategic Leadership

13.2 Role of Leadership

13.3 Leadership Styles

13.4 Organisational Culture

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13.6 Relating Culture and Strategy

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13.9 Ethics and Values

13.10 Corporate Social Responsibility

13.11 Corporate Governance

13.12 Strategic Use of Politics and Power

13.13 Summary

13.14 Glossary

13.15 Short Answer Question

13.16 Long Answer Questions

13.17 Further Reading

13.18 Self-Check Question (Answer Key)

## 13.0 OBJECTIVES

After studying this lesson, student should be able to:

- Explain the role of leadership in strategic management;
- Understand the importance and role of organization culture.
- Understand different leadership styles
- Understand the importance of ethics and values.
- Know about the concept of Corporate Governance.

Behavioural implementation deals with those aspects of strategy implementation that have impact on the behavior of people in the organisation. Since an organisation is basically a deliberate creation of human beings for for certain specified objectives, the activities and behaviour of its member need to be directed in certain way. Any departure from this leads to inefficiency in the organization and consequent failure of strategy. There are five issues in this context relevant to strategy implementation:

1. Leadership
2. Organisational Culture
3. Values and Ethic
4. Corporate governance, and
5. Organisation Politics

## 13.1 STRATEGIC LEADERSHIP

Strategic leadership is the process of transforming an organisation with the help of its people so -as to put it in a unique position. Thus, two aspects are involved in strategic leadership. First, it transforms the organisation which involves changing all faces such as size, management practices, culture and values, and people in such a way that the organisation becomes unique. Second, strategic leadership process emphasizes people because they are the source for transforming various physical and financial resources of the organisation into outputs that are meaningful to the society. Thus, strategic leadership proceeds as follows:

1. Strategic leadership deals with vision-keeping the mission in sight-and with effectiveness and results. It is less oriented to organisational efficiency in-terms of cost-benefit analysis.

2. Strategic leadership emphasizes transformational aspect and, therefore transformational leaders emerge in the organisation. Transformational leadership is the set of abilities that allow a leader to recognize the need for change, to ‘create a vision to guide that change and to execute that change effectively.

3. Strategic leadership inspires and motivates people to work together with a common vision and purpose.

4. Strategic leadership has external focus rather internal focus. This external focus helps the organisation to relate itself with its environment.

## 13.2 ROLE OF LEADERSHIP

Some researchers have shown that if the executives have good leadership qualities, the productivity of the nation can increase largely without additional finance or new technology. It is important to note that the theoretical approach of leadership taught in classrooms is less effective than the practical approach. In the prevailing environment in India, it is often argued, that things can improve only if the top leadership in the country sets the right example. Alternatively, the educational system should be reformed so that slowly perhaps in 50 years, things may improve. Both the views do have some theoretical merit: but do not appear to be practical. Consequently, the only way is to find a method of improving the leadership potential of those already shouldering responsibilities and of those who are getting ready to enter the field of leadership in any walk of life. This is the basic philosophy of the practical and holistic approach to leadership— ‘it is perfectly possible to improve myself; I can hope to improve others only by personal example’ is its message. Consequently, the key to effective Strategic Management is to ensure that leadership runs like a uniform thread through all functions of management to integrate them into a culture of excellence. One of the primary needs for effective strategic management is to understand, in practical terms, the meaning of leadership, its functions; and, finally to ensure that effective leaders are groomed and developed at every level in an organization. Only then will strategic managers be able to conceive strategicplans and translate these plans into reality.

## 13.3 LEADERSHIP STYLES

The statement that a ‘good leader varies his/her style between authoritarian to participative (autocratic to democratic, if you like) depending on the task, the changing situation s/he encounters and changing group that s/he has to lead’ sums up rather briefly, the way an effective leader must function. However, no effective leader ever consciously adopts a style—it comes, and indeed it must come, naturally from within. Style invariably is the reflection of the substance. It is the expression of the man and the strength and balance of his “Universal Inner Structure of Effective Leaders.” Rusi Modi while discussing leadership repeatedly emphasizes “above all be yourself.” Conceptually the changes in style which spread between the two extremes is well depicted in the model evolved by R. Tannenbaum and W. Smidt.

Use of authority by the manager

Area of freedom for subordinates

| 1.Manager makes decision and announces it | 2. Manager Sellsdec ision | 3. Manager Presentside as and invites questions | 4. Manager presents tentative decision subjectto change | 5. Manager presents problem,gets suggestions, makedecision | 6. Manager Defineslimit, Askgroup to make decision | 7. Manager Presentssu bordinateto functionwit hinlimits defined by superior |
|---|---|---|---|---|---|---|

**Leadership Style**

In practical terms any change in style is merely an intuitive variation in the mix of personal example, persuasion and compulsion. Personal example is the most potent factor in the technique to inspire people to do what they are expected to do. If a leader can work 12 to 14 hours a day, then the message gets across. Personal example in punctuality, integrity, honesty, frugality, courage, persistence, initiative unselfish love of people, or whatever is infectious with the Indian people. They try and live up to the standards of a leader. To do yourself what you expect your people to do is the secret of leading people. There are people and there are times when persuasion is necessary to motivate people to do what must be done. When they understand the circumstances, people do rise to the occasion and go through the most irksome tasks. The long-term persuasion lies in the organizational culture (esprit de corps) in which people take pride in doing anything to uphold the honor and good name of the organization. Compulsion via punishing the few indolent, lazy, or resentful individuals who do not perform their share of wo ark is also necessary to maintain discipline. Also, to let people know unambiguously that the leader is fair and just, but not tolerant of the incompetent, the crooked and mischievous. There is an innate tendency among Indians to kill or retard an organization with kindness. Inability to take appropriate action is rationalized by arguments like pressures from the top, fear of litigation, trade union agitation and so on. To a degree it is also due to a lack of moral courage.

Developing appropriate leadership is one of the most important elements in the implementation of a strategy. This is important because leaders are key organic elements who help an organization cope with changes. Appropriate leadership is necessary, though not a sufficient condition, for mobilizing people, and for developing effective structure and systems for the success of strategy. Failure of leadership may lead to difficulties in achieving goal congruence, communication breakdown, ambiguity about roles of sub - units, and difficulty in obtaining commitment to a plan, e.g., staff conflicts and l ack of strategic thinking. Leadership is the key factor for developing and maintaining the right culture and climate?

There are several aspects of leadership styles and skills, some of them are more appropriate to the context/content of a strategy, while others are desirable attributes in general for the success of an organization.

Leadership styles are manifested through the orientations, Khand Walla has identified five orientations (dimensions of style) namely, the risk taking (willingness to make high risk, high return decisions), optimization (degree of commitment to the use of planning, and management science techniques in decision making by technically qualified people vis-a-vis seat-or-the pant decisions), flexibility (degree of looseness and flexibility in organization structuring), participation

of those other than the ones holding key positions) and coercion (use of fear and domination) For superior performance on key organization goals he proposes that

- if the orientation of top management is risk taking, then it should be at least moderately organic and coercive in proportion to internal resistance to change.
- If the orientation is risk aversive, then it should be moderately mechanistic and non - coercive.
- If the orientation is of highly optimization type, then it should be strongly participative.
- If the orientation is highly seat-or-the-pant and non-technocratic, then it should be at least moderately risk taking and non-participative.

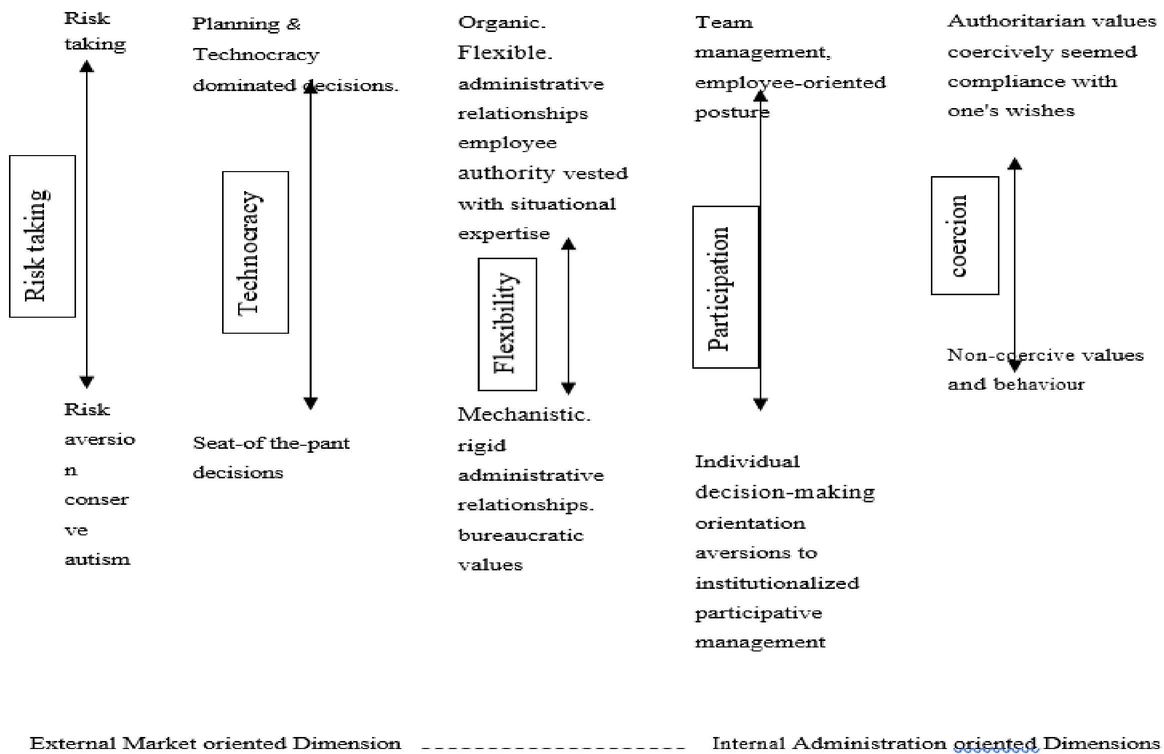


Figure: Dimensions of Leadership Styles

Source: Khand Walla, N.N. (1977) p. 399.

Different leadership styles have "good fit" with different environments. Since the strategy determines the product/market scope, and the environment in which the organization is going to operate in future, it has a bearing on leadership style. Khand Walla has further categorized leadership styles into seven types to relate them to environment, each reflecting different mix of the five orientations, as shown in the table 1

| Leadership Style | Risk Taking | Technocracy (Optimization) | Flexibility Organicity | Participation | Coercion |
|---|---|---|---|---|---|
| 1. Entrepreneurial | High | Moderate to low | Moderate to high | Moderate to low | Variable |
| 2. Neo scientific | Variable | High | Moderate to low | High | Moderate to low |
| 3. Quasi-scientific | Variable | High | Moderate to low | High low | Moderate to high |
| 4. Mudding through | Moderate | Low | Moderate to high | Moderate to low | Moderate to high |
| 5. Conservative | Low | Moderate to low | Moderate to low | Moderate to low | Variable |
| 6. Democratic | Moderate to low | Moderate to low | Moderate to high | High | Variable |
| 7. Middle of the Road | Moderate | Moderate | Moderate | Moderate to low | Moderate to low |

Table 1: Seven Styles of Top Management

Source: Khand Walla, P.N., "Some Top Management Styles: Their Context and Performance," Organisation and Administrative Sciences. Vol. 7, No. 4, Winter 1976. p. 27.

Like leadership, there are severed dimensions of environment also, namely, the degree of turbulence/volatility (high degree of changeability/unpredictability), hostility (hostile environment are highly risky and overwhelming), heterogeneity (diversity of markets/consumers), restrictiveness (economic, social, legal, and political constraints) and the degree of technological sophistication. The leadership styles which are more appropriate to different types of environments are shown in Table 2.

Table 2: Environment-Style Fit

| Environment | | Styles |
|---|---|---|
| Turbulence | High | Entrepreneurial, neo scientific |
| | Medium | Neo scientific, middle of the road |
| | Low | Conservative |
| Hostility | High | Entrepreneurial |
| | Medium | Neo scientific |
| | Low | Neo scientific, Conservative |
| Diversity | High | Entrepreneurial, Neo scientific |
| | Medium | Muddling through, middle of the road |
| | Low | Neo scientific, conservative, entrepreneurial, quasi- scientific |
| Restrictiveness | High | Neo scientific, entrepreneurial |
| | Medium Low | Entrepreneurial, conservative |
| Tech nonlogical Complexity | High | Entrepreneurial, Neo scientific |
| | Medium | Quasi-scientific |
| | Low | Democratic |

Source: Khand Walla, P.N., "Some Top Management Styles: Their Context and Performance,"

Organisation and Administrative Sciences. Vol. 7, No. 4, Winter 1976. p. 27.

It should be noted that while the above discussion gives a good idea of orientations and the styles of leadership to respond effectively to the environmental demands, it does not cover the leadership skills required for "revitalization" or "transformation" of the "organization." The above discussion gives the attributes of a manager who is a "transactional" leader, and not a "transformational" leader. The task of a "transformation" or "revitalization" leader is to take the organization to a dominant position. This involves managing change or transition. It has three distinctive phases.

- Recognizing the need for revitalization
- Creating a new vision
- Institutionalizing change.

The leadership task in the first phase requires the ability to sense the need for change (often there is a low threshold to catch trigger events in the environment). The second phase requires communication skills to create a vision for future that excites people to move, and the interpersonal skills and creativity to mobilize commitment of at least at critical mass in the organization. To perform the task in the third phase of the transformation process the leader should have the ability to understand and manage powerful conflicting forces in people. The negative emotions and threats to power and authority must be transformed into positive emotions and reconciliation. New ways of working, new styles, new culture, and new norms must be developed. The shock of change must be reduced. The challenges of leadership in implementation are grave as leadership is the scarcest resource. Organizations cope with it in several ways, by changing the current leadership and by developing appropriate leadership styles. The change of current leadership may not be easy to achieve even though it might be inevitable for effecting "transformation" in the situation. The existing leadership might have been cast in a particular mold which may be inappropriate to the demands of the organization. The "casting" effect can be overcome if changes are introduced gradually in the leadership styles and skills, to avoid accumulated lags or mismatches between existing leadership styles/skills and company's changed requirements. This would require a blueprint to indicate the kinds of styles and skills, and the number of persons of different styles and skills required in future, current talent available and a plan of recruitment and grooming. The task of human resources development is thus very closely related and determined by strategy of the organization.

**Self-check Question:**

A. …………. is the process of transforming an organisation with the help of its people to put it in a unique position.

B. What are the three steps in revitalization?

C. The negative emotions and threats to power and authority must be transformed into positive emotions and reconciliation for…………

## 13.4 ORGANISATIONAL CULTURE

Organisational culture is another element which affects strategy implementation as it provides a framework within, which the behaviour of the members takes place. Though there are differing views on what constitute an organisational culture, generally, it is defined as a set of assumptions the members of an organisation share. For example, organizational culture has been defined as follows:

"Organisational culture is the set of assumptions, beliefs, values, and norms that are shared by an organization's members. Thus, there are two types of elements, which define the culture of an organisation: abstract elements and material elements. Abstract - elements are internally oriented

and include values, beliefs, attitudes, and feelings. Material elements are externally focused and include building, personnel dresses, products, etc. Vijay Sathe has exemplified some common things to demonstrate the components of organisational culture

- Shared things (e.g. the way people dress)
- Shared saying (e.g.., let us go down to work)
- . Shared actions (e.g., a service-oriented approach)
- Shared feelings (e.g., hard work is not rewarded here)

## 13.5 IMPACT OF ORGANISATIONAL CULTURE

Organisational culture is very important factor, which affects the different organisational processes including implementation of strategy; strategy implementation involves completion of different processes. Corporate culture affects the following aspects of the organisation:

### 1. Objective Setting

Culture molds people and people are the basic building blocks of the organisation. The objectives of the organisation must reflect, at least in part, the objectives of its members, particularly those who are the key decision makers. Thus, for one organization, the objective may be profiting maximization but the same objective may be unworthy; mean, and petty for other organization.

### 2. Work Ethics

Ethics relates to conformity to the principles of human conduct. According to common usage, moral, good, right, honest, etc. are used as synonymous to ethical act. Work ethics in an organisation is derived from its 'culture. Thus, corporate culture determines the ethical standards for the organization' as a whole and its individual members.

### 3. Motivational Pattern

Culture interacts 'to develop in each person' a motivational pattern. Culture determines the way people approach their jobs and even life in general. If organisational culture is geared towards achievement, people will find it quite motivating and put their utmost energies for the work. In its absence, high achievement-oriented people develop frustration and desert the organisation Therefore; for implementing strategies, particularly growth strategies. Organisational culture should be achievement- oriented.

### 4. Organisational Processes

Various organisational - processes like planning, decision making, controlling, etc. are determined by the organizational culture because these processes are carried out by the people, in

the organisation. Bhattacharya has analyzed the cultures of various professionally managed companies including' multinationals as well as family-managed companies In India to find out how cultures affect organisational processes.

## 13.6 RELATING CULTURE AND STRATEGY

We have seen that strategy and culture are interlinked; culture affects how -a strategy may be implemented though it has. A. role in strategy formulation too. Our emphasis here is to analyze how organisational culture can be made, a facilitating factor in 'strategy implementation. In relatingstrategy and culture strategists have four alternatives:

1. To ignore corporate culture;
2. To adapt' strategy implementation to suit corporate culture;
3. To change corporate culture to suit strategic requirements; and
4. To change the' strategy to Tit the corporate culture.

Each of these alterative has different"' implications for the total strategic management. Now let us see how a particular alternative is relevant.

1. Strategists can simply ignore the corporate culture while implementing a strategy specially when it is not possible to change corporate culture. In fact, corporate culture is built over a period and. therefore cannot be changed overnight; cultural change is a slow process and is time -consuming. Ignoring culture in strategic management is not better alterative because it may be dysfunctional.

2. Another alternative to the above is to change strategy implementation to suit corporate culture. Strategists may have flexibility in organisational design, organizational systems, and processes for strategy implementation. These variables can be manipulated to serve the interests of 'corporate culture. However, in such a case, each specific situation in the organisation calls for an innovative solution.

3. The third alternative is to change the strategy itself if it does not fit with the corporate culture. However, changing strategy mid-way is- not a very desirable proposition. Therefore, corporate culture should -be considered as a determinant of strategic choice.

4. The last alternative in relating strategy is to change corporate culture to suit strategic requirements. This is the optimum choice in the present prevailing Indian business environment, which is becoming more and more competitive day-by-day necessitating change in old methods. In fact, many companies have failed simply because they were not able to adopt suitable strategies due to corporate cultural constraints. Though cultural change process is slow attempt can be made to change the culture. This transition may be brought by making strategic task

explicit it, enhancing managerial capability to imbibe changes, arid exhibiting a strong and assertive leadership.

## 13.7 VALUES AND STRATEGY

Values of individuals, particularly those of key strategists, have major impact, on strategy of the, organisation. While terminal values shape organisational strategies, instrumental values indicate how these strategies are to be implemented. Depending on the dominance of terminal values in strategists, these are means for organisational transformation.

## 13.8 VALUES AND STRATEGY IMPLEMENTATION

Strategy implementation is mostly affected by instrumental values of people in the organisation. However, when we say people, the question arises: who- are- these -people in the oigamsati6n? The answer of this question is significant because that will determine the shape of strategy implementation. From strategic management point of view, people ill an organisation are divided into four groups board of directors' chief executives, other managers, and corporate planning staff. Out of these groups, chief executive, and managers under" him are mostly responsible for, strategy implementation. However, values are held by individuals, which are part, of their personality. Therefore, it is quite likely that values of different individuals do not match. Though organisational culture represents the collectivity of personal values, 'it is only representative and not all inclusive. Thus, in actual practice, the relationship between organizational values and personal values exists as shown in Figure 1

Different weak values Common Values Different strong values

Figure 1: Relationship between Organisational and Personal Values

Two sets of values-organisational and personal show following relationships and reconciling or modifying process:

### 13.8.1 Common Values

Since an organisation is a collectivity of people and organisational values represent the collective values of its members there are some commonalities between these two. These common values do not require any reconciliation or modification because both have already been integrated.

### 13.8.2 Different Weak Values

In this case, part of the organisational and personal values differs but the divergence is. related to weak values either terminal or instrumental. A weak value has low priority in the hierarchy of values whether organisational or personal. In fact, every individual has a set of values arranged in hierarchy. Because of hierarchical nature of values, they differ in terms of importance. Since there are individual differences, hierarchy of also differs. For example, an individual may attach very high importance to honesty and integrity and does not reconcile on these issues. Another

individual may place it at low level and may reconcile on these issues. Therefore, weak, and strong values are relative and person -oriented. Where divergence exists on weak values reconciliation takes place through normal socialization process which involves adaptation of organisational values and norms by employees with a view, to adhere to those. This socialization process, however, is pot one-way traffic rather two-way traffic in which an individual can modify' organisational values to-some extent.

### 13.8.3 Different-Strong Values

Problems in 'strategy implementation emerge when there is divergence of values which are strong for the organisation or individual. If values are strong to the organisation any divergence may lead to separation of individuals whose values are at divergence. For example, Wipro has very strong values in terms of ethical integrity. Any individual falling short of integrity is sacked regardless of his -' position as shown in Exhibit. Another alternative available to the' organisation is to design its structure and processes in such a way that these match with the values of an individual whose values arc at div mergence. In such a situation, the organisation will retain its core values while allowing change in others. This type of adjustment is required when the individuals are quite critical to the success of the strategy' under implementation.

Exhibit: Indian psycho-philosophical thoughts

About values and ethics rooted in 'Indian -thought, Chakraborty has presented several ideas listed below:

1. The concept of self in human being must embrace the spiritual dimension beyond the physical, social, and economic dimension

2. The creative energies of human beings are derived from and rooted in Supreme Creative Intelligence.

3. Managerial decision making requires the interplay of both analytic and holistic faculties.

4. The final resolution of managerial conflicts lies in de-egoization of self.

5. The key to cooperation and teamwork lies in realization that the same Atman (soul) dwells in all.

6. The quality of managerial decision-making can be improved through an understanding and internalization of the doctrine of Karma.

7. Motivational strategies should be based on 'giving' model rather than 'needing' model of human beings.

8. Ability for developing effective leadership styles requires an understanding of three qualities' Of human beings: Sattwa (righteousness), Rajas (selfishness), and Tomas (laziness).

9. All managerial decisions are subjective in the ultimate analysis and the effectiveness of such decisions depends critically on the purity of mind of the decision-maker.

All the above propositions have very high relevance in Indian business scenarios of today ‘particularly in terms of including values and ethics.

**Self-check Question:**

A. ………… is the set of assumptions, beliefs, values, and norms that are shared by an organization's members.

B. ………., particularly those of key strategists, have major impact, on strategy of the, organisation.

C. Explain any two values and ethics rooted in ‘Indian -thought, Chakraborty has presented

## 13.9 ETHICS AND VALUES

It is not easy to build a strong corporate culture in any organization. A strong culture is based on strong ethics and values. This is very important for the success of the organization in the long - run. It is very easy to adopt short-cut methods to reach the top but the downfall also comes at the same rate. Ethics and values ensure that the organization does not adopt short-cut methods to achieve success; instead, it stresses on the concept of sustained success. Every organization has its own code of ethics and standards in a written form. The code of ethics normally contains the following points:

- Honesty
- Fairness in practices of the company—Disclosing the inside information
- Acquiring and using outside information—Disclosure of outside activities by theemployer to the employee
- Using company assets; etc.

The value statements normally include

- Value of customers
- Commitment towards the business practices like quality etc.
- Duty towards shareholders, suppliers etc.
- Following the environmental protection norms etc.

These were the few areas which were covered. There can be more such points, which can be discussed under the head value statements and code of ethics. Each organization has its own set of value statements and code of ethics.

## 13.10 CORPORATE SOCIAL RESPONSIBILITY

This is an area of increasing importance in every market and supply chain. Factors addressed here include cultural differences, differences in perceptions and beliefs and the effect of a fragile ecology. In a domestic strategic alliance, as opposed to an international situation, it is expected that there would be a shared culture; where such issues as say child labor are probably not an issue at all, because they do not arise. However, there could be just as fundamental differences between organizations on what at first might not seem such important issues. Different organizations have different attitudes and criteria that they apply to such issues as waste disposal. One may have a very strict and environmentally friendly approach to the disposed of waste products, especially hazardous ones; while the alliance partner may not. In such a case, in an alliance, one could become tarnished by the alliance partner's lesser concern with such issues. Such differences need to be ascertained, their treatment explored and a common agreed policy developed. This is a matter that needs to be addressed at the outset and embodied in any alliance plan. There will be other issues such as differences in the way human resources are treated, which will similarly need addressing. They will be more or less important as circumstances and attitudes dictate. Even more sensitive can be the effects of large-scale operations, particularly mineral extraction or even more the oil industry on not only fragile or vulnerable ecologies but also local populations or economies.

Corporate social responsibility can extend to activities not necessarily seen as being mainstream or core to your business. This could extend to supporting programmed that, while they may not directly or immediately affect a company's current business, could raise its profile in an area that could be of future benefit or even bring goodwill for future projects.

## 13.11 CORPORATE GOVERNANCE

Corporate governance is a newly introduced 'system for managing a company in the best interest of all its stakeholders - though in the 'context of state administration, the concept of governance is quite old where it is referred to as the system of directing and controlling the activities of a state particularly in princely states and empires. We, may find the concept of state governance even in the writings of Kautilya.

Contents of Corporate-Governance Code

A corporate governance code -usually contains the following matters:

1. Constitution of Board of Directors. Constitution of Board of Director's role of nonexecutive directors, its meeting, key matters that must be brought before the board, etc.

2. Disclosure of Information. Disclosure of financial and other information in the company's annual accounts and reports as well as periodical disclosure.

3. Management Practices. Management practices to protect the interests of shareholders, consumers, financiers, creditors, distributors, government, and society.

## 13.12 STRATEGIC USE OF POLITICS AND POWER

Politics and Power affect the way a strategy is formulated and implemented. "A manager cannot effectively formulate and implement strategy without being perceptive about company politics and being adept at political maneuvering." The different elements in the hierarchy of adept at objectives: Strategic intent, vision, mission, and objectives are affected by the formation of groups and coalitions which influence the direction that the organisation must take.

The typical approaches to a strategic use of politics and power may involve one or more of these actions:

- First, to accept the inevitability of politics being there in organisation
- To understand how an organisation's power structure works, who wields real power and influence, and who are the individuals and groups who opinions carry weight and cannot be disregarded.
- To be sensitive and alert to political signals emanating from different parts of the organisation
- To lead strategy and note to dictate it, being patient till a consensus emerges
- To reward organisational commitments and penalize negative or indifferent attitudes
- To practice principled politics and use of openness and honesty to counter unprincipled politics to gather support for acceptable proposals and let the unacceptable ides dies a natural death.

## 13.13 SUMMARY

Behavioural implementation deals with those aspects of strategy implementation that have impact on the behavior of people in the organisation. There are five issues in this context relevant to strategy implementation. These are Leadership, Organisational Culture, Values and Ethic, Corporate governance, and Organisation Politics. Strategist's leadership role in strategy implementation is as important as his role of architect of strategy. Organisational culture is another element which affects strategy implementation. Ethics and values ensure that the organization does not adopt short-cut methods to achieve success; instead, it stresses on the concept of sustained success. Corporate governance is a system by which companies are directed

and controlled based on code for good corporate practices. Politics and Power affect the way a strategy is formulated and implemented.

## 13.14 GLOSSARY

- **Behavioral Implementation**: The process of translating strategic plans and decisions into action by influencing the behavior of individuals and teams within an organization.

- **Organizational Culture:** The shared values, beliefs, and behaviors that shape the way people in an organization interact and work together, influencing the implementation of strategies.

- **Adaptive Leadership**: Leadership that focuses on understanding and responding to the complexities of organizational change, taking in to account the behavioral nuances of individuals and groups.

- **Communication Strategy**: A planned approach to conveying information about the strategic plan throughout the organization, ensuring clarity and understanding among employees.

## 13.15 SHORT ANSWER QUESTION

1. What is behavioral implementation in the context of strategic management?

2. How does organizational culture influence the success of strategic implementation?

3. What do you understand by corporate governance?

4. Explain corporate social responsibility.

## 13.16 LONG ANSWER QUESTIONS

1. What do you mean by strategic leadership? Discuss the role of leadership in strategic implementation?

2. What are the elements of organisation culture? How can organisational culture and strategy be related?

3. Briefly explain the importance of values and ethics in an organization.

4. What do you understand by corporate social responsibility? Explain the code of corporate governance.

## 13.17 FURTHER READINGS


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**13.18 Self-check Question (Answer Key)**

13.3

A. Strategic leadership

B. Recognizing the need for revitalization

Creating a new vision

Institutionalizing change.

C. Transformation process

13.8

D. Organisational culture

E. Values of individuals

F. Managerial decision making requires the interplay of both analytic and holistic faculties.

The final resolution of managerial conflicts lies in de-egoization of self.

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 14** **AUTHOR- SALONY KANSAL**

# FUNCTIONAL IMPLEMENTATION

## STRUCTURE


14.0 Objectives

14.1 Functional policies and plan

14.2 Difference between policy and procedure

14.3 Role of functional policies and plan

14.4 Development Of Functional Policies and Plans

14.5 Integration of Functional Policies

14.5.1 Internal consistency

14.5.2 Relevance to developing organisational capabilities

14.5.3 Making trade-off decisions

14.5.4 Intensity of linkages

14.5.5 Timing of implementation of policies.

14.6 Implementation at El Hotels

14.7 Summary

14.8 Glossary

14.9 Short Answer Question

14.10 Long Answer Questions

14.11 Further Readings

14.12 Self-Check Question (Answer Key)


## 14.0 OBJECTIVES

After studying this lesson, student should be able to:

- Understand the concept of functional policies and plans.

- Differentiate between policy and procedure.
- Understand the role of functional policies and plan in strategy implementation.
- The importance of integration of functional plans and policies.

Functional implementation deals with the development of policies and plans in different areas of functions, which an organisation undertakes. Every business organisation is built around two basic functions: production and marketing; to be in business, every organisation must produce goods or services and sell these to the customers. The resources that are used to perform and pay for these two basic functions constitute two other significant functions-finance and personnel. Thus, an organisation must formulate policies and plans in these functions to implement its strategy successfully.

## 14.1 FUNCTIONAL POLICIES AND PLANS

Integrated strategic planning system has significant dimension that coordinates the various plans from the top level of the organisation down through the lower levels. Such plans are coordinated at different levels so that planning efforts at a lower level contribute to the higher- level efforts. Thus, integration of various functions, their plans and efforts lead to effective implementation of strategy. The integration can be achieved if various functional plans are derived directly from strategic plans and that too at the level of their formulation. However, this may not always happen, particularly in the absence of proper guidelines. For, an organisation is a growing concern whose operational patterns have already been established which may not contributes to the type of integration needed at various levels. Further, the functional plans are prepared by almost at any level of the organisation. For example, the marketing manager develops overall marketing objectives, policies, action programs, budget, etc. His subordinates, in turn, develop supporting marketing plans covering each area of marketing operation-distribution, sales promotion, marketing plan-which are incorporated into overall plan of the organisation. Similar exercises are done in other functional areas which are incorporated into master plan for implementation. At all these levels, coordination is necessary which is not achieved automatically but through the development of policies. Policies are guides to action. They are in the form of specific statements or general understanding which provide guidance in decision making to members in respect of any course of action. They indicate how the task assigned to the organisation might be accomplished and provide a basis for lower-level managers on which to make decisions about the use of resources which have been allocated. But a policy does not tell the managers how to handle a specific activity; it is only a general guide to action. It limits the choices of managers in most cases but it does not limit them entirely.

## 14.2 DIFFERENCE BETWEEN POLICY AND PROCEDURE

Before we proceed to the discussion of development of functional policies, it is desirable to make a comparison of policy and procedure. A procedure is a series of related tasks that make up the

chronological sequence and the established way of performing the work to be accomplished. Thus, a procedure provides guidelines to organisational members about how to accomplish a work. A policy also provides guidelines for actions. Thus, there is a likelihood that confusion arises between policy and procedure as both provide guidelines for future course of action. However, this guiding aspect is different in policy and procedure. The major difference between the two can be identified as follows:

1. Policy provides guidance for managerial thinking as well as action. As a result, it does not tell a manager, how to do the things; it merely channels his decision-making along a particular line by eliminating his span of consideration. On the other hand, a procedure simply provides guidelines to the action by prescribing how an action can be performed step by step.

2. A policy is more flexible as compared to a procedure. Policy is more flexible because it prescribes the areas of discretion to managers, while procedure prescribes the exact sequence of the activities without scope of any variation. This difference between policy and procedure may be understood by an example. An organisation may have a policy' of granting vacation to its employees. For implementing this policy, certain procedure may be followed through which an employee may get leave and related benefits. A manager can refuse the leave to the employee concerned depending on the organisational situation. But the employee will have to follow certain procedure of applying for leave, completion of certain formalities to avail the benefits if leave is granted.,

3. Policy is more pronounced at higher levels while procedures are more prevalent at lower levels. At higher levels, managers are more concerned with looking into the totality of the organisational functioning and, therefore, they should prescribe policies, so that uniformity is maintained for particular action. People at lower levels are engaged mostly in routine work which can be better accomplished if the set standards are prescribed without leaving' any scope of discretion. Since external situations play more important role in policy formulation and its implementation, managers at higher levels must make many decisions which are not like the previous ones. Therefore, they have authority to vary an action according to the needs. At lower levels, no such problems arise.

## 14.3 ROLE OF FUNCTIONAL POLICIES AND PLANS

Functional policies play important role in strategy implementation. A functional policy is formulated basically to control and reinforce implementation of functional strategies and the corporate strategy. Control and reinforcement of strategy implementation are facilitated by functional policies in the following ways:

1. Through the functional policies, top management can ensure that strategy is implemented by all parts of the organization as policies cover almost entire activities of the organisation.

2. Policies specify the way things can be done and limit discretion for managerial action. Thus, the top management of the organisation can rest assured that all personnel of the organisation will direct their efforts in a way relevant for strategy implementation.

3. Policies provide guidelines for managerial decisions. This aspect of the policies serves the strategy implementation in two ways. First, there will be uniformity throughout the organisation in managerial action. Second, there will be considerable time savings in decision making as managers are aware what kind of actions are required in each situation.

4. Functional policies provide basis for control in respective areas as policies lead to consistent, pattern of behaviors: This, in turn, acts as basis for controlling.

5. Policies provide coordination across different functions. Coordination among different functions is very important for strategy implementation. All functions of an organisation are interdependent and interrelated. Therefore, what is happening in one function has its relevance for other- functions. All functions can contribute positively when they are performed in a coordinated way.

## 14.4 DEVELOPMENT OF FUNCTIONAL POLICIES AND PLANS

Managers develop policies, which are decision guides and make the strategy work. Therefore, the critical element involved in analytical exercise for policy making is the ability to factor the grand strategy into policies that are compatible, workable, and just theoretically sound. It is not enough for the managers to decide to change the strategy. What comes next is equally important: How do we get there? When? and how efficiently? A manager answers these questions by preparing policies to implement the strategy. For example, if an organisation chooses to go for diversification, the policy maker must decide what to diversify into, where to diversify, how much money will be needed, from where the money will come and what changes are needed in various functions of the organisation. The decisions on all these aspects are much easier if proper policies have been formulated. The amount of policy making in the formal sense will vary with the size and complexity °bf the organisation. If the organization is small one with simple business, only a few policies will be sufficient. Moreover, the policies are generally understood and verbal. However, in large and complex organizations, large number of policies are needed, in whatever forms, the policies are developed, they must be judged on the following criteria:

1. Do they exist in the areas critical to the success of the organisation?

2. Do they reflect present or desired organisational practices and behavior?

3. Are they clear, definite, and explicit leaving no scope for misinterpretations

4. Are they consistent with one another and do they reflect the timing in to accomplish the goals?

5. Are they practical in given existing or expected situations?

Self-Check Questions:

A. ………. coordinates the various plans from the top level of the organisation down through the lower levels.

B. ……. deals with the development of policies and plans in different areas of functions, which an organisation undertakes.

C. ……… is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished.

D. ………. is formulated basically to control and reinforce implementation of functional strategies and the corporate strategy.

## 14.5 INTEGRATION OF FUNCTIONAL POLICIES

When various functional policies have been developed for implementation of the strategy', implementation is not necessarily complete; if these policies are not properly integrated, they may not contribute properly towards strategy implementation. Integration in functional policies is necessary because they are interdependent; a particular policy affects other policies and, in turn, is affected by other policies. Functional policies may be considered like horses in a chariot. A chariot may have very good horses but it may not move forward even by an inch if some of the horses are pulling it forward and others are pulling it backward. The chariot may move forward at a high speed if all horses pull it forward at the same time. The considerations that guide strategists in the integration of functional policies may be as follows:

14.5.1. Need for internal consistency;

14.5.2. Relevance to developing organisational capabilities;

14.5.3. Making trade-off decisions;

14.5.4. Intensity of linkages; and

14.5.5. Timing of implementation of policies.

### 14.5.1 Internal Consistency

There is a need to be sure that there is internal consistency in the policies developed for various functions. Since various functions are interdependent, a decision for functionally dependent factors cannot be made without regard to their impact on other areas of business. Otherwise, sub-optimization is likely to result. For example, a major production decision variable is that of plant capacity. This decision depends heavily on, besides other things long-range sales forecast and the structure of distribution channel (marketing function), cost of capital and sources of

funds (finance function) and availability of relevant human resources (personnel function). Thus, plant capacity decision cannot be made in isolation of other factors.

### 14.5.2 Relevance to Organisational Capabilities

Integration of various functional policies should focus on developer organisational capabilities to implement the strategy effectively. For synergistic effects occur across functional areas and distinctive competence emerges because of deploying resources to the areas where the organisation wishes to build up its strategic advantages. This can be observed in the case of companies, which intend to be a market leader, low-cost producer, or technologically superior competitor, or the largest organisation. In all these alternative cases or a combination of integration of various functional policies would be necessary, though there may be difference in emphasis. For instance, the company, which wants to become a market leader, would have to offer products of the best possible quality at. competitive prices through an efficient distribution system supported by aggressive promotional efforts, as is the case with Hindustan Lever. For Reliance Industries which is to be the largest company in petrochemical sector, the emphasis must be on high technology', mobilization of large resources but not necessarily emphasizing distribution and promotion. Thus, integration of policies should aim at developing competencies relevant to the company's objectives as defined throughstrategy formulation.

### 14.5.3 Making Trade-off Decisions

In integrating various functional policies, the organisation faces the situation of trade -off decisions because of the inherent nature of each organisational function. The demand for optimizing a particular function may be in one way, for another function, in another way, which may be conflicting to each other. For example, production function's optimization may lie in the most modern technology, a costly affair; finance function's optimization may be least cost technology. Both are contradictory. Similar contradictions may be observed in other areas also. Therefore, there must be a trade - off among various functional areas, which may sub optimize some functional areas but may optimize the organisation. It is based on the maxim 'if you want to get something, you have' to lose something.' In applying this maxim in trade-off decision, the principle is what you get is more important than what you lose. This is true in the case of integration of policies.

### 14.5.4 Intensity of Linkages

All functions of an organisation are interdependent and interlinked; some directly, others indirectly. Types of linkage determine the level of integration of various functions. For instance, if the strategy is built on offering newer products, there would be greater linkage between R&D and production function; if the strategy is built on low-cost mass consumption items, there would be close linkage between production and marketing. Thus, intensity of linkages is not constant but moves according to the strategy.

### 14.5.5 Timing of Implementation of Policies

There should be integration in timing in putting different policies into action. This may bring better result for the organisation. For instance, if a company is facing resource crunch, it may be better to put off those plans and actions which may have long-term effect on it like R&D. Similarly, if the company is moving into high-tech area, more emphasis must be placed on training and development.

## 14.6 IMPLEMENTATION AT El HOTELS

Example of EIH Limited shows how it has chalked out its various functional policies and plans and how they contribute positively to each other and the organisation as whole. The company is the owner of famous Oberoi chain of hotels in India and abroad. With a very humble beginning in the hotel business, the company has the largest hotel chain in the country and the largest Indian hotel chain abroad. The company has followed continuous growth strategy through expansion since the very beginning. To achieve this feat, the company has implemented its strategy by taking integrated actions. Such actions include the various areas of hotel management namely construction and acquisition of hotels, interior decoration, foods and beverages, servicing, pricing, financing, marketing, manpower management, and delegation' of authority. In hotel management, many of these are quite unique in the sense that they require different approach as compared to their counterparts in industrial organizations. A discussion of these will show how El Hotels Limited has successfully implemented its strategy of growth.

**1. Construction and Acquisition of Hotels.** The company expanded its hotel business through the construction and acquisition of hotels. It concentrated on hotel of top category with 300 -500 rooms either for construction or for acquisition. The idea was that bigger than this size of hotel may lose its charm by becoming overcrowded while smaller than this size may not create much impact. The company also located its hotels in the central places of the cities, which might have initial higher costs but have various other advantages. It may be mentioned that location is an important factor in hotel business. Thus, the company has its hotels in all the major cities of the country, which can afford five-star hotels. It also opened hotels in Middle East, West Asia, Europe, Africa, and Australia wherever opportunitiesexisted. Overseas hotels have been opened through acquisition and marketing tie up. In negotiating hotel acquisition, the company emphasized on personal service and key personnel were deputed for the purpose so that deal could be struck within shortest possible time. In fact, in many cases, the chairman himself entered the deals. The idea was that owners and the government with whom the deals were taking place should be impressed that they were dealing with persons who had sufficient authority to make decisions of vital importance. This resulted into quick acquisition of hotels or fixing of marketing tie.

**2. Architecture and Interior Decoration**. The company has emphasized on architecture and interior decoration to an extent that each hotel looks unique. Each hotel has individuality,

which reflects the ambition, the culture, the magnificence, and the dreams of the people who go to these hotels. The graphics, the staff uniforms, the lighting, air conditioning, the plumbing, the maintenance, etc. have been of high grades. The hotel management works continuously with all associated with construction and maintenance of hotels. Thus, every minute details are worked out constructing and maintaining a hotel. So much attention is given maintenance that general managers of each hotel have been authorized spend 7 to 8 per cent of sales on maintenance and refurbishment. Ever: hotel has good shopping arcade which caters to the needs of foreign tourists specifically and attract them

**3. Foods and Beverages**. E I Hotels tries to ensure that best quality foods and beverages are served in all the hotels so that customers are attracted. These are supposed to be fresh. Quality and variety are maintained. Menu is changed quite frequently and every day some special dish is offered. The foods are prepared with right blending and foods and beverages arc served at right temperature. Since the hotel tries to attract foreign tourists, it has also recruited foreign chefs. It is the policy of the company that at least.one foreign chef is attached to every hotel to ensure good quality of international foods and beverages. It is the responsibility of every hotel manager to monitor the trained kitchen staff performance, guide them, and inspire them to perfection in their food preparation.

**4. Servicing**. Hotelier is primarily a service industry and there is very high significance of services offered in hotels. The company has adopted the policy of personalized services. Every customer, either coming to stay in the hotel or to dine in the restaurant is treated as valued guest. He is given an impression that the hotel wants his business. Such service is provided while the guest stays at hotels or he takes his food in restaurant. An attempt is made to take note of likings and disliking of the persons who visit the hotel so that when they visit next time, commensurate comforts are offered to them. Staff members have been instructed to say ‘our hotel’ instead of my hotel ‘while talking to the customers. This creates feeling of belongingness in the mind of customers.

**5. Pricing**. It is the policy of the company to offer the most expensive rooms in the cities in which it operates its hotels. However, at the same time, an attempt is made to provide the most value for money in terms of comforts, service, and status. When the prices are raised, these are not just adjusted for the rate of prevailing inflation but they commensurate with the comforts. The company adopts a customer mix to keep the occupancy Tate high in which 70 -80 per cent rooms are sold to groups at a lower price and 20-30 per cent at the higher prices. Attempt is made to attract foreign customers to the extent of 90 per cent so that high rates are ensured and at the same time, international status is maintained.

**6. Marketing**. E- I Hotels adopts comprehensive marketing strategy to achieve its objectives. In its marketing and promotional aspect, emphasis is put on the chain of chain is advertised and each hotel can gain from others. To sell the chain means selling the image of Oberoi. To achieve this, the company performs following activities. First, it utilizes the

opportunities for editorial coverage of its hotels and their various facilities. This provides ample opportunities for hotels publicity with due credibility. Second, in advertisement copies, the fact is emphasized that seven hotels of Oberoi group are listed in the 300 world's best hotels. Third, company concentrates on travel agents and sells them the chain for a group. Fourth, it concentrates on network representation. Fifth, attempt is made to attract individual travelers for repeat business and word of mouth publicity:

**7. Financing**. The company is very rigid in taking loans from financial institutions so that it does not get involved with them. It has the policy to work with its own money and then to work with public money through deposits, as these do not require any guarantee except the confidence in the company. This is the reason for high share capital of the company (Rs. 10.88 crore as compared to Rs. 6.64 crore of Indian Hotels Limited operating Taj group of hotels). It believes in fast collection of dues but at the same time, pays fast so that interest burden is reduced and the parties are kept, satisfied.

**8. Manpower**. Manpower management is very- strong aspect of the company. It believes in excellence of work and, therefore, requires people of very high caliber. Manpower planning is taken on long -term basis to find out what kind of people will be required at what time. The recruitment and selection process are very scientific and the candidates for various positions arc selected after a very rigorous exercise. Most of the people are taken as management trainees. They are provided very rigorous training. Training emphasizes manual work and an aptitude to work so that trained personnel can render personalized service. They see the hotel life as it really is shorn of its glamour. The level of discipline is very high almost soldierly. Since the company pays high money apart from so many perks, it has been able to attract and retain most capable persons.

**9. Authority Delegation**. The company has adopted the policy of decentralization of authority. For major corporate functions, there are vice presidents at the corporate office. A general manager who enjoys considerable authority, even the financial authority, heads each hotel. Each hotel is treated as independent unit and general managers can make any decisions within the framework of the guidelines provided by the corporate office. For example, they are free to spend 7 - 8 per cent of their revenue on refurbishment of the hotel. Similarly, they can make any decision to improve the image of their hotels. Delegation of authority not only provides opportunities to implement plans speedy but also provides training and motivation for employees.

## 14.7 SUMMARY

Functional implementation deals with the development of policies and plans in different areas of functions, which an organisation undertakes. Functional policies play important role in strategy implementation. A functional policy is formulated basically to control and reinforce implementation of functional strategies and the corporate strategy. Every business organisation is

built around two basic functions: production and marketing; to be in business, every organisation must produce goods or services and sell these to the customers. The resources that are used to perform and pay for these two basic functions constitute two other significant functions -finance and personnel. Thus, an organisation must formulate policies and plans in these functions to implement its): successfully.

## 14.8 GLOSSARY

- **Functional Implementation**: The process of executing strategic plans through the specific functions or departments within an organization to achieve established goals and objectives.
- **Functional Policy:** Functional policy is formulated basically to control and reinforce implementation of functional strategies and the corporate strategy.
- **Procedure:** Procedure is a series of related tasks that make up the chronological sequence and the established way of performing the work to be accomplished.
- **Integrated Strategic Planning System**: Integrated strategic planning system has significant dimension that coordinates the various plans from the top level of the organisation down through the lower levels.

## 14.9 SHORT ANSWER QUESTION

1. Explain the role of functional implementation.
2. Define internal consistency.
3. Explain making trade-off decision.

## 14.10 LONG ANSWER QUESTIONS

1. What do you mean by functional implementation of a strategy? What roles are played by functional policies and plans in strategy implementation?
2. Discuss the ways in which various functional policies and plans can be integrated.
3. What do you understand by policy and procedure? How both are different form each other?

## 14.11 FURTHER READINGS


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## 14.12 SELF-CHECK QUESTION (ANSWER KEY)

14.5

A. Integrated strategic planning system

B. Functional implementation

C. Procedure

D. Functional policy

MBA-DE(Second year) BPSM (401)

Semester- 4 BUSINESS POLICY ANDSTRATEGIC MANAGEMENT

Lesson no- 15 AUTHOR- SALONY KANSAL

# FUNCTIONAL IMPLEMENTATION-II

**STRUCTURE**


15.0 Objectives

15.1 Introduction

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15.5 Human Resources

15.6 General Management

15.7 Summary

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15.9 Short answer question

15.10 Long Answer questions

15.11 Further Reading

15.12 Self-Check Questions (Answer Key)


## 15.0 OBJECTIVES

After studying this lesson, student should be able to:

- Understand the nature of organizations and the ways in which they convert inputs to produce goods and services.
- Understand that the purpose of the purchasing, marketing, finance, and production functions.
- Understand the objectives of different business functions within overall organizational plan.

## 15.1 INTRODUCTION

Functional approach of organisational analysis considers various functional areas and evaluates these for identifying strengths and weaknesses. The major functional areas are production/operations, marketing, finance and accounting, and human resources. Each of these major areas is divided into sub areas, for example, marketing is divided into sales promotion, physical distribution, sales volume, and so on. Similar is the case with other functional areas. Besides these functional areas, organization's general management factors are also taken into, consideration. Thus, in functional approach of organisational analysis, following factors are evaluated to identify strengths and weaknesses:

- Production/operations,
- Marketing,
- Finance,
- Human resources, and
- General management.

In the discussion that follows, various features of these factors, indicating strengths and weaknesses have been presented. While using these features in respect of various factors, two Doings should be taken into consideration:

1. These features provide a normative and suggestive list; in actual practice, these factors may vary depending on the nature of organizations.

2. Since organisational analysis is meant to relate strategy to environment, it is always future oriented. Therefore, these factors should not be evaluated on static basis but on dynamic basis in the context of environment. In fact, in many cases, the present strengths may turn to be weaknesses because of environmental changes. Various factors have been presented, here, in a sequence for the sake of convenience in analysis and not in order of their importance.

## 15.2 PRODUCTION/OPERATIONS

Production / Operations processes are the mediating factors for converting raw. materials into finished products. There are various factors, which affect the internal operations of the organisation, and these factors should be considered while appraising the organization’s capabilities in these areas.

1. **Allocation and use of resources:** The degree of an organization’s success or failure depends on the degree of effective allocation and use of resources. Resources do not mean only money, building, and plant but also the scarce resources of management talent, capability, and technical skills. An organisation making well balanced allocation and use of its resources is in a better position to face challenges from the environment. The allocation and use of resources can

be balanced by considering the need for various activities contributing to the objectives, their criticality, and resource requirements.

**2. Rationalization of Resources**: Another important aspect of using resources is their rationalization. This problem is more important in the context of multiunit organizations. For example, a multiunit organisation may have many plants and offices with duplication of various efforts. The extent to which the duplication is avoided, the company becomes strong as cost of duplication is a burden on the organisation.

**3. Locational Pattern:** Though vocational pattern is affected by many factors, both economic and noneconomic, it affects the operational efficiency of the organisation. Such locational pattern can be analyzed both for plants as well as for administrative offices. The extent to which organization's plants and offices are located at favourable places, it stands to benefits and that is a strength for it. For example, opening of plants in backward areas may offer various advantages Because of incentives from the government, but opening of administrative offices may not offer the similar advantages. This is the reason why many companies go for backward areas for establishing production facilities but open offices in well developed areas, for example, Fort area in Mumbai or Cornage area in Kolkata.

**4. Production Capacities and its Use**: The use of production capacity affects the profitability of the organisation. High use of production capacity is strength but a low use of this is a weakness because the organization's cost of production in case may be very high.

**5. Cost Structure:** The cost structure of the project affects the organiztion's profitability. If the cost of product is high, it is a weakness. Moreover, the extent to which cost cannot be controlled is also weakness of the organisation. Thus, low cost with high level of controllability is a strength and high cost with low. level of controllability is weakness.

**6. Cost Volume Profit Relationship**: While cost structure gives the general idea of high or low cost, cost volume profit relationship suggests the profitability of the organisation at various levels of production. If the relationship is such that it gives break even at high level of production with low margin of safety, it is weakness for the organisation, On the other hand, if breakeven point is low with high margin of safety, it is strength for the organisation.

**7. Operation Procedures**: Efficient and effective operation procedures like production design, scheduling, output, and quality control affect the internal efficiency of the organisation. As such, these are the strengths for the organisation, and opposite of these will be weakness because these will affect organisational efficiency adversely.

**8. Raw Materials Availability**: The extent to which the raw materials arc critical and scarce and are supplied from very limited sources; the organizational functioning is adversely affected. In such a case, the organisation does not have any control or has very limited control over the supply of raw materials. Hence, its dependence on the limited sources of supply of raw

materials is a weakness. If the company is procuring its materials from well diversified sources and the materials are easily available indigenously, its dependence is less, which is a strength for it.

**9. Inventory Control System:** An efficient inventory control system, which pinpoints on the various aspects of materials, provides strength to the organisation because it can control and regulate the procurement of materials in such a way that its cost is minimum and there is no unnecessary hindrance in the production. A defective and nonexistent inventory control system is a weakness.

**10. Research and Development**: Research and development is an important area where management should concentrate because of two reasons. First technical collaboration with any foreign organisation lasts up to five years with an extension three years in exceptional cases. The government stipulates that local organizations, should develop its R&D during this period. Second, there are special tax benefits on the expenditure of R&D and products developed out of the organization's R&D efforts. To take the advantages, the organisation must take R&D activities and. must evaluate as how these are contributing to the organisational product development. R&D activities can be evaluated in terms of amount spent on them, number of products developed, or number of patents registered by inside R&D. A high score on these items is strength of the organisation.

**11. Patent Rights:** Organizations holding certain patent rights under which they can use some well-established brand names have certain advantages because they have not to incur any extra expenditure for promoting the brand. Based on the above discussion, the major strengths, and weaknesses in the field of production/operations can be identified as depicted in Table below

Strengths and weaknesses in production / operations

| **Strengths** | Weakness |
|---|---|
| Well-balanced allocationanduse of resources | Defective allocation anduse of resources |
| Favourable locational pattern of plants andoffices | Unfavorablelocational |
| Adequate use ofproduction capacity | pattern of plants and offices |
| Low cost ofproduction | Inadequate use of productioncapacity |
| Low break-evenpoint | High cost ofproduction |
| Efficient and effectiveprocedures | High break-evenpoint |
| Abundant and multi sourcesof | Ineffectiveprocedures |
| Effective inventorycontrol | Scarce and limited sources of |

| Adequateandeffectiveresearch anddevelopment | Ineffectiveinventory'control |
|---|---|

## 15.3 MARKETING

Marketing factors are of prime importance for a business organisation as it relates itself to its environment through marketing functions. The managers should appraise the organisation in the light of various marketing factors considering how these factors are contributing or not contributing to the achievement of organisational objectives and how long they will continue to do so if the same position continues. Prominent marketing factors taken for evaluation are as follows.

### 1. Competitive Competence

Business organizations must operate in a competitive field, except in the case of protective markets where markets are not defined by individual company or market factors but by nonmarket factors. The organization's competitive competency can be appraised based on trends in market shares for which the information can be made available from various outside sources as well as through the organization's own marketing research department. Apart from market shares, many other factors also go in determining the competitive competence as described below.

### 2. PRODUCT MIX.

Product mix decides the various sources of revenue to the organisation. This is true not only for a diversified organization but even for a single class. If the revenue is coming from a single product or from very limited number of products for a diversified company, this may be its weakness.

### 3. Product Life Cycle

Product life cycle is an attempt to recognize distinct stages in the sales history of the product. Corresponding to these stages are the various marketing opportunities and threats. Normally every product and brand must pass through a life cycle: introduction stage, growth stage, maturity stage, and declining stage. Products at declining stage are the weak point for the organisation and adequate precaution must be taken.

### 4. Marketing Research

Marketing research offers the information for taking various marketing decisions in the

light of the environmental, demand. The efficient and effective marketing research system is strength for the organisation because it will enable to relate the organisation with its environment through suitable strategy.

## 5. Channel of Distribution

An effective channel of distribution is strength of the organisation because it not only distributes the products at the points where these are needed but also provides the feedback regarding the changes in the market forces. However, a centralized distribution channel may be a weak point because it may weaken the organization's position at the time of emergency.

## 6. Sales Force

An effective and efficient sales force closed with key customers is a strength for the organisation because it may withstand any threat posed by the environment. However, sales force concentrating sales efforts to a few customers may be weakness.

## 7. Pricing

Pricing is a factor, which affects both sales as well as revenue to the organisation, particularly in price sensitive markets. Though there can be different pricing strategies in different markets and at different product life stages, these must match with the product and market.

## 8. Promotional Efforts

Various promotional efforts affect the positioning of the products in the market. They also affect the brand images as well as the general image of the organisation. Effective promotional efforts are strength for the organisation and their absence a weakness. Based on the analysis of various factors of marketing, strengths and weaknesses in this area are presented in Table below

Strengths and weaknesses in marketing

| | Strengths | | Weaknesses |
|---|---|---|---|
| 1. | Favourable company image | 1. | Poor company image |
| 2. | Diversified product-mix | 2. | Single or limited product |
| 3. | High market share | 3. | Low market share |
| 4. | Growing or maturing stage of product life cycle | 4. | Declining product life cycle |
| 5. | Effective and efficient distribution channel | 5. | Ineffective distribution channel |
| 6. | Efficient and motivated sales force with contacts with large number of customers | 6. | Inefficient sales force with limited contact with customers |

| | | | |
|---|---|---|---|
| 7. | Efficient promotional efforts and proper product positioning | 7. | Lack of promotional efforts |
| 8. | Efficient marketing research and feedback system- | 8. | Defective or no marketing Research |
| 9. | Pricing commensurate with product and market features | 9. | Pricing unrelated to product and market features |
| 10. | Review and updating of marketing strategy. | 10. | Stagnant marketing strategy. |

## 15.4 FINANCE

Finance area deals primarily with raising, administering, and distributing financial resources to various activities so that a proper balance is maintained and the organisation achieves its objectives. Since the objective achievement is often expressed in monetary terms, the areas of finance and accounting have assumed added importance. The extent to which the organisation has effective financial management and accounting system, it is strong. The strengths and weaknesses in the areas of finance and accounting can be ascertained in the following ways.

### 1. Capital Cost

The various sources through which the organisation raises its financial funds determine the capital cost. A proper balancing of various sources of financing ensures that the overall cost of capital for the organisation is low. While determining the sources for funds, various factors can be considered, such as debt/equity norm, capital market position, profitability of organisation, and various conditions attached with funds. A low capital cost is a strength and high capital cost is weakness.

### 2. Capital Structure

Capital structure of an organisation determines the scope for flexibility in raising additional capital needed, maintaining financial leverage, and maintaining minimum capital cost. An effective capital structure is strength which provides for greater flexibility for raising funds and appropriating various sources of funds to take advantages of trading on equity.

### 3. Financial Planning

Financial planning is the determination, in advance, of the quantum of capital requirement and its forms. Thus, it determines what types of assets will be required to run the business and how much capital will be required for this, time when the capital is required, and from where the necessary capital will be available. If the organisation plans all these things well in advance, it stands to benefit and thus, it is its strength.

### 4. Tax Benefits

Tax benefits are partly the result of efficient financial planning and partly the result of environmental variables, particularly government policy. If the organisation is planning its investment pattern properly, it takes the advantages of tax benefits under the provisions of Sections 32A. 801, 80HH, 35 (2ia), and 35(28a). Advantages under these provisions may reduce the tax liability of the organisation to a very low level or even 'zero level, consequently improving its liquidity. Similar advantages may accrue in indirect, taxes also.

**5. Pattern of Shareholding**

The pattern of shareholding decides the type of threats the organisation may fare regarding its takeover by another company or group. If the shareholding is widely distributed, the company and its present management can run things smoothly and can think in long-term perspective. Thus, wider shareholding provides strength to the organisation but concentration of shareholding even in the hands of financial institutions may be a weakness.

**6. Relationship with Shareholders and Financiers**

The type of relationship between the company and its shareholders and financiers determines the type of risk that the company can take. If such relationship is cordial, the company can go for smooth working even in case of adversity and can undertake major policy changes. The role of shareholders and financiers is quite important in formulating and implementing these policies because such actions can be taken only after their approval.

**7. Accounting Procedures**

Efficient accounting procedures and systems for costing, budgeting, profit planning, and auditing not only determine that there is no misappropriation of funds but also provide feedback for further course of action. They provide information at the points where it is needed and the time when it is needed. Absence of such systems provides inefficiency in the organisation and it cannot know the way in which it is progressing. Based on above discussion, the major strengths, and weaknesses in finance are presented in Table

| Strengths | Weaknesses |
|---|---|
| 1. Low capital cost | 1. High capital cost |
| 2. Sound capital structure Structure | 2. Defective and rigid capital |
| 3. Sound financial planning and proper capitalization | 3. Bad financial planning either over or under-capitalization |
| 4. Antares of tax | 4. High incidence of taxes |

| | |
|---|---|
| concessions | |
| 5. Widely distributed shareholding | 5. Shareholding in a few hands |
| 6. Cordial relations with shareholders and financiers financiers | 6. Lack of cordial relations with shareholders and |
| 7. Efficient and effective accounting systems and procedures | 7. Lack of proper accounting systems and procedures |

## 15.5 HUMAN RESOURCES

In organisational analysis, often, human resources are not given adequate importance because of the perception that these resources do not contribute to organisational success. This perception was valid in preliberal zed era, when most of the organizations were operating in protected markets. However, post liberalization, the competitive scenario has changed from sellers' market to buyers' market in which organizations are using human resources as a means for developing competitive advantage. In this context, Ghoshal has observed as follows: A growing number of managers in India and abroad have begun to r recognize that the fundamental basis of competition has begun to change. The scarce resource, and the primary source of competitive advantage, is no longer physical or financial capital, but human capital. As large asset based companies like TISCO see the market value of pygmies like Infosys soar past theirs, the notion of competing through people has been transformed from a fashionable and politically correct statement to a serious cause for concern Similar view has been expressed by leading organizations of the country. The importance of analyzing human resources is as follows:

1. Human resources handle all physical and financial resources in an organisation. Without their efforts, these nonhuman resources remain idle. In this context, Likert observes that "all the activities of any enterprise are initiated and determined by the persons who make up that institution: plants, offices, computers, automated equipment is, and all else that a modem firing uses are unproductive except the human efforts.

2. Human resources are the source of creative energy. In today's dynamic world, creativity is vital to every organization. Creative thinking is the process of bringing a problem before one's mind clearly by imagining, visualizing, supposing, musing, contemplating, or the like, and then originating an idea, concept, realization, or picture along new or unconventional lines. People in the organisation are the only source of such creativity. They can produce unlimited ideas. There is no apparent limit to what people can accomplish when they are motivated to use their potential to create new and better ideas. No other resource in the organisation can do that.

Human resources can be used as a means for developing competitive advantage which may be in the form of lower cost of production, development of products for special needs, unique means for marketing the products, developing means for raising funds at lower cost, etc. Since human resources do all these, they can be geared to achieve all these. In analyzing human resources, following factors are taken into consideration:

**1. Quality of Personnel**

Quality of personnel employed by an organisation is a key determinant of its success. The quality of personnel includes their knowledge, skills, attitudes, and motivation to work. If all these characteristics are favourable, these are strengths as these can be used as a means for translating physical and financial resources into outputs in a better way.

2**. Personnel Turnover and Absenteeism**

Personnel turnover, particularly at managerial and technical levels, is a big problem for organizations in today's context. In knowledge-based industries like information technology, consultancy, etc., this problem is even more acute. Since organizations build their strategies around the personnel available at present or available Yi future, retention of personnel is a significant issue. To the extent, an organisation can retain its key personnel, it has strength. Coupled with personnel turnover is personnel absenteeism. Those organizations, which can manage personnel turnover and absenteeism, have strengths.

**3. Industrial Relations**

Industrial relations are a basic element for the success of the organisation particularly in ice age of frequent industrial relations problems. Better industrial relations are strength for the organisation. The state of industrial relations can be measured considering the breakdown in work because of employee agitation or noncooperation, number of industrial disputes, number of grievances from the employees, employee absenteeism and turnover, and their willingness to accept change in the organisation. Based on the above discussion, major strengths, and weaknesses in human resources are presented in Table below

Strengths and weaknesses in human resources area

| Strengths | Weaknesses |
|---|---|
| 1. Highly skilled personnel | 1. Low skilled personnel |
| 2. High learnability | 2. Low learnability |

| | | | |
|---|---|---|---|
| 3. | Favourable attitudes to change | 3. | Unfavorable attitudes to change |
| 4. | High motivation and morale | 4. | Low motivation and morale |
| 5. | High personnel retention | 5. | High personnel turnover |
| 6. | Low personnel absenteeism | 6. | High personnel absenteeism |
| 7. | Effective industrial relations | 7. | Ineffective industrial relations |

## 15.6 GENERAL MANAGEMENT

Various factors discussed above are, no doubt, important but they cannot work well without the support of suitable leadership and various management practices. These are the integrating force of an organisation. Therefore, strategists should analyze these factors to identify strengths and weaknesses.Following factors are relevant in this category:

### 1. Leadership

Leadership is the process of winning enthusiastic support of personnel in den organisation. It is one of the major determinants of organisational success. Good leadership characterizes most of the organizations, which have achieved high success, and they place emphasis on transformational leadership as against transactional leadership. A transformational leader inspires his followers through high vision and energy. A transactional leader determines what subordinates need to do to achieve objectives, classifies those requirements, and helps the subordinates become confident that they can reach objectives.

### 2. Top Management Constitution and Philosophy

Top management contributes the lifeblood for the total organisation. Its constitution and philosophy are strong determinants of organisational success. Organisation characterized by age-old and traditional management is less likely to succeed in the environment of growing competition. Enterprising approach of top management is also an important factor determining the growth of the organisation. Thus, future oriented top management: having enterprising professional approach is strength of the organisation.

### 3. Organisational Image and Prestige

Organisational image and prestige affect the organizational working by providing it various facilities and constraints better image and prestige providing facilities and low image and prestige providing constraints. The measurement of corporate image and prestige, however, is quite difficult because of the absence of any quantitative criteria. For this purpose, various indicators can be considered, such as appraisal of organisational working by third parties,

willingness of financial institutions to advance loans, customers' loyalty towards the products offered by the company, level of satisfaction to suppliers and creditors of the company, importance attached To the statements by the company, etc. A favourable reaction on these factors is an indicator of better company image and prestige which is a strength for the company.

**4. Organisational Climate**

Organisational climate is the internal set of attributes specific to ar. organization that may be induced from the way the organisation deals with its members. Thus, may be relationship is built upon the basis of how the former treats the latter. Organisational climate can be measured by considering how its members react to various actions, how willingly they cooperate with it in achieving its objectives, and how satisfied they are with the organisation. A sound organisational climate based on mutual trust and confidence and human consideration is strength for the organisation.

**5. Management Practices**

The extent to which the organisation follows various management practices affects its success. High scores on managerial practices in respect to strategic planning, objective control and evaluation system, management information system, and manpower planning and succession plan are strengths of the organisation.

**6. Organisation Structure**

Organisation structure is network of internal relationship through which individuals interact among themselves in the context of organisational matters. A suitable organization structure is strength for the organisation. The suitability of organisation structure is not universal phenomenon but is determined by the organization's environment, technology, size, and people. Thus, a suitable organisation structure is one, which meets the demands of all these factors.

**7. Organisational External Relationships**

As discussed earlier, the organisation must work in environment where large number of factors exists. These factors affect the organisational operations by offering facilities and constraints to it. The extent to which the organisation builds relationships with the factors offering such facilities and constraints, including government and other regulatory bodies, its success or failure is determined. If its relationship with the various external forces is good, it stands to affect these forces favorably making use of most facilities and avoiding constraints, hence strength for the organisation. Bas ed on the above discussion, major strengths, and weaknesses in general management can be summarized as given in Table below

Strengths and weaknesses in general management

| Strengths | Weaknesses |
| --- | --- |
| 1. Transformational leadership | 1. Transactional leadership |
| 2. Future-oriented top management | 2. Present-oriented top management |
| 3. High organisational image and prestige | 3. Low organisational image and prestige |
| 4. Sound organisational climate based on mutual trust and respect | 4. Low organisational climate basedon authoritarian culture and mutual suspicion |
| 5. Sound and suitable management practices | 5. Ineffective management practices |
| 6. Suitable organisation structure consistent with external and internal demands | 6. Lack of well-defined or ill-defined organisation structure |
| 7. Well-maintained external relationships | 7. Lack of external relationships |

## 15.7 SUMMARY

Functional approach of organisational analysis considers various functional areas and evaluates these for identifying strengths and weaknesses. The major functional areas are production/operations, marketing, finance and accounting, and human resources. Each of these major areas is divided into sub areas, for example, marketing is divided into sales promotion, physical distribution, sales volume, and so on. Similar is the case with other functional areas. Besides these functional areas, organization's general management factors are also taken into, consideration. Thus, in functional approach of organisational analysis, various factors are evaluated to identify strengths and weaknesses like Production/operations, Marketing, Finance, Human resources, and General management.

## 15.8 GLOSSARY

- **Functional Implementation**: The process of translating strategic plans into specific actions and initiatives within individual functional areas of an organization.
- **Resource Allocation:** The strategic distribution of resources, including finances, personnel, and technology, to support the execution of functional activities aligned with the overall strategic plan.

- **Marketing Implementation:** The execution of marketing strategies and tactics to achieve specific marketing objectives and contribute to the overall success of the strategic plan.

- **Financial Management:** The effective management of financial resources, budgeting, and financial processes to support functional activities aligned with strategic goals.

## 15.9 SHORT ANSWER QUESTIONS:

1. Explain major strengths of production function.

2. Note down the weakness regarding human resources.

3. What could be the major strength of general management?

4. Explain functional implementation.

## 15.10 LONG ANSWER QUESTIONS

1. What are the strategic factors relevant to measure organizational strengths and weaknesses? Do you think that considerations of the human resources are of any use in assessment of organizational capability? How?

2. Do you think that considerations of the marketing are of any use in assessment of organizational capability? How?

3. Do you think that considerations of the general management are of any use in assessment of organizational capability? How?

4. Do you think that considerations of the marketing are of any use in assessment of organizational capability? How?

## 15.11 FURTHER' READINGS


- Fred R. David, Strategic Management- Concepts and Cases, Pearson Education, 10th Edition,2005

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## 15.12 SELF-CHECK QUESTION (ANSWER KEY)

15.4

A. Capital structure

B. Financial planning

C. Marketing research

MBA-DE(Second year) BPSM (401)

Semester- 4 BUSINESS POLICY AND STRATEGIC MANAGEMENT

Lesson no- 16 AUTHOR- SALONY KANSAL

# EVALUATION OF STRATEGY

STRUCTURE

16.0 Objectives

16.1 Introduction

16.2 Process of Evaluation

16.3 Role of Strategic Evaluation and control

16.4 Participants in Strategic Evaluation and control

16.5 Barriers in Strategic Evaluation and Control

16.6 Summary

16.7 Glossary

16.8 Short Answer Question

16.9 Long Answer Questions

16.10 Further Readings

16.11 Self-Check Question (Answer Key)

## 16.0 OBJECTIVES

After studying this lesson, student should be able to:

- Understand the process of Evaluation
- Understand the role and barriers of Strategic Evaluation

## 16.1 INTRODUCTION

Strategy evaluation is the last stage of the strategic management process and comes after strategy formulation and implementation as shown below.

STRATEGY FORMULATION ---------STRATEGY IMPLEMENTATION-----STRATEGY EVALUATION

An organization can have one of the best formulated and implemented strategies but if the evaluation of these is not done, they become obsolete over a period. Therefore, it becomes important to have an effective evaluation system to help the organization to achieve its objectives. The evaluation process involves the control mechanism, which helps in taking corrective actions.

Glueck and Jauch have defined strategic evaluation as follows:

"Evaluation of strategy' is that phase of the strategic management process in which the top managers determine whether their strategic choice as implemented is meeting the objectives of the enterprise.

There are two aspects in this phase of strategic management: evaluation which emphasizes measurement of results of a strategic action and control which emphasizes on taking necessary actions in the light of gap that exists between intended results and actual results in the strategic action. However, because of on-going nature of strategic evaluation and control process both these are intertwined. In practice, the term control is used in a broad sense which includes evaluative aspect too because unless the results of an action are known, control actions cannot be taken.

## 16.2 PROCESS OF EVALUATION

The key to a successful strategy is the effective implementation and evaluation system. Any kind of error in the strategic decisions will harm the organization, which in the long-run may be highly dangerous. Therefore, it is very necessary for the management to have a continuous evaluation system based on which the corrective actions may be taken. Figure shows the process of evaluation.

The first phase of this process consists of selecting the key success factors, developing measures, and setting standards for the same, and collecting information about actual state (performance on these measures). The second phase consists of comparison with the standards laid down and initiating action to alter performance, wherever necessary. The follow up action could relate to people/business or both and could be tactical or strategic. For instance, if the business has not picked up as expected, it may be necessary to increase promotional efforts, orrevise the product policy, or as a last resort, the fi rm may pull out of a particular business.

Reward or corrective action possibilities

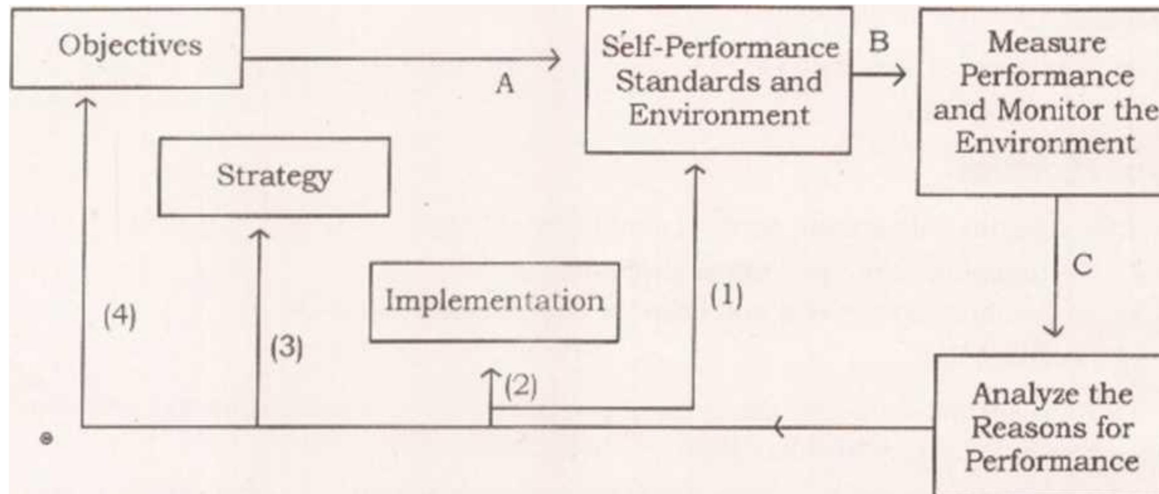


Figure 1: Evaluation of Strategy

It is necessary to maintain a distinction between the follow up action towards business/ people and evaluation/control process. If major changes in environment have taken place and if major assumptions about environment have gone wrong, it may be improper to give credit or discredit to the people for the deviation in performance from standard set. At the same time good performance of a strategy may not be due to good performance of the people as there may be windfall gains due to changes in the environment not imagined at the time of setting the standards of performance or targets. It can be realized that the process of evaluation is quite complex and there are several pitfalls in proper evaluation and control. The success of an organization is gauged by its effectiveness and efficiency. Effectiveness is measured by the degree to which the organization has achieved its objectives while efficiency refers to the manner of resource utilization for achieving the output. The two can thus be represented as below:

a) Effectiveness = Output/ Objectives

b) Efficiency = Output/ Input

It is easy to evaluate efficiency by comparing output/input of various organizations or organization units with one another. Input, by and large, are always quantifiable. An organization is more efficient than the other if it uses less resources (inputs) than another, the same output or if for the same input it gives more output. The latter case requires output to be measured in quantitative terms and hence is more difficult to assess. Measurement of effectiveness has both numerator and denominator which are comparatively more difficult to quantify. Hence assessment of effectiveness is more difficult than the assessment of efficiency of the organization. The success of corporate strategy should be evaluated both in terms of efficiency

and effectiveness. It is, however, not common to find an efficient but ineffective organization or vice versa. In a profit-oriented organization, profit becomes a surrogate measure for both efficiency as well as effectiveness. Profit is the difference between revenue and expense, and thus is a measure of efficiency. Being the objective itself, profit also becomes a measure of effectiveness. In organizations with multiple objectives, the situation is different if the surrogate measures like profit arc not available/not sufficient for evaluating the strategy. In such cases the major problem in evaluating the strategy I to develop measures for evaluating the strategy. The problem is solved by identifying the key variables or key success factors which are measures of performance of certain key activities of the organization.

## 16.3 ROLE OF STRATEGIC EVALUATION AND CONTROL

Strategic evaluation and control, though very' important phase of strategic management, is often overlooked by strategists on the premise that once they have formulated a strategy and implemented, their role in strategic management is over. They remain mired with daily control reports, which can be taken even at lower levels. This approach may be all right when there is not high stake involved in a strategy but fatal when the stake is high. Without strategic evaluation and control, strategists have no means to measure whether the chosen strategy is working properly or not. When strategic evaluation and control is undertaken properly, it contributes in three specific areas:

1. Measurement of organisational progress,
2. Feedback for future actions, and
3. Linking performance and rewards.

### 1. Measurement of Organisational Progress

Evaluation and control measures organisational progress towards achievement of its objectives. When a strategy is chosen, it specifies the likely outcomes, which are relevant for achieving organisational objectives. The strategy is not an end in itself; it is a means for achieving something valuable to organisational success. Therefore, measuring this success because of strategy implementation is a prime concern for every strategist. This measurement should be undertaken during the process of strategy implementation as well as after implementation to ensure the progress as quickly as possible so that remedied actions arc taken at appropriate time.

### 2. Feedback for Future Action

Strategic management being a continuous process with no apparent beginning and end, evaluation and control provides clues for recycling various actions, which are relevant for achieving organisational objectives. This is possible only when strategic planning and control are well integrated. How control as a feedback mechanism helps in future course of action. Thus, control activities are undertaken in the light of criteria set by a strategic plan. But at the same

time, control provides inputs either for adjusting the same strategic plan or taking future strategic plans. This is the way organizations progress over the period. They take a strategic action, implement it, and find its results. If the results are in tune' with what were intended the similar types of strategic actions are taken in future. Thus, there is a chain of strategic plan actions and control.

### 3. Linking Performance and Reward

This is the most crucial aspect of strategic evaluation and control but many organizations fail in linking performance and reward. This happens not only at the level of different organizations but even for a country. For example, Abegglen has observed that "the dispersion of part of the rewards by the organizations without regard to performances is more common in the less modem parts of the country than in the more advance ones, and in less developed than in more developed countries. It is one of the reasons why organisational control is less effective in less developed countries. Thus; linking performance and reward is a big issue. If taken objectively, evaluation and control provide inputs for relating performance and reward. This linking is vital for motivating organizational personnel more so in an era when there is not only fight for market share out for human talent too. A performance-based motivation system works better than the one, which considers factors other than performance.

**Self-Check Questions:**

A. Which is the last stage of strategic management process?

B. ……… is the phase of the strategic management process in which the top managers determine whether their strategic choice as implemented is meeting the objectives of the enterprise.

C. A ………. based motivation system works better than the one, which considers factors other than performance.

## 16.4 PARTICIPANTS IN STRATEGIC EVALUATION AND CONTROL

Since strategic evaluation and control is a part of strategic management process, all those persons who participate in strategy' formulation and implementation should also participate in strategic evaluation except those who act in advisory capacity. Board of directors, chief executive, other managers, corporate, planning staff, consultants participate in strategic management process. Out of these corporate planning staff and consultants act either advisors or facilitators Thus, three groups of personnel are actively involved in strategic evaluation and control though their areas of evaluation and control differ. In some cases, outside agencies like financial institutions or government, mostly to the case of public sector enterprises also participate in strategic evaluation and control either through their participation in board of directors or having power to interfere with management practices. However, the role of financial institutions in strategic evaluation and control is quite limited excel through their nominees on board of directors. In the case of public

sector enterprises, the role of government in strategic evaluation is perform'" through nomination of board members and through controlling ministries of enterprises. In some specific situations, authorities may be constituted at above the board level to evaluate the performance of group companies. For example, Tata Group has set up Group Executive Office (GEO) and Business Review Committees (BRCs) to review the performance of groups companies numbering about one hundred. If we exclude this case, the role of board of directors, chief executive, and other managers in strategic evaluation and control is quite significant.

**Role of Board of Directors**

Board of directors of a company, being the trustee of shareholders' property, is directly answerable to them. Thus, board should be directly involved in strategic evaluation and control. However, since board does not participate in day-to-day management process, it evaluates the performance of the company concerned after certain intervals in its meetings. Therefore, the role of board of directors is limited to evaluating and controlling those aspects of the organisational functioning, which have long-term implications. Such aspects are overall financial performance, overall social concern and performance, and certain key management practices having significant impact on organization's long term survival Generally, the evaluation and control information used by the board is concise but comprehensive as compared to control reports used at lower levels.

**Role of Chief Executive**

The chief executive of an organisation is responsible for overall performance. Therefore, his role is quite crucial in strategic evaluation- and control. Though he is not involved in evaluation of routine performance, which is left to other managers, he focalizes his attention on critical variations between planned and actual. Generally, he applies the principle of management by exception, which is a system of identification and communication of that signal which is critical and needs the attention of a high -level manager. Depending on the size of the organisation, the chief executive's role varies in the" context of evaluation and control on day-to-day basis. In a smaller organisation, the chief executive may, perhaps, be interested in daily production and cost figures, but in a large organisation, these become unimportant for him from his control point of view. Thus, in a large organisation, the chief executive is more involved on controlling through return on investment, value added, and other indicators, which measure performance of overall organisation.

**Role of Other Managers**

Besides board of directors and chief executive, other managers are also involved in strategic evaluation and control. These are finance managers, SBU managers, and middle-level managers.

. Their role in strategic evaluation and control is as follows:

1. Finance managers are primarily concerned with finding out deviations between planned and actual performance expressed in monetary terms. These are done through financial analysis, budgeting, etc.

2. SBU managers are responsible for overall evaluation and control of their respective strategic business units. In fact, they are the chief executives of their own SBUs except that they report to the chief executive of the organisation from whom they seek directions.

L Middle-level managers, mostly functional managers and subunit managers are responsible for evaluation and control of their respective functions and sub-units. These managers are more concerned with day-to-day operational control and prepare reports to be used by higher-level managers. For example, a production manager is more interested in controlling production volume, production cost, product quality, etc. .

## 16.5 BARRIERS IN STRATEGIC EVALUATION AND CONTROL

Strategic evaluation and control being an appraisal process for the organisation as a whole and people who are involved in strategic Management process either at the stage of strategy formulation or strategic implementation or both, is not free from certain barriers and problems. These barriers and problem center around two factors: motivational and operational. Let us see what these problem are and how these problems may be overcome.

### Motivational Problems

The first prd k- n in strategic evaluation is the motivation of managers (strategists) to evaluate whether they haw chosen* correct strategy after its results are available. Often two problem; are involved in motivation to evaluate the strategy: psychological problem and lack of direct relationship between performance and rewards

### 1. Psychological Barriers

Managers are seldom motivated to evaluate their strategies because of the psychological barriers of accepting their mistakes. Top management formulates the strategy, which is very conscious about its sense of achievement. It hardly appreciates any mistake it may community at the level of strategy formulation. Even if something goes wrong at the level of strategy formulation, it may put the blame on the operating management and tries to find out the faults at the level of strategy implementation. This over-conscious approach of top management may prevent the objective review of whether correct strategy has been chosen and implemented. This may result into delay in taking correct alterative action and bringing the organisation back at satisfactory level/This happens more in the case of retrenchment strategy, particularly divestment strategy where a particular business has failed because of strategic mistake and to save the organisation from further damage, the business must be sold.

### 2. Lack of Direct Relationship between Performance and Rewards

Another problem in motivation to review strategy is' the lack of direct relationship between performance achievement and incentives. It is true that performance achievement itself is a source of motivation but this cannot always happen. Such a situation hardly motivates the managers to review their strategy correctly. This happens more in the case of family- managed businesses Where professional managers are treated as outsiders and top positions, particularly at the board level, are reserved for insiders. Naturally very bright managers are not' motivated to review correctness or otherwise of their strategy. The family managers of such organizations arc ever, more prone to psychological problem of not reviewing their strategy and admit their mistakes. Thus, what is required for motivating managers to evaluate their performance and strategy is the right type of motivational climate in the organisation. Linking performance and rewards as closely as possible can set this climate. This linking is required not only for the top level but for the lower down in the organisation too. Many forward-looking companies though few in. number, have taken this step when they have adopted the policy of taking board members from outside their families and friend groups. These companies have taken this- step not only to satisfy the requirements of financial institutions of broad basing the directorship but they have taken this step to motivate their top-level managers. Naturally top managers in such companies can take any step to fulfill the organizational requirements including the evaluation of their strategy. •

**Operational Problems**

Even if managers agree to evaluate the strategy, the problem of strategic evaluation is not over, though a beginning has been made. This is so because strategic evaluation is a nebulous process; many factors are not as clear as the managers would like these to be. These factors are in the areas of determination of evaluative criteria, performance measurement, and taking suitable corrective actions. All these are involved in strategic evaluation and control. However, nebulousness nature is not unique to strategic evaluation and control only but it is unique to the entire strategic management process.

## 16.6 SUMMARY

Strategy evaluation is the last stage of the strategic management process and comes after strategy formulation and implementation. Evaluation of strategy is that phase of the strategic management process in which the top managers determine whether their strategic choice as implemented is meeting the objectives of the enterprise. Board of directors, chief executive, other managers, corporate, planning staff, consultants participate in strategic management process. Motivational and Operational are the two barriers in strategic evaluation and control.

## 16.7 GLOSSARY

- **Strategic Evaluation:** The ongoing assessment and analysis of a company's strategies to determine their effectiveness in achieving organizational objectives.

- **Board of Directors:** The Board of Directors is a group of elected or appointed individuals responsible for representing the interests of shareholders or stakeholders and providing strategic guidance and oversight to the management team.

## 16.8 SHORT ANSWER QUESTION

1. Define the process of strategic evaluation and control in brief.
2. What is the role of manager in strategic evaluation?
3. What is the role of board of directors in strategic evaluation?
4. Explain the role of strategic evaluation.

## 16.9 LONG ANSWER QUESTIONS

1. Explain the nature and role of strategic evaluation and control?
2. What are the barriers in strategic evaluation and control?
3. Explain the role of different stakeholders in strategic evaluation and control.

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## 16.11 Self-Check Question (Answer Key)

16.3

D. Strategy evaluation

E. Evaluation of strategy

F. Performance

MBA-DE(Second year) BPSM (401)

Semester- 4 BUSINESS POLICY AND STRATEGIC MANAGEMENT

Lesson no- 17 AUTHOR- SALONY KANSAL

# STRATEGIC CONTROL

## STRUCTURE


17.0 Objectives

17.1 Strategic Control

17.2 Strategic and Operational Control: A Comparison

17.3 Difference between Strategic and Operational Control

17.4 Stages of Control

17.5 Control Process

17.5.1. Setting performance standards

17.5.2. Measuring actual performance

17.5.3. Analyzing variance

17.5.4. Taking corrective actions.

17.6 Evaluation and Control Criteria

17.6.1 Causal Factors

17.6.2 Intervening Criteria

17.6.3 End-Result Criteria

17.7 Role of Organisational Systems in Evaluation

17.8 Summary

17.9 Glossary

17.10 Short Answer Question

17.11 Long Answer Questions

17.12 Further Readings

17.13 Self-Check Question

## 17.0 OBJECTIVES

After studying this lesson, student should be able to:

- Understand the complete control process.
- Understand the evaluation and control criteria
- Role of Organisational Systems in Evaluation

## 17.1 STRATEGIC CONTROL

Strategic controls consider the changing assumptions that determine a strategy', continually evaluate the strategy' as it implemented, and take necessary' steps to adjust the strategy to the new requirements. In this manner, strategic controls are early warning systems and differ from post -action controls which evaluate only alter the implementation has been completed. The four basic types of strategic controls are:

1. Premise Control
2. Implementation Control
3. Strategic Surveillance
4. Special Alert Control

## 17.2 STRATEGIC AND OPERATIONAL CONTROL: A COMPARSION

It is worthwhile io make a comparison of strategic and operational control because the emphasis in both differs though an integrated control system may contain both. Strategic control is the process of considering the changing assumptions both external and internal to the organisation on which a strategy is based, continually' evaluating the strategy as it is being implemented and taking corrective actions to adjust strategy according to changing conditions or taking necessary actions to realign strategy implementation. For strategic evaluation and control following questions are relevant:

1. Are the premises made during the strategy formulation process proving to be correct?
2. Is the strategy being implemented properly?
3. Is there any need for change in the strategy? If yes, what is the type of change required to ensure strategic effectiveness?

Operational control focuses on the results of strategic action and is aimed at evaluating the performance of the organization as a while, different SBUs and other units. The relevant questions for operational control are:

1. How is the organisation performing?

2. Arc the organisational resources being utilized properly?

3. What are the actions required to ensure the proper utilization of resources to meet organisational objectives?

Operational control is used by almost every organisation in some form or the other. There are two types of operational control post-action and steering to evaluate the outcome of a strategy. In post-action control, which measures, results after an action are completed for example, measurement of organisational performance in terms of return on investment. Second is the steering control, which is designed to detect deviations from standards and to permit corrective actions before an operation is fully completed, for example, quality control. Both these are used in the organisation teem different purposes and at different levels. For example, post-action control is mostly used by the top management to identify the total results of a strategy, while second type of control is exercised by functional and tower level managers to affect periodic control so that the results are achieved.

## 17.3 DIFFERENCE BETWEEN STRATEGIC AND OPERATIONAL CONTROL

Strategic control and operational control both differ from each other in terms of their aim

| Attribute | Strategic control | Operational control |
|---|---|---|
| 1. Basic question | Are we moving in night direction? | How are we performing? |
| 2 Aim | Proactive, continuous questioning of the basic direction of strategy | Allocation and use of resources Organisationalresources |
| 3. Main concern | Steering the future direction of the organisation | Action control |
| 4. Focus | External environment | Internal organisation |
| 5. Time horizon | Long-term | Short-term |
| 6. Exercise of control | Exclusively by top management, be through lower-level support top management | Mainly by executive or middle management of the directionof |

| 7. Main techniques | Environmental scanning, information gathering, questioning and review | Budgets, schedule and MBO |
|---|---|---|

Table 1: Difference between strategic and operational control

main concern focusses time horizon, and techniques used. Differences between the two-arc presented in Table 1

**Self-Check Question:**

A. ………. is the process of considering the changing assumptions both external and internal to the organisation on which a strategy is based,

B. Name the types of to evaluate the outcome of a strategy?

C. Explain steering.

## 17.4 STAGES OF CONTROL

Depending on the stages at which control is exercised, it may be of three types:

1 Control of inputs that are required in an action, known as feed forward control

2 Control at different stages of action process, known as concurrent, real -time, or steering control; and

3 Post action control based on feedback from the completed action, known as feedback control.

### 1. Feed Forward Control

Feed forward control involves evolution of inputs and taking corrective action before a particular sequence of operation completed. Thus, it attempts to remove the limitations of time lag in taking corrective action. Feed forward control monitors inputs into a process determine whether the inputs are as planned. If inputs are not as planned corrective action is taken to adjust the inputs according to the plan so that the desired results are achieved within the planned inputs. It is just like hunting a duck. A hunter will always aim ahead of a duck's flight compensate for the time lag between a shot and a hoped-for hit. To be effective, feed forward control should meet the requirements:

1. Thorough and careful analysis of the planning and control system must be made, and the more important input variables identified.

2. A model of the system should be developed.

3. The model should be reviewed regularly to see whether the input variables identified ' and their relationship still represent realities.

4. Data on input variables must be regularly collected and put into the system.

5. The variations of actual input data from planned inputs must be regularly assessed, and their impact on expected results is evaluated.

6. Action must be taken to show people problems and the measure required to solve them.

**2. Concurrent Control**

Concurrent control is exercised during the operation of a program. It provides measures for taking corrective action or adjusting while the program is still in operation and before any ma damage is done. In the organisational context, many control activities are based on this type of control, for example, quality control during the operation, or safety check in a factory, here, the focus is on the process itself. Data provided by this control system is used to adjust the process. Many strategic controls fall in this category.

### 17.5.3 Feedback Control

Feedback control is based on the measurement of the results of an action. Based on this measurement, if any deviation is found between performance standards and actual performance, the corrective action is undertaken as shown in Figure. The control aims at future action of the similar nature so that there is conformity between standards and actual. This is required because, sometimes, feed forward or concurrent control is not possible to apply, for example, many personal characteristics of an individual which go into behavioral processes are not measurable, hence feed forward control is difficult to apply. In the business organizations, top management control is mostly based on feedback. To Intake feedback control effective, it is essential that corrective action is taken as soon-as possible.

## 17.5 CONTROL PROCESS

Control, particularly, operational control is exercised by a process consisting of four major steps as shown in Figure

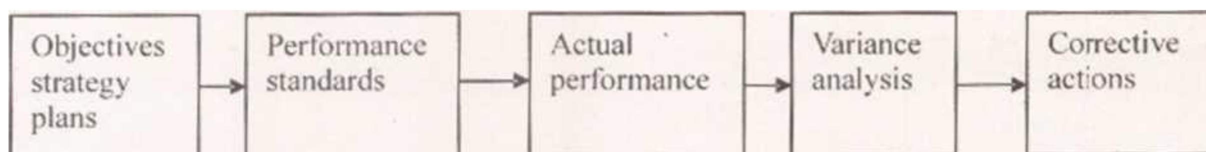


**Figure 1: Control Proces**

To exercise control, managers must take four steps as indicated in Figure These steps are as follows:

**17.5.1. Setting performance standards**

**17.5.2. Measuring actual performance**

**17.5.3. Analyzing variance**

**17.5.4. Taking corrective actions.**

### 17.5.4 Setting Performance Standards

Every function in the organizations begins with plans, which are goals, objectives, or targets to be achieved. In the light of these, standards are established which are criteria against which actual results are measured. For setting standards for control purposes, it is important to identify clearly and precisely the results which are desired. Precision in the statement of these standards is important. In many areas, great precision is possible. However, in some areas, standards are less precise. Standards may be precise if they are set in quantities-physical, such as volume of products, man hour or monetary, such as costs, revenues, investment. They may also be in qualitative terms, which measure performance. After setting the standards, it is also important to decide about the level of achievement or performance, which will be regarded as good or satisfactory. There are several characteristics of a particular work that determine good performance. Important characteristics, which should be considered while determining any level of performance as good for some operations arc

i. Output

ii. Expense

iii. Resources. Expense refers to services or functions, which may he expressed in quantity, for achieving a particular level of output.

Resources refer to capital expenditure, human resources, etc. after identifying these characteristics; the desired level of each characteristic is determined. The desired level of performance should be reasonable and feasible. The level should have some amount of flexibility also, and should be stated in terms of range - maximum and minimum. Control standards are most effective when they are related to the performance of a specific individual because a particular individual can be made responsible' for specific results. However, sometimes accountability for a desired result is not so simply assigned; for example, the decision regarding investment in inventory- is affected by purchase, rate of production, and sales. In such a situation, where no one person he for the levels of inventories, standards may be set for each step that is being performed by a person.

### 17.5.5 Measuring Actual Performance

The second major step in control process is the measurement of performance. The step involves measuring the performance in respect of a work in terms of control standards. The presence of standard implies a corresponding ability to observe and comprehend the nature of existing conditions and to ascertain the degree of control being achieved. The measurement of performance against standards should be on a future basis, so that deviations may be detected in advance of their actual occurrence and avoided by appropriate actions. Appraisal of actual or expected performance becomes an easy task, if standards are properly determined and methods of monetary terms, such as production units, sales volume, profits, etc. can be easily and precisely measurable. The performance, which is qualitative and intangible such as human relations, employee morale, etc., cannot be measured precisely. For such purposes, techniques like psychological tests and opinion surveys may be applied. Such techniques draw heavily from intuitive judgment and? experience, and these tools are fat” from exact. According to Peter Drucker, it is very much desirable to have clear and common measurements in all key areas of business. It is not necessary' that measurements are rigidly quantitative. In his opinion, for measuring tangible and intangible performance, measurement must be

iv. Clear, simple, and rational,

v. Relevant,

vi. Direct attention and efforts, and

vii. Reliable, self-announcing, and understandable without complicated interpretation or philosophical discussions.

### 17.5.6 Analyzing Variance

The third major step in control process is the comparison of actual and standard performance. It involves two steps -Finding out the extent of deviations, and ii Identifying the causes of such deviations. When adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed. Management may have information relating to work performance, data, charts, graphs and written reports, besides personal observation to keep itself informed about performance in different segments of the organisation. Such performance is compared with the standard to find out whether the various segments and individuals of the organisation are progressing in the right direction. When the standards are achieved, no further managerial action is necessary' and control process is complete. However, standards may not be achieved in all cases and the extent of variations may differ from case to case. Naturally, management is required to determine whether strict compliance with standards is required or there should be a permissible limit of variation. In fact, there cannot be any uniform practice for determining such variations. Such variations depend upon the type of activity. For example, a very minute variation in engineering products may be significant than a wide variation in other activities. When the deviation between standard and actual performance is beyond the prescribed limit, an analysis is made of the causes of such deviations. For controlling and planning

purposes, ascertaining the causes of variations along with computation of variations is important because such analysis helps management in taking up proper control action. The analysis will pinpoint the causes, which ate controllable by the person re-possible. In such a case, person concerned will take necessary' corrective action. However, if the variation is caused by uncontrollable factors the person concerned cannot be held responsible and he cannot take any action. Measurement of performance.' analysis of deviations and their causes may be of no use unless these are communicated to the person who can take corrective action. Such communication is presented generally, in the form of a report showing performance standard actual performance deviations between those two, tolerance limits, and causes for deviations. As soon as possible reports containing control information should be sent to the person whose performance is being measured and controlled. The underlying philosophy is that the person who is responsible for a job can have a better influence on results by his own action. A summary of the control report should be given to the superior concerned because the person on the job may either need help of his superior in improving the performance or may need warning for his failure. In addition, other people who may be interested in control reports are (I) executives engaged in formulating new plans: and (ii) staff personnel who are expected to be familiar with control information forgiving any advice about the activity under control when approached.

### 17.5.7 Taking Corrective Actions

This is the last step in the control process, which requires that actions should be taken to maintain the desired degree of control in the system or operation. An organisation is not a self-regulating system such as thermostat, which operates in a state of equilibrium put there by engineering design. In a business organisation, this type of automatic control cannot be established because the situation that exists is the result of so many factors in the total environment. Thus, some additional actions are required to maintain the control. Such actions may be on the following lines:

1. Improvement in the performance by taking suitable actions if the performance is not up to the mark: or

2. Resetting the performance standards if these are too high and unrealistic; or

3. Change the objectives, strategies, and plans if these are not workable.

**Self-Check Question:**

A. …………… provides measures for taking corrective action or adjusting while the program is still in operation and before any ma damage is done.

B. ………… involves evolution of inputs and taking corrective action before a particular sequence of operation completed.

C. In …………, if any deviation is found between performance standards and actual performance, the corrective action is undertaken

## 17.6 EVALUATION AND CONTROL CRITERIA

In putting the control process in operation, two basic issues are involved what to control and how to control. The first issue is related, to the identification of those factors based on which degree of business success is determined. The second issue involves the use of various control techniques. The first issue is taken here while the second issue will be taking in the next lesson.

**Criteria of Business Success**

The success of any organisation, whether business or non-business, measured in terms of its objective achievement. Since an organisation May pursue several objectives simultaneously, and these may be expressed: in different forms there are several criteria, which are used for control. These criteria are grouped into two categories: intervening criteria and end-result criteria as shown in Figure 2

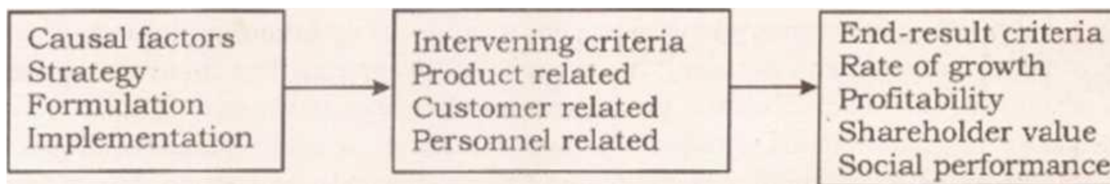


**Figure 2: Evaluation and Control criteria**

### 17.6.1 Causal Factors

Causal factors are those that influence the course of development in an organisation. These are independent variables and affect intervening criteria and through these, end-result criteria. For example, strategy' formulation and its implementation affects various product, customer, and personnel related criteria. These, in turn, affect different end-result criteria, which are used, generally, to measure businessperformance.

### 17.6.2 Intervening Criteria

Intervening criteria are those factors, which are reflected as the internal state of the organisation. These are caused by causal factors and, therefore, cannot be changed independently except by changing causal factors; in this case type of strategy and its implementation. For example, personnel attitudes and morale, an intervening criterion, cannot be changed unless there is a suitable change in organisational design, systems, and leadership- all being elements of strategy implementation. Intervening criteria are, generally grouped into three categories: product, customer, and personnel related. An illustrative list ofintervening criteria is given below:

Product Related Criteria

1. Product quality and performance

2. Product cost and price

3. New products introduced

Customer Related Criteria

1. Customer service

2. Customer satisfaction

3. Customer loyalty

Personnel Related Criteria

1. Attracting and retaining human talent

2. Personnel ability and skills

3. Personnel motivation and attitudes to work

### 17.6.3 End-Result Criteria

End-result criteria are those factors, which are caused by causal and intervening factors and are often in terms of the criteria in w-inch organisational success is measured. These factors are highly dependent and, therefore, cannot be changed except by changing the factors responsible for these. End -result criteria are grouped in four categories: rate of growth, profitability, shareholder value, and social performance. Glen

below is the illustrative list of these factors:

Rate of Growth

1. Sales growth

2. Market share

3. Asset increase

Profitability

1. Profit-sales relationship

2. Return on value added

3. Return on investment

Shareholder Value

1. Dividend payment

2. Bonus shares

3. Market price of shares

**Social Performance**

Satisfaction of various stakeholders- After identifying the factors to be evaluated, another issue comes in the form of fixing standard in respect of these factors. Since many factors are in qualitative form and others are in quantitative form, both qualitative and quantitative standards are set for evaluation and control.

## 17.7 ROLE OF ORGANISATIONAL SYSTEMS IN EVALUATION

Strategic evaluation operates in the context of various organisational systems. An organisation develops various systems which help in integrating various parts of the - organisation. The major organisational systems are: information system, planning system, motivation system, appraisal system, and development system. All these systems play their role in strategic evaluation and control some of these systems are closely and directly related and some are indirectly related to evaluation and control. For example, information system is closely linked to evaluation as it provides clue as to how the organisation is progressing. Development system, on the other hand, is not closely linked to evaluation system but is undertaken as a post-control action. In the light of this, let us see how various organisational systems play their role in strategic evaluation and control.

**Information System**

Evaluation and control action is guided by adequate information from the beginning to the end. Management information and management control systems are closely interrelated; the information system is designed on. the basis of control system. Every manager in die organisation must have adequate information about his performance, standards, and how he is contributing to the achievement of organisational objectives. There must be a system of information tailored to the specific management needs at every level, both in terms of adequacy and timeliness. Control system ensures that every manager gets adequate information. The criterion for adequacy of information to a manager is his responsibility and authority that is in the context of his responsibility and authority, what type of information the manager needs. This can be determined based on careful analysis of the manager's functions. If the manager is not using any information for taking certain action, the information may be meant of informing him

only and not falling within his information requirement Thus, an effective control system ensures the flow of the information that is required by an executive, nothing. There is another aspect of information for control and other function, that is, the timeliness information. Ideally speaking, the manager should be supplied information when he needs it for acting. For correcting the deviation, timely action is required by the manager concerned. For this purpose, one must have the information at proper time and covering the functioning of a period, which is subject to control. The control system functions effectively based on the information, which is supplied in the organisation. -However, the information is used as a guide and on this basis identifies what action can be taken.

**Planning System**

Planning is the basis for control in the sense that it provides the entire spectrum on which control function is based. In fact, these two terms are often used together in the designation of the department, which carries production planning, scheduling, and routing. It emphasizes that there is a plan, which directs the behaviour and activities in the organisation. Control measures these behaviour and activities and suggests measures to remove deviation, if any. Control further implies the existence of certain goals and standards. The planning process provides these goals. Control is the result of plans, goals, or policies.

Thus, planning offers and affects control. Not only that, the planning is also affected by control in the sense that many of the information provided by control is used for planning and preplanning. Thus, there is a reciprocal relationship between planning and control, as discussed earlier in this chapter. Since planning and control systems are closely interlinked, there should be proper integration of the two. This integration can be achieved by developing consistency of strategic objectives and performance measure^. Prescribing performance measures, which are strategically important, is quite significant because often it is said \vat you measure is what you get.' In developing performance measures, two considerations must be considered. First, the performance measures should focus on whether short-term profitability, or growth and technological ascendancy, or logistic efficiency, or some other objectives should be of primary concern. Second, the measures should relate to the managerial domain of each of the managers, as each of them is responsible to exercise control in his own domain.

**Motivation System**

Motivation system is not only related to evaluation and control system but to the entire organisational processes. Lack of motivation on the part of managers is a significant barrier in the process of evaluation and control. Since the basic objective of evaluation and control is to ensure that organisational objectives are achieved, "motivation plays a central role in this process. It energizes managers and other employees in the organization to perform better which is the key for organisational success.

**Appraisal System**

Appraisal or performance appraisal system involves systematic evaluation of the individual about his performance on the job and his potential for development. While evaluating an individual, not only his performance is taken into consideration but also his abilities and potential for better performance. Thus, appraisal system provides feedback for control system about how individuals arc performing.

**Development System**

Development system is concerned with developing personnel lo perform better in their present positions and likely future positions that they are expected to occupy. Thus, development system aims at increasing organisational capability through people to achieve better results. These results, then, become the basic for evaluation and control.

## 17.8 SUMMARY

Control, particularly, a process consisting of four major steps exercises operational control. These steps are setting performance standards, measuring actual performance, analyzing variance, taking corrective actions. In putting the control process in operation, two basic issues are involved what to control and how to control. The major organisational systems are: information system, planning system, motivation system, appraisal system, and development system. All these systems play their role in strategic evaluation and control some of these systems are closely and directly related and some are indirectly related to evaluation and control.

## 17.9 GLOSSARY

- **Strategic Control:** Strategic control is the process of considering the changing assumptions both external and internal to the organisation on which a strategy is based.

- **Feedforward Control:** Feed forward control involves evolution of inputs and taking corrective action before a particular sequence of operation completed.

- **Concurrent Control**: It provides measures for taking corrective action or adjusting while the program is still in operation and before any ma damage is done.

- **Intervening Criteria**: Intervening criteria are those factors, which are reflected as the internal state of the organisation. These are caused by causal factors and, therefore, cannot be changed independently except by changing causal factors; in this case type of strategy and its implementation.

## 17.10 SHORT ANSWER QUESTION:

1. Define Strategic Control.

2. What do you understand by intervening criteria?

3. Explain the role of organisational structure in evaluation.

4. Define the stages of strategic control.

## 17.11 LONG ANSWER QUESTIONS:

1. How does strategic control differ from operational control? What are the issues involved in these types of control

2. Discuss the stages at which control is exercised. What problems are involved at each of these stages?

3. What are the criteria of evaluation of business success?

4. Explain the process of strategic control.

## 17.12 FURTHER READINGS


- Fred R. David, Strategic Management- Concepts and Cases, Pearson Education, 10th Edition,2005
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## 17.13 Self-Check Question (Answer Key)

17.3

D. Strategic control

E. Post-Action and steering

F. Steering control, which is designed to detect deviations from standards and to permit corrective actions before an operation is fully completed.

17.5

A. Concurrent control

B. Feed forward control

C. Feedback control

**MBA-DE(Second year)** **BPSM (401)**

**Semester- 4** **BUSINESS POLICY AND STRATEGIC MANAGEMENT**

**Lesson no- 18** **AUTHOR- SALONY KANSAL**

# TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

**STRUCTURE**


18.0 Objectives

18.1 Introduction

18.2 Strategic control

18.3 Evaluation Techniques for strategic control

18.3.1 Strategic momentum control

18.3.2 Strategic Leap Control

18.4 Financial Performance Control

18.4.1 Budgetary control,

18.4.2. Financial ratio analysis

18.4.3. Return on investment

18.5 Social Performance control

18.5.1 Approaches for Measuring Social Performance

18.5.2 Social Audit

18.6 Problems in Social Audit

18.7 Summary

18.8 Glossary

18.9 Short Answer Questions

18.10 Long Answer Questions

18.11 Further Readings

18.12 Self-Check Question (Answer Key)

## 18.0 OBJECTIVES

After studying this lesson, student should be able to:

- Understand the various techniques through which strategic evaluation and control is exercised.
- To appraise the suitability of these techniques for various types of control.

## 18.1 INTRODUCTION

In the previous lesson, we have seen the framework for strategy evaluation and control which suggests the areas where control is required. In each area, different types of control techniques are required. To recapitulate, these areas arc related to implementation of a strategy and its consequent post -action performance. Thus, control techniques are required for:

1. Strategic control
2. Financial Performance Control
3. Social Performance Control

## 18.2 STRATEGIC CONTROL

Strategic controls consider the changing assumptions that determine a strategy, continually evaluate the strategy as it implemented, and take necessary steps to adjust the strategy to the new requirements. In this manner, strategic controls are early warning systems and differ from post - action controls which evaluate only after the implementation has been completed. The four basic types of Strategic controls are:

1. Premise Control
2. Implementation Control
3. Strategic Surveillance
4. Special Alert Control

## 18.3 EVALUATION TECHNIQUES FOR STRATEGIC CONTROL

Techniques for strategic control could be classified into two groups based on the type of environment faced by the organisation. The organisations that operate in a relatively stable environment may use strategic momentum control, while those which face a relatively turbulent environment may find strategic leap control more an appropriate.

### 18.3.1 Strategic momentum control

These types of evaluation techniques are aimed at assuring that the assumptions on whose basis strategics were formulated are still valid, and finding out what needs to be done to allow the organisation to maintain its existing strategic momentum. There are three techniques which could be used to achieve these aims: responsibility control centers, underlying success factors, and generic strategies

1 Responsibility control centers from the core of management control systems and are of four types: revenue, expense, profit, and investment centers. Each of these centers is designed based on the measurement of inputs and outputs.

2. The underlying success factors enable organisations to focus on the CSFs to examine the factors that contribute to the successes of the strategies.

3. The generic strategies approach to strategic control is based on assumption that the strategies adopted by firm like another firm are comparable.

### 18.3.2 Strategic Leap Control

Where the environment is relatively unstable, organisations are required to make strategic leaps to make significant changes. There are four techniques of evaluation are used to exercise leap control: strategic issue management, strategic field analysis, systems modelling and scenarios.

1. Strategic issue management is aimed at identifying one or more strategic issues and assessing their impact on the organisation.

2. Strategic issue management is a way of examining the nature and extent of synergies that are exist or are lacking between the components of an organisation.

3. Systems modeling is based on computer -based models that stimulate the essential features of the organisation and its environment.

4. Scenarios are perceptions about the likely environment a firm would face in the future

**Self-Check Question:**

A. What are the types of strategic control?

B. ………. consider the changing assumptions that determine a strategy, continually evaluate the strategy as it implemented, and take necessary steps to adjust the strategy to the new requirements.

C. Where we use Strategic leap control?

## 18.4 FINANCIAL PERFORMANCE CONTROL

Financial performance control, or simply referred to as financial control, is relevant for those aspects of business operations whose outcomes are expressed in monetary terms. Financial control is exercised at operative level as well as at overall organisation level though techniques involved are different. Financial control techniques are grouped into three categories from strategic management point of view:

18.4.1 Budgetary' control,

18.4.2. Financial ratio analysis, and

18.4.3. Return on investment.

### 18.4.1 Budgetary Control

Budgetary control is derived from the concept and use of budgets. Budget is the financial expression of various organisational operations and the way in which budgets are prepared as tools for planning. Thus, budgetary control is a system which uses budgets as a means for planning and controlling entire aspects of organisational activities or parts thereof. Terry has defined budgetary control as follows:

“Budgetary control is a process of comparing the actual results with the corresponding budget data to approve accomplishments or to remedy differences by either adjusting the budget estimates or correcting the cause of the difference. Some people treat budgetary control only as a technique of cost control. For example, Brown and Howard have defined budgetary control as follows:

“Budgetary control is a system of controlling costs which includes the preparation of budgets, coordinating the departments and establishing responsibility, comparing actual performance with budgeted and acting upon results to achieve maximum profitability."

However, the scope of budgetary control extends beyond cost control writ the introduction of several types of budgeting.

Features of Budgetary Control

1. Budgetary control establishes a plan or target of performance which becomes the basis of measuring progression of activities in the organisation.

2. It tries to measure the outcomes of activities in quantified terms so that actual performance can be compared with budgeted performance.

3. It tries to focus attention of the management on deviation between what is planned and what is being achieved so that necessary actions are taken to correct the situation and to achieve the objectives of the activities. Thus, it does not control the activities directly but points out where control and corrective actions are required.

### 18.4.2 Financial Ratio Analysis

Financial ratio analysis identifies the relationship between two financial variables to derive meaningful conclusion about their behaviour. Metcalf and Tigard have defined financial ratio analysis as “a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm’s position and performance. The type of relationship to be investigated depends on the objective and purpose of evaluation. In the case of measurement of overall performance, generally, four groups of ratios are considered: liquidity ratios, activity ratios, leverage ratios, and profitability ratios. A brief description of these ratios is presented here.

**1. Liquidity Ratios**

Liquidity ratios indicate the organization’s ability to pay its short-term debts. These ratios are generally expressed in two forms: current ratio and quick ratio. Current ratio shows the relationship between current assets and current liabilities. This indicates the extent to which current assets arc adequate to pay current liabilities. Quick ratio indicates the relationship between liquid assets (cash in hand and with bank and short-term debtors) and current liabilities. It helps in identifying the organization’s ability to pay its current liabilities without considering inventory in hand.

**2. Activity Ratios**

Activity ratios show how funds of the organisation are being used. These ratios are in the form of inventory turnover ratio, receivable turnover ratio, and assets turnover ratio. Inventory turnover ratio indicates the number of times inventory is replaced during the year and shows how effectively inventory has been managed. Receivable turnover ratio shows how promptly the organisation can collect dues from its debtors. Assets turnover ratio indicates how effectively assets have been used to generate sales.

**3. Leverage Ratios**

Leverage ratios indicate the relative amount of funds in the business supplied by creditors financiers and shareholders/ owners. These ratios are in the form of debt-equity ratio, debt total capital ratio, and interest coverage ratio. Debt-equity ratio indicates the proportion of debt in relation to equity and indicates the financial strength of the organization. Debt-total capital ratio shows the proportion of debt to total capital employed. This also indicates the financial strength. Interest coverage ratio shows the interest burden being borne by the organisation in relation to its profit.

**4. Profitability Ratios**

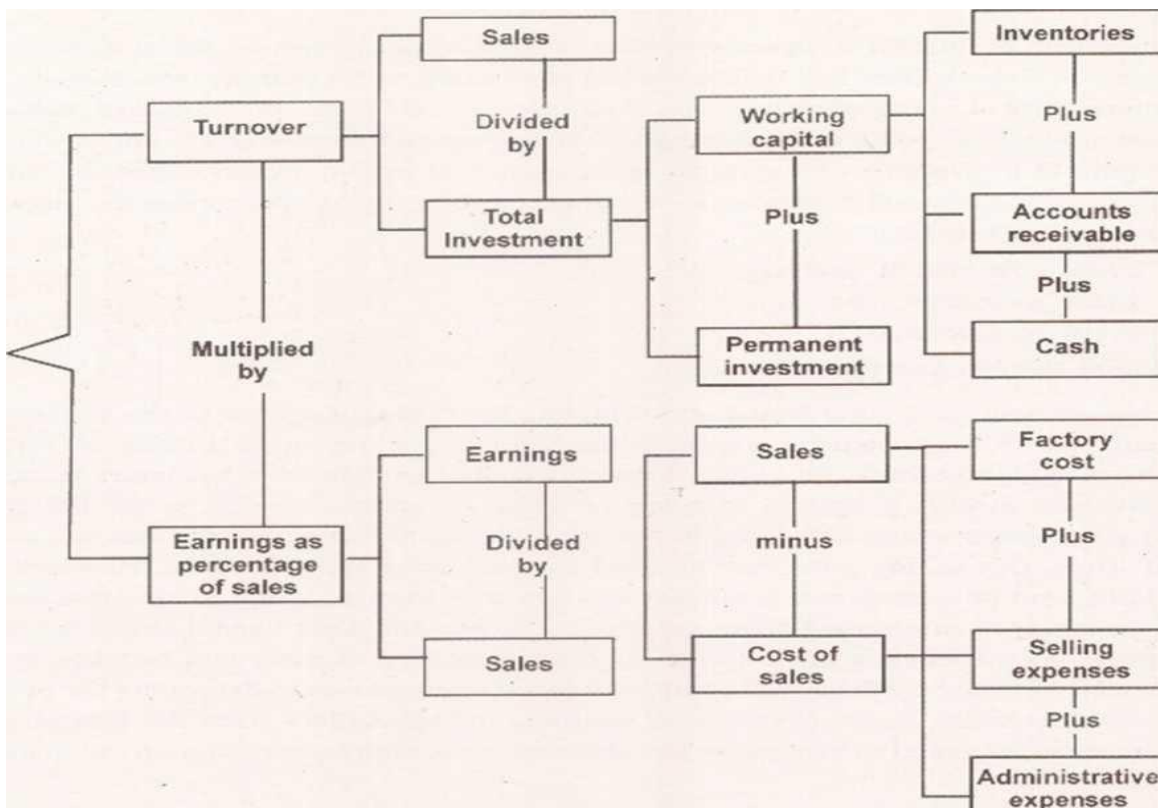
Profitability ratios show the ability of an organisation to earn profit in relation to its sales and/ or investment. Profitability ratios are expressed in terms of profit margin as well as return on

investment. Profit margin, either net profit or gross profit, is expressed in the form of relationship between profit and sales and indicates the degree of profitability of the business. Return on investment is measured by relating profit to investment. Return on investment is the most comprehensive technique for controlling overall performance.

### 18.4.3 Return on Investment

The efficiency of an organisation is judged by the amount of profit it earns in relation to the size of its investment, popularly known as 'return on investment' (ROI). This approach has been an important part of the control system of Du Pont Company, U.S.A., since 1919, though it was devised by Donaldson Brown in 1914. Since its successful operation in Du Pont, a larger number of companies have adopted it as their key measure of overall performance. This technique does not emphasize absolute profit for judging the efficiency of an organisation as a whole or a division thereof, rather the amount of profit is related with the amount of facilities or capital invested in the organisation or the division. The goal of a business, accordingly, is not to optimize profit, but to optimize returns on capital invested for business purposes. This standard recognizes the fundamental fact that capital is a critical factor in almost any business and its scarcity puts limit on progress. The rate of return is calculated by dividing the profit by total investment. It can be computed in respect of historical data to reveal the rate of return realized or it may be applied to budgeted data to give a projected rate of return. In the Du Pont system, the investment includes total fixed and current assets without reducing liabilities or reserves. The basis is that such a reduction would result in fluctuations in operating investments as liabilities or reserves fluctuate, which would distort the rate of investment and render it meaningless.

The system of control through return on investment can be seen from Figure as operating in Du



Pont Company

**Figure: Relationship of factors affecting return on investment**

On the other hand, many business organizations adopt a different view of investment. Accordingly, the amount of the investment should be taken by deducting depreciation from the assets. The argument is simple. Depreciation reserves represent a write-off of initial investment and that funds made available through such charges are reinvested in other fixed assets or used as working capital. The argument seems to be realistic as it puts heavier burden on return on new assets, as compared to old and obsolete assets. Moreover, the amount of investment thus calculated is further reduced by the amount of current liabilities.

## 18.5 SOCIAL PERFORMANCE CONTROL

Social Performance control deals writ assessing the extent to which an organization is achieving its social objectives. This requires defining the basis on which social performance should be evaluated and identifying the degree to which social performance is effective. Thus, social performance control involves two aspects:

18.5.1 Approaches for Measuring Social Performance

18.5.2 Social Audit

### 18.5.1 Approaches for Measuring Social Performance

Measurement of social performance is quite fluid because of its qualitative nature. To overcome the problem of fluidity, a separate branch of accounting, known as social accounting,' has been developed. Robert Elliot has defined social accounting as 'systematic assessment and reporting on those parts of a company's activities that have a social impact-the impact of corporate decisions on environmental pollution, consumption of non-renewable resources, and ecological factors; the rights of individuals and groups; maintenance of public services; health, safety, education, and many other social concerns. In social accounting, three approaches are used for measuring social performance:

1. Social cost-benefit analysis,
2. Social indicators, and
3. Social goal setting.

### 1. Social Cost-Benefit Analysis

Social cost-benefit analysis is based on evaluating benefits that accrue to the society and the costs through which these benefits accrue. While costs can be measured in terms of money, same is not the case with benefits. Since social benefits cannot be defined in monetary term, the concept of consumer surplus is applied to measure these. Consumer surplus is the difference

between what a consumer would be willing to pay for a given product or service and the actual price charged. Thus, this willing price may be used for measuring social benefits. However, the willing price to be paid by a consumer is subject tie and varies from situation to situation for the same consumer or may be interpreted differently by various persons. Cost - benefit analysis may be undertaken either on the existing price system or discounted rate of costs and benefits. In the latter case, social costs and benefits are discounted at social discount rate to determine the present value of net social benefits. Social-cost-benefit analysis, though suffers from the limitation of precise measurement, is useful in evaluating the alternative social programs that an organisation can undertake.

**2. Social Indicators**

Social indicators approach of social performance measurement consists of developing social indicators and measuring an organization's performance on these indicators. Brumet has prescribed five broad indicators in which the contribution of an organisation should be measured.

These are as follows:

1. Net income contribution-earning enough to provide for the present and future costs of the

organization's continued existence but limited to legitimate socially desirable ■ profit;

2. Human resource contribution-development of system of human resource accounting to measure the impact of the organisational decisions on human asset D value.

3. Creation of jobs and providing employment opportunities to backward and socially handicapped population, contributing towards educational development, relief of people in distress caused by natural calamities, rural enlistment, etc.

4. Environmental contribution-environmental improvement through pollution, abatement, conservation of scarce natural resources, maintenance of ecological balance, and so on.

5. Product or service contribution-ensuring quality, durability, safety, and serviceability of products; customer satisfaction, truthfulness in advertising, etc. Social indicators approach measures social performance of an organisation in the context of various factors. Many organizations follow this approach because it indicates the areas in which they must work. However, one basic problem in this approach is the determination of expectations of various indicators and the way it can be fulfilled.

**3. Social Goal Setting**

Social goal setting approach emphasizes on incorporating social concern in the objectives of an organisation which may be on a perpetual basis or on periodic basis. A combination of both can also be followed in which some social concerns can be undertaken on perpetual basis while

others can be taken on project basis for specific period. For example, consumer satisfaction, environmental protection, etc. can be taken on perpetual basis while special projects for certain specific social cause like eliminating the impact of destruction caused by certain natural calamities can be taken on ad hoc basis. In the social goal setting approach, an organisation can identify the social concerns to be served based on its own environmental analysis and choose those areas in which it believes it can contribute effectively by reducing the social costs or enhancing social benefits. This approach is better in terms of providing areas of social concerns on which the organisation can focus in terms of the needs of the areas and its own capability to satisfy those needs, Thus, this approach can be well integrated with strategic management process.

### 18.5.2 Social Audit

When an organisation undertakes social activities, it must also evaluate the extent to which these activities are performed effectively. Social audit is primarily aimed to measure the effectiveness of these activities. Bauer and Fenn have defined social audit as follows: "Social audit is a commitment to a systematic assessment of and reporting on some meaningful, definable domain of the company's activities that have social impact."

**Self-Check Question:**

A. ……….. technique is relevant for those aspects of business operations whose outcomes are expressed in monetary terms.

B. ………. is the financial expression of various organisational operations and the way in which budgets are prepared as tools for planning.

C. ……… indicate the organization's ability to pay its short-term debts.

D. ……… show the ability of an organisation to earn profit in relation to its sales and/ or investment.

E. ……….. indicate the relative amount of funds in the business supplied by creditors financiers and shareholders/ owners.

## 18.6 PROBLEMS IN SOCIAL AUDIT

The idea of social responsibility of which social audit is a means of measurement is quite valid in business world and it has been recognized that business organizations must fulfill their social obligations in their own long-term interests. Social audit is equally logical. Social audit, however, presents numerous problems. These problems are of two types: determining scope for social audit and measurement problem.

1. **Scope of the Social Audit**: If a social audit is to be made, the basic question is what activities should be covered. There may be various alternatives. First, all social activities being

performed by an organisation may be taken for reporting. However, if the social audit is to catalogue all such activities, verify the costs involved and evaluate the benefits produced, it is very impractical to carry on the social audit and information may be too massive to be useful. The activities may be too large because it is very difficult to as y which activities are not social. Thus, various activities, which an organisation performs, are social from one point of view because these provide some social benefits besides benefiting the organisation as well. Second, the various activities of clear social utility without prospect of profit may be taken into consideration. However, if only such activities are considered, the scope of social audit will be too limited to demonstrate the extent to which the organization's social performance is fulfilled. The scope of social audit may be determined keeping in view the information requirements of various groups, such as, employees, customers, shareholders, public and those who influence the shaping of public opinions.

**2. Measurement Problems: Another major problem in social audit is related to the** determination of yardsticks for measuring the costs and accomplishments of activities included in the social audit. Though costs can be measured easily, these are not the true reflection of social responsibility. These may not be the result of social involvement. The measurement of benefits is much more difficult because of lack of objective quantification of the outcome of any social activity. Moreover, how much an activity is benefiting to the society and to the organisation concerned is difficult to measure. It happens that an activity may contribute to both the society and the organisation.

## 18.7 SUMMARY

Control techniques are required for Strategic control, Financial Performance Control, Social Performance Control. Strategic controls consider the changing assumptions that determine a strategy', continually evaluate the strategy as it implemented, and take necessary' steps to adjust the strategy to the new requirements. Financial control is exercised at operative level as well as at overall organisation level though techniques involved are different. Social Performance control deals with assessing the extent to which an organization is achieving its social objectives

## 18.8 GLOSSARY

- **Strategic Evaluation**: The process of assessing the effectiveness and efficiency of implemented strategies in achieving organizational goals and objectives.

- **Financial Analysis**: Examination of financial statements and performance metrics to assess the financial health and viability of the organization's strategies.

- **Leverage Ratios**: Leverage ratios indicate the relative amount of funds in the business supplied by creditors financiers and shareholders/ owners.

- **Liquidity Ratios**: Liquidity ratios indicate the organization's ability to pay its short-term debts.

- **Profitability Ratios:** Profitability ratios show the ability of an organisation to earn profit in relation to its sales and/ or investment. Profitability ratios are expressed in terms of profit margin as well as return on investment.

## 18.9 SHORT ANSWER QUESTION:

1. Define different financial ratios.

2. Explain the role of strategic control.

3. Define Social audit.

4. What do you understand by budgetary control?

## 18.10 LONG ANSWER QUESTIONS

1. Explain different techniques of strategic control. How do these techniques differ ~ depending on the environmental variability?

2. What are the different approaches for measuring social performance? How is social audit conducted? Discuss the relevance of social audit in Indian context.

3. Explain social audit and its problems.

4. Define return on investment.

## 18.11 FURTHER READINGS


- Fred R. David, Strategic Management- Concepts and Cases, Pearson Education, 10th Edition,2005

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## 18.12 SELF-CHECK QUESTION (ANSWER KEY)

18.3

A. Premise Control

Implementation Control

Strategic Surveillance

Special Alert Control

B. Strategic control

C. Where the environment is relatively unstable, organisations are required to make strategic leaps to make significant changes.

18.5

A. Financial performance control

B. Budget

C. Liquidity ratios

D. Profitability ratios

E. Leverage ratios