Directorate of Distance Education

UNIVERSITY OF JAMMU

JAMMU

SELF LEARNING MATERIAL
OF
STRATEGIC MANAGEMENT

For Examination to be held in 2020 onwards

M.COM. II SEMESTER	**Unit I - IV**
COURSE NO. M.COM-E214	**LESSON NO. 1 - 20**

Co-ordinator M.Com

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STRATEGIC MANAGEMENT

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SYLLABUS

STRATEGIC MANAGEMENT

Course No.: M. COM-E214 | Maximum Marks: 100

Duration of examination: 3 hours | a. Semester Examination: 80

b. Sessional Assessment: 20

OBJECTIVE: To enhance the decision making abilities of students in situations of uncertainty in the context of dynamic business environment.

UNIT-I: FUNDAMENTALS OF BUSINESS POLICY AND STRATEGIC MANAGEMENT **Page No. (1-116)**

Strategy-Meaning, kinds & importance of strategy,; shift from the term business policy to strategic management; Strategic management process; Mission, objective & goals; Schools of thought in Strategic Management, Mckinsey 7s framework; Corporate planning-Meaning, process, benefits approaches, why corporate planning fails and pre-requisites for its success.

UNIT II: STRATEGY FORMULATION **(117-271)**

Environmental analysis-Concept, components, environment scanning and appraising; Organisational appraisal-Dynamics for internal environment, organisational capability factors, techniques used for organisational appraisal; Strategic alternatives-Modernisation, diversification, integration, mergers, takeover, joint ventures, turnaround, disinvestment, liquidation, combination, strategic alliance; Strategic choice process; Corporate portfolio analysis-Industry, competition, SWOT analysis, subjective factors in strategic choice, contingency strategies and strategic plan.

UNIT-III: STRATEGIC IMPLEMENTATION (272-398)

Strategy implementation-Issues, project implementation, procedural implementation, resource allocation, structural implementation & structure for strategies; Organisational design and change; Organisational system; Functional plans and policies-Marketing, operations, personnel, financial integration of functional plans and policies; Behavioural implementation-Leadership implementation, corporate culture, business ethics, social responsibilities

UNIT –IV: STRATEGIC EVALUATION (399-452)

An overview of strategic evaluation and control, types of control-Strategic & operational control; Techniques of strategic evaluation and control; Role of organisational systems and control; Global issues in strategic management; Recent advances & core competence as the root of competitive advantage.

BOOKS RECOMMENDED

1. Bhattachary, S.K. and N. Venkataramin, Managing Business Enterprises: Strategies, Structures and Systems, Vikas Publishing House, New Delhi.
2. Budhiraja, S.B. and M.B. Athreya, Cases in Strategic Management, Tata McGraw Hill, New Delhi.
3. Hamermesh Michael E. Porter, Business Policy Text and Cases, Irwin, Inc., Homewood Illinois.
4. Coulter, Mary K., Strategic Management in Action, Prentice Hall, New Jersey.
5. Kazmi, Azhar, Business Policy, Tata McGraw Hill, Delhi.
6. Acharaya & Grover, Business Policy and Strategic Management, Himalayan Publication, Delhi
7. Lawarance R. Jaunch and William F. Fluock, Business Policy & Strategic Management, Tata McGraw Hill, Delhi

NOTE FOR PAPER SETTING

The paper consists of two sections. Each section will cover the whole of the syllabus without repeating the question in the entire paper.

Section A: It will consist of eight short answer questions, selecting two from each unit. A candidate has to attempt any six questions. Answer to each question shall be within 200 words. Each question carries four marks and total weightage to this section shall be 24 marks.

Section B: It will consist of six essay type questions with answer to each question within 800 words. One questions atleast shall be set from each unit and the candidate has to attempt any four. Each question will carry 14 marks and total weightage shall be 56 marks.

MODEL TEST PAPER

SECTION - A

Attempt any six questions. Each question carries four marks. Answer to each question should be within 200 words.

1. Differentiate between policy, strategy and tactic.
2. Define corporate planning. State the reasons for its limited usag.
3. What is value chain? Analyse the role of primary activities and supporting activities in a value chain.
4. What is SWOT analysis ? Explain it in the form of a matrix.
5. Explain the factors that determine the strategic structure of an organization.
6. Explain the role of functional plans and policies in strategic implementation.
7. Explain the critical factors a leader should manage. Analyse in terms of its relevance to strategic management and implementation.
8. Explain the strategy evaluation and control process in terms of different steps or stages involved.

SECTION B

Attempt any four questions. Each question carries 14 marks. Answer to each question should be within 800 words.

1. Explain the strategic management processes.
2. What is a mission statement ? Which are the distinct features or characteristics of a mission statement? Write a mission of a hypothetical company.

3. Differentiate between general environment, relevant environment, remote environment and operating environment. Which of these environments should an organization be more concerned with?

4. Distinguish between related or concentric diversification and unrelated or conglomerated diversification. Mention the major guiding factors for these two types of diversification?

5. What is the role of organisational systems in strategic implementation? Distinguish between six major organisational systems.

6. Analyse various quantitative criteria for performance evaluation of companies. Distinguish between the financial criteria and non financial criteria.

FUNDAMENTALS OF BUSINESS POLICY AND STRATEGIC MANAGEMENT

Strategy : Meaning, Kinds & Importance of Stragety

UNIT I

LESSON - 1

STRUCTURE

1.1 INTRODUCTION

The term 'strategy' is derived from a Greek word *'strategos',* which means generalship–the actual direction of military force, as distinct from the policy governing its deployment. Literally, therefore, the word 'strategy' means the art of the General. In business parlance, there is no definite meaning assigned to strategy.

1.2 OBJECTIVES

The lesson will help you to :

(i) know the meaning of strategy

(ii) discuss the role and characteristics of objectives.

(iii) evaluate upon the different kinds of strategies.

(iv) review the importance of strategy.

1.3 MEANING OF STRATEGY

Strategy, as a concept, has been defined by many experts. Before we take up a few definitions for discussion, let us consider the following examples :

- A leading brand name in the pain balm market is that of Amrutanjan manufactured by Amrutanjan Ltd. With a 60 per cent market share, the company is well-entrenched in the market but increasing competition from companies like Zandu balm and Eskayef have forced Amrutanjan Ltd. to consider taking certain steps. These include market expansion, introduction of new products and taking up the distribution of other consumer products.
- Set up in 1972, Apollo Tyres has been facing various problems during the last 20 years. After many remedial measures, taken during the last six years, the company is gradually trying to gain stability and become profitable. One of the measures taken relates to the product mix. The company has stopped the manufacturing of two- and three-wheeler tyres and is now concentrating only on truck and tractor tyres.
- Camalin Ltd., a company known for its camel brand stationary materials, visualises future opportunities in the pharmaceuticals industry. It plans to expand the company operations through its pharmaceuticals division, which is the fastest growing division within the company.

- Campco, a cooperative of arecanut and cocoa growers, entered the field of cocoa processing and chocolate manufacturing to safeguard the interest of its members who are small farmers spread in the backward areas of Karnataka and Kerala. It is now a successful venture competing with established companies like Hindustan Cocoa Products Ltd. and Gujarat Cooperative Milk Marketing Federation.

- Escorts Ltd, a reputed engineering firm, planned to invest Rs. 170 crore between 1986 and 1990 and take up the manufacture of petrochemicals, electro-medical equipment and food packaging machinery. It has already started making electronic telephone exchange systems.

The above illustrations show how different the companies react to their environment. In doing so, they adopt a course of action which to them seems to be appropriate. Such a course of action may involve actions like diversification, expansion, aiming for stability or divesting a part of operations. It is a basic requirement for firm to survive and to sustain itself in today's changing environment.

When an old established company which has been profitable in the past, starts facing new threats in the environment, like the emergence of competitors, it has to rethink the course of action it had been adopting. With such a rethinking, new ways are devised to counter the threats. Alternatively, some new opportunities may emerge in the environment which were not there in the past. In order to take advantages to these opportunities, a company reassesses the approaches it had been following and changes its course of action. These courses of action are what we may call strategies.

Strategy is a set of key decisions made to meet objectives. It is complex web of thoughts, ideas, insights, experiences, goals, perceptions that provides general guidance for specific actions. It is what we want to achieve and charts our courie in new market place.

Since strategy is the most important concept in business policy course, we will study a few definitions of strategy, given by different authors, and derive certain conclusions from them.

1.4 DEFINING STRATEGY

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

1. Alfred D. Chandler (1962)

Chandler made a comprehensive analysis of the interrelationships among the environment, strategy, and organisation structure. He analysed the history of organisational change in 70 manufacturing firms in the U.S. In doing so, Chandler defined strategy as :

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

Chandler refers to three aspects :

- Determination of basic long-term goals and objectives ;
- adoption of courses of action to achieve these objectives ; and
- allocation of resources necessary for adopting the courses of action.

2. Kenneth Andrews (1965)

Andrews belongs to the group of Professors at Harvard Business School which was responsible for developing the subject of business policy and its teaching through the case study method.

Andrews defines strategy as :

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

This definition refers to the 'business definition', which is a way of stating the current and the desired future position of the company, and the objectives, purposes, goals, major policies and plans required for taking the company from where it is to where it wants to be.

3. Igor Ansoff (1965)

Professor Ansoff is a well-known authority in the field of strategic management and has been a prolific writer for the last three decades. In one of his earlier books *Corporate Strategy,* he explained the concept of strategy as :

> "The common thread among the organisation's activities and product-markets as above that defines the essential nature of business that the organisation was or planned to be in future."

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

4. William F. Glueck (1972)

Another well-known author in the strategic management area was Glueck, who was a distinguished Professor of Management at the University of Georgia till his death in 1980. He defines strategy precisely as :

> "A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved."

The three adjectives, which Glueck uses to define a plan, make the definition quite adequate. Unified means that the plan joins all the parts of an enterprise together, comprehensive means it covers all the major aspects of the enterprise, and integrated means that the parts of the plan are compatible with each other.

It is to be noted that the four approaches to defining strategy cover a period of ten years only. This is an indication of how complex a concept strategy is and how various authors have attempted to define such a complex concept. In fact, we have tried to give you an assortment of definitions out of the many available. To put it in another way: there are as many definitions as there are experts. The same authors may change an approach adopted earlier. Witness what Ansoff says 19 years later (in 1984; his earlier definition is of 1965) :

> "Basically, a strategy is a set of decision-making rules for guidance of organisational behaviour."

By means of the deep insights that the authors have developed through years of experience and thinking, they have attempted to define the concept of strategy with greater clarity and precision. This comment is valid for most of the concepts in strategic management since this discipline is in the process of evolution and is yet to evolve a uniform terminology.

5. Arthur Sharplin (1985)

Sharplin refers to the Webster's Third New International Dictionary and defines strategy as :

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

Combining the above definitions, we will not attempt to define strategy in yet a novel way but try to analyse the elements we have come across. We note that a strategy is :

1. A plan or course of action or a set of decision rules making a pattern or creating a common thread;
2. The pattern or common thread related to the organisation's activities which are derived from the policies, objectives and goals;
3. Concerned with pursuing those activities which move an organisation from its current position to a desired future state; and
4. Concerned with the resources necessary for implementing a plan or following a course of action.

1.5 LEVELS AT WHICH STRATEGY OPERATES

Different levels of Strategy

i) **Corporate level Strategy :-** Corporated level strategies are formulated by the top management of an organisation. They are mainly concerned with decisions regarding the product or service to produce and the geographic location to target. They give a direction to an organisation to achieve its objectives by taking various decisions regarding expansion, exploiting new opportunities, etc.

2. **Business level strategy :-** Business Level strategy is concerned with how a business compete successfully in a particular market. This is a strategy for a single business. Its main focus is dealing with competitive threats. That is why it is also known as competitive strategy. It seeks to achieve superior performance by building competitive market position. It creates favourable market position by acquiring a unique internal strength and core competence.

3. **Functional Level strategy:-** The question, 'how do we support the business level competitive strategy is the main concern of functional level strategy. The key areas will have world be resources, processes, people, methods, procedures etc. managers heading each functional department such as production, finance, marketing, etc.

It is not uncommon to find many companies, or a group of companies, working in different business lines with regard to either products/services, markets or technology. Here are a few illustrations :

- Flow more group of companies manufactures pumps for irrigation, a range of engineering products, turbines, castings, specialised conversion equipments, and has recently started the manufacture of polyester films. It also offers engineering consultancy services for power projects and environmental engineering.
- Brooke Bond India Ltd., offers a range of over 34 different products in product lines of tea, coffee and spices. Operating through a countrywide sales and marketing network for consumers, it also offers institutional business service for hotels, restaurants, clubs and other bulk buyers like canteens and

industrial establishments. Thus, it serves two entirely different sets of customers : individual and institutional.

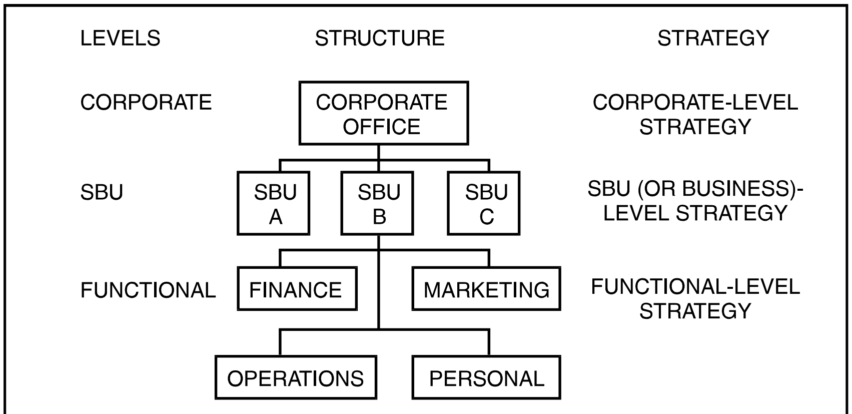

Exhibit 1.1 : ***Different Levels of Strategy***

- Sundaram Clayton and its associate companies TVS Suzuki, TVS Electronics, and TVS Whirlpool- operate in technology areas as diverse as brake and signal systems for railways, two-wheelers, computer peripherals and electrical appliances.

For many companies, such as illustrated above, a single strategy is not only inadequate but also inappropriate. The need is for multiple strategies at different levels. In order to segregate, different units or segments, each performing a common set of activities, many companies organise on the basis of operating divisions or, simply, divisions. These divisions may also be known as profit centres or strategic buisness units (SBUs). An SBU, as defined by Sharplin, is "*any part of a business organisation which is treated separately for strategic management purposes."*

1.6 KINDS OF STRATEGIES

Though there is no universally accepted typology of strategies, there are certain common classifications which are in use by practitioners and management academicians. Some of the well-known strategies are mentioned here.

A Growth Strategies

Growth is a major objective of most organizations. Guth has discussed seven growth strategies,

(i) hold relative position in high-growth product/market area ;

(ii) increase market share in high growth market ;

(iii) increase market share in mature markets ;

(iv) hold strong relative position in mature market, and use “excess” cash flow, funds capacity, and other resources to support penetration in multinational markets with existing product line ;

(v) hold strong relative position in maturing market and use “excess” cash flow, external funds capability, and other, resources to support penetration of new products/market areas domestically.

(vi) hold strong relative position in multinational markets with present product line, and use "excess" cash flow, funds capability, and other resources to diversify products; and

(vii) hold strong relative position in diversified product line domestically and use "excess" cash flow, funds capability, and other resources to diversify markets.

B Dependency Reduction Strategies

Many organisations seek to reduce their dependence on other organisations. Thompson describes six strategic alternatives aimed at reducing an organisation's dependence on the environment,

i) "Maintaining alternatives" refer to options like arranging for alternative sources of supply; entering additional geographical regions to reduce uncertainty due to dependence on local market conditions; and diversifying into coal and shale (in the case of companies) to assure themselves of some source of energy.

ii) Organisations and can reduce dependency by building a "positive image" as many organizations prefer to do business with those that have prestige.

iii) “Direct confrontation" is a strategy that organisations can adopt to acquire power over those on whom they are dependent. It involves a direct show of power, which might involve price cutting, unfair competitive practices, espionage, pirating or sabotaging resources, law suits, and takeover, etc.

iv) "Contracting" is a strategy used by organisations to reduce uncertainties associated with some dependencies. Contracts may be negotiated by organizations with their suppliers, competitors, customers or regulators.

v) "Co-optation" is the strategy by which organisations attempt to achieve certainty of future, by absorbing representation of other organisations, into policy-making positions.

vi) "Coalitions" are cooperative relationship formed by organizations to achieve common goals like opposing a common enemy; promoting a product or service; construction of common facilities; and sharing the costs of expensive programmes or equipment, etc.

C Vertical Integration Strategies

An organisation's move to produce inputs into its own manufacturing process is termed "backward vertical integration" while a move to gain control of the distribution of the outputs produced is called "forward vertical integration." Harrigan has analysed the advantages and disadvantages of vertical integration. The basic risk is that of losing flexibility.

D Generic Strategies

According to Michael Porter there are three potentially successful generic competitive strategic approaches :

i) overall cost leadership

ii) differentiation

iii) focus

Overall cost leadership requires efficient-scale plants, cost reduction from experience, tight cost and overhead control, and cost minimisation in R&D, service, salesforce, etc. Other implications are that the firm which pursues this strategy must have a high relative market share, and possibly a favourable access to raw materials.

A firm pursuing a strategy of differentiation ideally differentiates itself along several dimensions like design, technology, features, customer-service, dealer network, etc., to create an industrywide perception of uniqueness.

Focus takes many forms : concentrating on a particular buyer group, segment of the product line, or geographic market. The entire strategy is built around serving a particular target well, and each functional policy is designed with this in mind.

E Mergers and Joint Ventures

Merger involves the complete blending of assets and the formation of a new single organisation instead of the two original ones in many cases, the name, facilities, and the personnel of the acquired firm are retained. What changes is the ownership. Control of resources and competition are probably the main reasons for mergers. Firms that view mergers from a portfolio perspective often acquire firms whose businesses may not have any relationship to their existing businesses. This kind of merger is called a conglomerate acquisition.

Joint ventures result from the collaboration of two more organisations. They are jointly controlled and owned by two or more parents and involve only a partial mingling of assets. This strategy permits the pooling of risk in uncertain activities like research in state-of-the-art air transportation, oil exploration, etc.

F Turnaround Strategies

Strategies adopted for reviving sick organizations are referred to as "turnaround strategies" Hambrick and Schecter have classified turnarouned strategies into two types; entrepreneurial and efficiency. The former type involves product/market refocusing and efforts to increase market share. Product/market realignment may be accomplished through new products, enhanced research and development and improved product quality. Efficiency oriented turnarounds are characterised by lowering of operating costs through reduction of direct product costs and increase in employee productivity and reduction of assets. Khandwalla's research on turnaround management in India suggests that the major ingredients of successful turnaround are one or more powerful change agents; dramatic credibility building actions by change agent, mobilisation of organisation for turnaround through emphasis on companywide missions and goals; concretisation of goals and problems and the involvement of personnel in the turnaround; quick pay-off action to generate badly needed cash and providing a success experience to cynical rank-and-file; negotiating with key outside pressure groups to get temporary relief from pressure, opportunistic harnessing of external environment; selective strengthening of some of the mechanisms for influencing the external environment; selective changes in product-mix; selective professionalisation of management systems; motivational strategy; coordination strategy; performance control strategy; and institutionalisation of the appropriate style of management.

G Business Unit Strategy and Corporate Strategy

Strategies may also be classified in terms of organisational level. A diversified corporation would have several separate businesses, each of which would have its own strategy. Hence, in a divisionalised corporation there would be at least two levels of strategy; business unit strategy and corporate strategy. The concept of strategy is applicable to both the levels in general but there are some differences in the concerns of management and the specific content of strategy normally should indicate business domain and the products and services to be offered; differential advantage sought in terms of quality, price, service, and the basis on which these are to be achieved; strategic thrusts through selected programmes and their timing and the goals. Corporate strategy is concerned with the total company consisting of a number of business units. Some units may have to be developed, some maintained and others liquidated. Also new units may need to be acquired or developed. The main elements of a corporate strategy should indicate the desired portfolio of business units and major moves regarding retention, addition or deletion of business units, consolidated resource mobilisation and plans.

1.7 IMPORTANCE OF STRATEGY

Determining the strategy is the most significant area of management decision making and the most important one to make right decisions. According to Ansoff, there are three types of management decisions : strategic, administrative and operating. Operating decisions in a business organisation are concerned with resource conversion process and involve allocation of operation resources. Actual decision making tends to be with the operating managers in different units (or sub-units) of the organisation and decisions at this level are made all the time in an organisation. Many such decisions are repetitive. While such decisions may involve some risk and uncertainty, they are generally characterised by relatively short time period between recognising the need to make such decisions and the completion of all the effects following from them.

Administrative decisions within an organisation are essentially facilitative. They establish policies and procedures for acquiring resources and ensure an appropriate internal structure of authority and responsibility among those working within the organisation and for managing the flow of information.

Strategic decisions in contrast to the above two types of decisions, relate to the interface between the organisation and its external environments. Such decision making tends to be centralised at the top level of the organisation as the decisions are concerned with the allocation of the total resources. In contrast to operating decisions, strategic decisions are made relatively infrequently though the analyses required for making such decisions may be a continuing exercise. The effects of strategic decisions will normally be felt by the organisation over a considerable period of time. The most challenging characteristic of strategic decisions is that in many cases the management does not receive any forewarning that such decisions are required to be made. That is why Ansoff refers to them as "non self-generative decisions" This implies that although strategic decisions may be relatively few in number, the organisation must be constantly aware of a need to make such decisions. Therefore, it must ensure that a mechanism exists which would draw their attention to making such decisions.

Although in several cases an organisation's short-term survival is more affected by its operating and administrating efficiency, its success or failure in the long run however depends upon right strategic decision making, i.e., upon doing the right things rather than upon doing things right. Indeed, one of the problems faced by senior management, arising from the non-generative nature of strategic decisions, is that of concentrating upon day-to-day operating and administrating issues to the almost neglect of strategic issues. Two authors contrast the relative importance and outcome of efficiency in the area of operations and strategy in the form of a matrix shown in Exhibit 1.2

How- / WHAT		STRATEGIC DECISIONS	
		Clear	Unclear
OPERATING DECISIONS	Effective	I Clear strategy and effective operations have contributed to success in the past and will contribute to success in the future.	II Unclear strategy but effective operations have conbributed to success in the future is doubtful.
	Ineffective	III Clear strategy but ineffective operations have sometimes worked in the short run, but increasing competition makes success doubtful in the future.	IV Unclear strategy and ineffective operations have meant failure in the past and will be so in the future.

Exhibit 1.2 Comparison of Operating and Strategic Decisions

Adapted from **:** Tragoe B. and J Zimmerman. 1980. Top Management Strategy, John Martin: London, p. 20.

The goal of top management should be the achievement of efficiency both at the strategic and operational fronts. While efficient operations without current strategy may ensure short term survival for the business, no organisation can survive without a clear and appropriate strategy in the long term.

1.8 STRATEGISTS AND THEIR ROLE IN STRATEGIC MANAGEMENT

Strategists are individuals or groups who are primarily involved in the formulation, implementation and evaluation of strategy. In a limited sense, all managers are strategists. There are persons, outside the organisation, who are also involved in various aspects of strategic management. They too are referred to as strategists. We could identify nine strategists who, as indivdiuals or in groups, are concerned with and play a role in strategic management. In this section, we describe the roles of these strategists.

1.8.1 Role of Board of Directors

The ultimate legal authority of an organisation vests in the board of directors. The owners of the organisation— shareholders, controlling agencies, government, financial institutions, holding company or the parent company—elect and appoint the directors on the board. The board is responsible to them for the governance of the organisation. As directors, the members of the board, are responsible for providing guidance and establishing the directives according to which the managers of the organisation can operate. The board exercises its authority according to the memorandum of association and articles of association of the company. Legally, they have to conform to the various provisions of the Companies Act, 1956. Apart from the legal framework, the board acts according to the policies, rules, procedures and conventions of the organisation.

In practice, however, there is a wide difference among the role played by the board in various types of organisations. These differences may arise due to the ownership patterns in public and private sector companies. Even within these sectors, there might be variations. Private sector compaines which are family-owned differ from multinationals. Further, professionally managed companies may differ from family-owned concerns.

By definition, the board is only required to direct. But many operational matters of vital significance like technology collaborations, new product development, senior management appointments, etc. may also be referred to the board. The directing functions of the board have certain formal and informal components. Formally, the board is involved in reviewing and screening executive decisions in the light of their environmental, business, and organisational implications. Informally, the board seeks to direct the organisation's activities so that they are in accordance with the prevailing social, economic and political milieu. Because the board is considered as a vital link between the environment and the organisation, it usually does not concern itself with operational decision-making.

The role of the board in strategic management is to guide the senior management in setting and accomplishing objectives, reviewing and evaluating organisational performance and appointing senior executives. However, there is no clarity regarding the exact role that the board should play in managing the affairs of the organisation. Much depends on the relative strength, in terms of power, held by the board and the chief executive. Where there is a high level of clarity regarding their respective roles, the relationship between the board and the chief executive is cordial and the functioning of the board is smooth. Where such clarity is less, problems occur.

1.8.2 Role of Chief Executives

The chief executive (CE) is the most important strategist and the brand ambassador of organisation who is responsible for all aspects of strategic management from formulation to evaluation of strategy. The CE is variously designated as managing director, executive director, president or general manager in business organisations. As the chief strategist, the CE plays a major role in strategic decision-making. Due to the importance assigned to the CE, many authors and researchers have attempted to define their roles, functions and responsibilities. This is understandable since the CE of an organisation plays the most crucial role in determining whether an organisation is successful or not. Peters and Waterman say that "associated with almost every excellent company was a strong leader(or two) who seemed to have had a lot to do with making the company excellent in the first place."

The role of the CE in strategic management is the most important among the roles played by different strategists. He is the person who is chiefly responsible for the execution of functions which are of strategic importance to the organisation. In other words, a CE performs the strategic tasks : actions which are necessary to provide a direction to the organisation so that it achieves its purpose. He plays a pivotal role in setting the mission of the organisation, deciding the objectives and goals, formulating and implementing the strategy and, in general, seeing to it that the organisation does not deviate from its predetermined path designed to move it from the position it is to where it wants to be. In short a chief executive is primarily responsible for strategic management of the organisation.

1.9 SUMMARY

We started this chapter with a discussion of the mission and purpose of an organisation. A mission statement relates an organisation to the society of which it is a part and the purpose seeks to determine what the organisation does in order to realise its mission. Since mission statements perform the function of legitimising the existence of an organisation, it should possess certain characteristics. We suggested that mission statements should be feasible, precise, clear, motivating, distinctive, should indicate the major components of strategy, and the manner in which objectives have to be accomplished. Mission statements are formulated by adopting a formal or an informal approach, or a combination of both these approaches.

Business definition, which is the subject matter of the second section in this chapter, is used for understanding business. Such an understanding is vital for strategic management. We explained how a business could be defined along the three dimensions of customer groups, customer functions, and alternative technologies. Business could be defined at different levels within an organisation. A product concept, which we have discussed after studying business definition, enhances the strategist's understanding regarding various aspects of strategic management.

Objectives and goals, that we have dealt with at length in the last section, deal with what the organisation has to achieve. We first described the different roles that objectives play in strategic management and then pointed out seven characteristics that objectives should possess. We suggested that objectives should be understandable, concerte and specific, related to a time frame, measurable and controllable, challenging, and different objectives should correlate with each other, and should be set within constraints. Next, we took up six important issues pertaining to objective-setting. The six issues that we discussed are : specificity, multiplicity, periodicity, verifiability, reality and quality. Two important questions—what objectives are set, and how they are formulated—were taken up for discussion in order to elaborate the objectives that organisations set for themselves and the manner in which they formulate them. Critical success factors have been discussed next as they are vital to understanding what to do in order to be successful in a business and are used for finding the key result areas and devising measures for evaluating performance. Finally, we described how objectives at different levels—ranging from mission and purpose to operational objectives—could be structured in a hierarchy.

The "operative goal" inferred from the actual operations was, however, to maintian levels of funds from external sources. This concern, though ulimately significant in the achievement of the official goals, sometimes conflicted with the latter. An innovative programme for prevention of drug abuse could not be pursued as the federal funds were allocated on a per client basis. For the the MCDP this approach was self-defeating, since the drug programme had to justify financial needs on the basis of the clients served. The implication was that the larger the number of abusers the more the funds. The operative goal was therefore to ensure funding levels by serving people who had been formally defined as clients rather than pursue a preventive programme catering to potential drug abusers.

The "Operational goals" in the drug programme stressed the measurable factors such as the number of clients seen, the number of referrals made, and counsellor absence and tardiness. Counselling skills, empathy with clients, and quality of assistance were neglected as these factors were difficult to measure. The result was that members did what they were rewarded for, that is, they pursued the operational goals.

The official goals are abstract, idealistic and outer-directed; the operative ones are the actual goals of the organisation but are not articulated and the operative goals are detailed, measurable and directed downward.

Implicit in the framework of goals described above is a hierarchy which has been very well elaborated by Granger. He says that firstly the objectives or aims are involved in a complex relationship with other guides to action such as purposes and missions, internal and external constraints, measurements of success, budgets, annual and long-range plans. Secondly, there is a hierarchy of objectives proceeding from the very broad to the specific. The specific or more limited objectives should not be in conflict with the broad objectives.

Should an organisation have a single objective or multiple objectives? If an organisation have a single goal it would be very easy to determine its effectiveness. The Microeconomic Theory of the firm assumes that the organisations pursue the long-run goal of profit maximisation. However, in reality, organizations are constantly required to attend to demands that necessitate short term orientation. Multiplicity of goals is an organisational reality. An organization has multiple stakeholders: shareholders, managerial personnel, workers, customers, competitors, suppliers, politicians, the government, etc. The different groups of stakeholders have their own goals and hence to keep the various inside and outside groups in balance the organization must achieve a satisfactory level of goal attainment from each one's perspective.

Drucker has suggested eight important areas of business objectives :

1. Marketing
2. Innovation
3. Human Organization
4. Financial Resources
5. Physical Resources
6. Productivity
7. Social Responsibility
8. Profit Requirements.

This lesson has been devoted to the understanding of the conceptual foundation in business policy. Mission, purpose, objectives and goals, and strategies operate at higher levels while at lower levels these are tactics, plans programmes, procedures rules, forecasts, targets and budgets.

1.10 GLOSSARY

- Vision : A long term perspective of what is the final destination of the organisation.
- Strategy : A plan of action designed to achieve a long teem or overall aim.
- Coalition: It is the cooperative relationship formed by organisations to achieve common goals.

1.11 SELF-ASSESSMENT QUESTIONS

Q 1. Differentiate clearly between objectives, goals and targets.

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Q 2. Mention the important features of a Strategy.

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Q 3. What are shortcomings in the concept of strategic planning?

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1.12 LESSON AND EXERCISE

Q1 Select any of the following 3 organisation (a) Reliance Industries (b) TELCO and (c) WIPRO Industries. On the basis of their annual report for the last 5 years, chart out the following:-

- The vision, Mission & value statements:
- The strategy.
- The Business objectives.

1.13 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

Fundamental of Business Policy and Strategic Management — **UNIT I**

LESSON - 2

STRUCTURE

2.1 INTRODUCTION :-

“**Strategic management** is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly. It refers to the steps by which management converts a firm’s mission, objectives and goals into a workable strategy.

2.2 OBJECTIVES

After reading this lesson, the student is able to assess the following objectives:

(i) basic origin of strategic management.

(ii) Main elements of strategic management.

(iii) Relevance of Growth and Portfolio theory.

Reasons behind move from business policy to strategic management.

2.3 ORIGIN OF STRATEGIC MANAGEMENT

The strategic management discipline originated in the 1950s and 1960s. Among the numerous early contributors, the most influential were Alfred Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years.

Alfred Chandler recognized the importance of coordinating management activity under an all-encompassing strategy. Interactions between functions were typically handled by managers who relayed information back and forth between departments. Chandler stressed the importance of taking a long term perspective when looking to the future. In his 1962 ground breaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction and focus. He says it concisely, "structure follows strategy".

In 1957, Philip Selznick formalized the idea of matching the organization's internal factors with external environmental circumstances. This core idea was developed into what we now call SWOT analysis by Learned, Kenneth R. Andrews, and others at the Harvard Business School, General Management Group. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats in the business environment (SWOT analysis).

Igor Ansoff built on Chandler's work by adding concepts and inventing a vocabulary. He developed a grid that compared strategies for market penetration, product development, market development and horizontal and vertical integration and diversification. He felt that management could use the grid to systematically prepare for the future. In his 1965 classic *Corporate Strategy*, he developed gap analysis to clarify and bridge the gap between the current reality and the goals and to develop what he called "gap reducing actions".

Peter Drucker was a prolific strategy theorist, author of dozens of management books, with a career spanning five decades. He stressed the value of managing by targeting well-defined objectives. This evolved into his theory of management by objectives (MBO). According to Drucker, the procedure of setting objectives and monitoring progress towards them achieving gives boost to the entire organization.

Strategy theorist Michael Porter argued that strategy target either cost leadership, differentiation, or focus. These are known as Porter's three generic strategies and can be applied to any size or form of business. Porter claimed that a company must only choose one of the above three strategies or waste its precious resources. W. Chan Kim and Renée Mauborgne countered that an organization can achieve high growth and profits by creating a Blue Ocean Strategy that breaks the trade off by pursuing both differentiation and low cost.

2.4 MAIN ELEMENTS OF STRATEGIC MANAGEMENT THEORY:

In 1985, Ellen-Earle Chaffee summarized what she thought were the main elements of strategic management theory by the 1970s:

· Strategic management involves adapting the organization to its business environment.

· Strategic management is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses.

· Strategic management affects the entire organization by providing direction.

· Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process).

· Strategic management is partially planned and partially unplanned.

· Strategic management is done at several levels: overall corporate strategy, and individual business strategies.

· Strategic management involves both conceptual and analytical thought processes.

2.5 GROWTH AND PORTFOLIO THEORY:

In the 1970s much of strategic management dealt with size, growth, and portfolio theory. The long-term PIMS study, started in the 1960s and lasting for 19 years, attempted to understand the Profit Impact of Marketing Strategies (PIMS), particularly the effect of market share. It started at General Electric, moved to Harvard in the early 1970s, and then moved to the Strategic Planning Institute in the late 1970s. It now contains lot of information on the relationship between profitability and strategy. Their initial conclusion was unambiguous: the greater a company's market share, the greater is their rate of profit. Market share provides economies of scale. It also provides experience and advantages. The combined effect is increased profits.

The benefits of high market share naturally led to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, franchises, mergers and acquisitions, joint ventures and organic growth were discussed.

By the early 1980s the paradoxical conclusion was that high market share and low market share companies were often very profitable but most of the companies in between were not. This was sometimes called the "hole in the middle" problem. Porter explained this anomaly in the 1980s.

The management of diversified organizations required additional techniques and ways of thinking. The first CEO to address the problem of a multi-divisional company was Alfred Sloan at General Motors. GM employed semi-autonomous "strategic business units" (SBU's), with centralized support functions.

One of the most valuable concepts in the strategic management of multi-divisional companies was portfolio theory. In the previous decade Harry Markowitz and other financial theorists developed modern portfolio theory. They concluded that a broad portfolio of financial assets could reduce specific risk. In the 1970s marketers extended the theory to product portfolio decisions and managerial strategists extended it to operating division portfolios. Each of a company's operating divisions was seen as an element in the firm's portfolio. Each operating division was treated as a semi-independent profit centre with its own revenues, costs, objectives and strategies.

Several techniques were developed to analyze the relationships between elements in a portfolio. B.C.G. Analysis, for example, was developed by the Boston Consulting Group in the early 1970s. Shortly after that the G.E. multi factoral model was developed by General Electric. Companies continued to diversify until the 1980s when it was realized that in many cases a portfolio of operating divisions was worth more as separate completely independent companies.

2.6 MOVE FROM BUSINESS POLICY TO STRATEGIC MANAGEMENTS

The 1970s saw the rise of the marketing oriented firm guided by the business policy. From the beginning of capitalism it was assumed that the key requirement of business success was a product of **high technical quality**. If an organisation produced a product that worked well and was durable, it was assumed org. would have no difficulty in making profits. This was called the production orientation. The 1950s and 1960s was described as the "sales era". Its guiding philosophy of business is today called the "sales orientation". In the early 1970s Theodore Levitt and others at Harvard argued that the sales orientation had things backward. They claimed that instead of producing products then trying to sell them to the customer, businesses should start with the customer, find out what they wanted, and then produce it for them. The customer became the driving force behind all strategic business decisions. This marketing concept, in the decades since its introduction, has been reformulated and repackaged under names including market orientation, customer orientation, customer intimacy, customer focus, customer-driven and market focus. This is called strategic management. Strategic management analyses the major initiatives taken by a company's top management on behalf of owners, involving resources and performance in internal and external environments. It means specifying the organization's mission, vision and objectives, developing policies and plans, in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives. Recent studies and leading management theorists have advocated that strategy needs to start with stakeholders expectations and use a modified balanced scorecard which includes all stakeholders.

2.7 SUMMARY:

Strategic management is a level of managerial activity below setting goals and above tactics. Strategic management provides overall direction to the enterprise and is closely related to the field of Organization Studies. In the field of business administration it is useful to talk about "strategic consistency" between the organization and its environment or "strategic consistency." According to Arieu "there is strategic consistency when the actions of an organization are consistent with the expectations of management, and these in turn are with the market and the context."

"Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment." **Strategic Management** can also be defined as "the identification of the purpose of the organisation and the plans and actions to achieve the purpose. It is that set of managerial decisions and actions that determine the long term performance of a business enterprise. It involves formulating and implementing strategies that will help in aligning the organization and its environment to achieve organisational goals."

2.8 GLOSSARY:

- Strategic Management : Formulation and implementation of the major goals and initiatives taken by a company's top management.

- Strategic objective : There are goals of thewhole organisation & reflect its aim.

2.9 SELF ASSESSMENT QUESTIONS:

Q1. Explain the Relevance of Growth and Portfolio theory in Strategic Management.

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Q2. (a) Whar are the basic elements in Strategic Management ?

____

____

(b) Strategic Management involves..................and.............for achieving organisational goals.

____

____

Q.3. What are the reasons beind move from Business Policy to Strategic Management?

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2.10 LESSON END EXERCISE

Q1. Use your insight and critical abilities to analyse the vision and mission statements for any three organisations. What would be the impact of these statements on the functioning of those organisation? And, Why?

Q2. Read the annual report of a company you are familar with as a customer and identify the main characteristics of the strategy you perceive as a consumer.

2.11 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

UNIT I

LESSON - 3

Strategic Management Process : Mission, Objective's and Goals

STRUCTURE

3.8 **Summary**

3.9 **Glossary**

3.10 **Self Assessment Questions**

3.11 **Lesson End Exercise**

3.12 **Suggested Readings**

3.1 INTRODUCTION:-

Purposes, missions, objectives and policies are known as master strategies. Programme strategies refer to the specific action plans or methods to be used to achieve an already established objective.

3.2 OBJECTIVES

- Understand the process of strategic management.
- Concepted knowledge about mission, objective and goals.
- Procedure of the formation of Mission Stateements.
- Analyse how mission and purpose.

3.3 STRATEGIC MANAGEMENT PROCESS

The first task of strategic management is formulating the organisation's vision, mission & value statements. Strategic decision-making is done through the process of strategic management. Like other terms in business policy, strategic management has also been defined and interpreted differently by various authors. There are also differences of opinion regarding the phases in the strategic management process and the elements they contain. In this section, we deal with four aspects: how strategic management is defined; what are the different phases in the process of strategic management: what elements does this process contain; and lastly, models of strategic management.

Definitions of Strategic Management

Gullick defines strategic management as "a stream of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives." The end result of strategic management, as visualised by Gullick, is a strategy or a set of strategies for the organisation. Hofer and others consider strategic management, as "the process which deals with fundamental organisational renewal and growth with the development of the strategies, structures and systems necessary to achieve such renewal and growth, and with the organisational systems needed to effectively manage the strategy formulation and implementation processes." First, these authors include two sub-processes within the overall strategic management process. Through the formulation and implementation sub-processes the development of strategies, structures and systems is done to achieve the objectives of organisational renewal and growth. Second, the strategic management process is also considered as managing the organisational systems which are required for strategic management. For instance, the administrative arrangements necessary for formulation and implementation of strategies would also be included in the process of strategic management. Sharplin defines strategic management as "the formulation and implementation of plans and the carrying out of activities relating to the matters which are of vital, pervasive, or continuing importance to the total organisation." This is an all-encompassing view of strategic management and considers all plans and activities which are important for an organisation. Lastly, we refer to the definition by Ansoff, which states that 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 assure its continued success and make it secure from surprises." The emphasis in this definition is on the environment-organisation relationship for the purpose of achieving the objectives of continued success and protection from environmental surprises through the adoption of a systematic approach to general management.

We observe that different authors have defined strategic management differently. Strategic management is considered as either decision-making and planning, or the set of activities related to the formulation and implementation of strategies to achieve organisational objectives. The emphasis in strategic management is on those general management responsibilities which are essential to relate the organisation to the environment in such a way that its objectives may be achieved.

3.4 PHASES IN STRATEGIC MANAGEMENT

The definitions quoted above give us the idea that, as a process, strategic management consists of different phases which are sequential in nature. Most authors agree that there are four essential phases in the strategic management process, though they may differ with regard to the sequence, emphasis or nomenclature. These four phases could be encapsulated as follows :

1. Defining business mission, purpose, and objectives;
2. Formulation of strategies;
3. Implementation of strategies; and
4. Evaluation of strategies.

These four phases are considered as sequentially linked to each other and each successive phase provide a feedback to the previous phases. The phases in strategic management are depicted in Exhibit 3.1

However, in practice, the different phases of strategic management may not be clearly differentiable from each other. In fact, we prefer to call them phases rather than stages or steps (as some authors do) to signify that the different phases, at the interface, may exist simultaneously and the strategic activities gradually emerge in one phase to merge into the following phase. The feedback arising from each of the successive phases is meant to revise, reformulate or redefine the previous phases, if necessary. Such a representation yields a dynamic model of strategic management which takes into account the emerging factors as the process moves on.

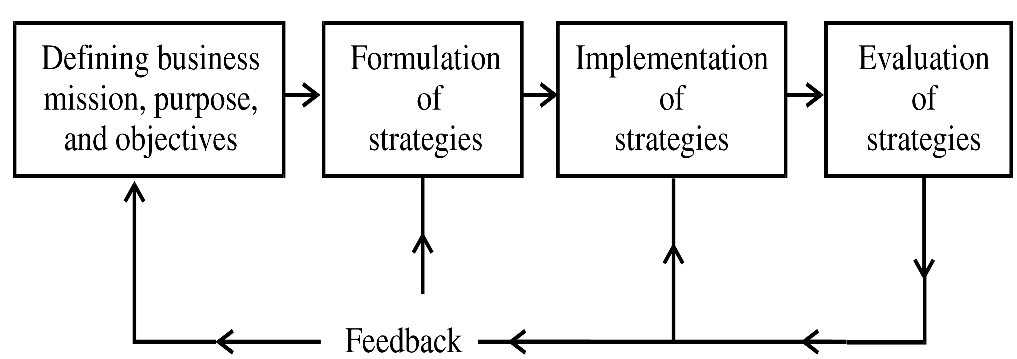

Exhibit 3.1 Phases in strategic management.

3.5 ELEMENTS IN STRATEGIC MANAGEMENT PROCESS

Each phase of the strategic management process consists of a number of elements, which are discrete and identifiable activities performed in logical and sequential steps. As many as twelve different elements could be identified in the models provided by various authors. From the literature on business policy, we note that most or all of the following activities are considered as parts of the strategic management process:

1. Defining business;
2. Setting mission;
3. Determining purpose;
4. Establishing objectives;
5. Performing environmental appraisal;
6. Doing corporate appraisal;
7. Evolving strategic alternatives;
8. Exercising strategic choice;
9. Formulating strategies;
10. Preparing strategic plan;
11. Implementing strategies: and
12. Evaluating strategies.

3.6 MODELS OF STRATEGIC MANAGEMENT PROCESS

The process of strategic management is depicted through a model which consists of different phases; each phase having a number of elements. As we said earlier, most authors agree on dividing the strategic management process into four phases consisting of about twelve elements. The models of strategic management that we adopt are provided in Exhibits 3.2 and 3.3.

In Exhibit 3.2, we provide a vertical representation of a comprehensive model of the strategic management process. In Exhibit 3.3, we depict the process laterally and provide a working model. Now, here we present a bird's eye view of the different elements of the strategic management process.

1. Business definition, mission, purpose and objectives are concerned with laying the foundation for strategic management. These relate the organisation to the society, state what it has to attain for the society, and for itself, and in the process achieve its objectives and goals. The end result of this set of elements is a hierarchy of objectives and critical success factors which serve as yardsticks and benchmarks for measuring organisational performance.

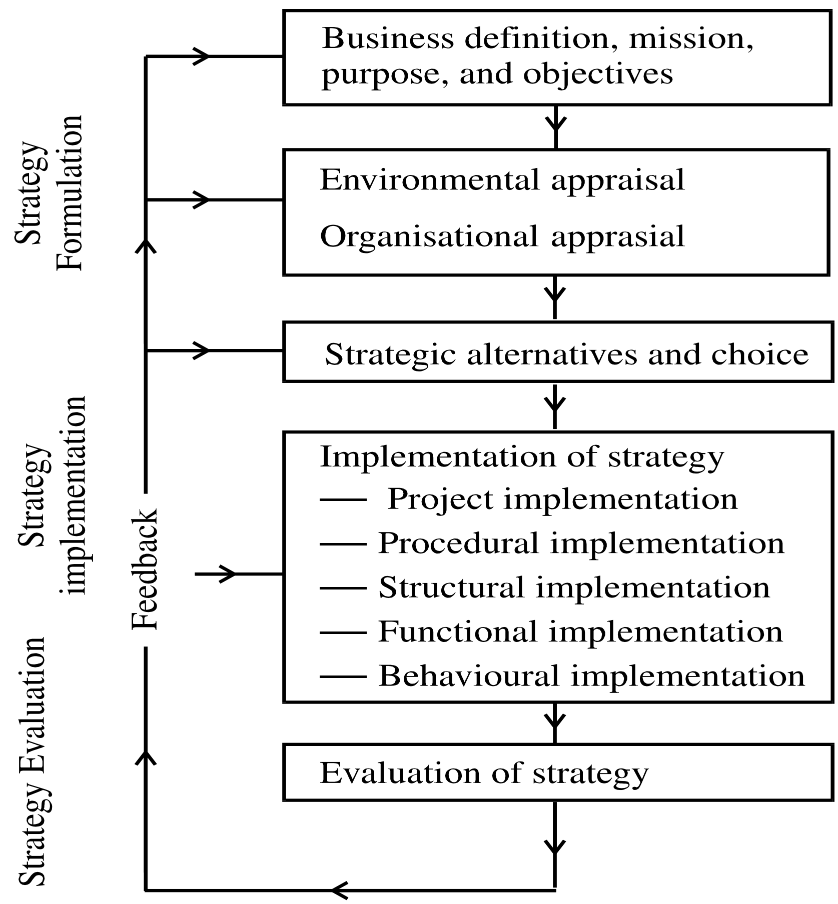

Exhibit 3.2 A comprehensive model of the strategic management process.

2. Environmental and organisational appraisal deal with finding out opportunities and threats operating in the environment and the strengths and weaknesses of the organisation in order to create a match between them. In such a manner, opportunities could be availed of and the impact of threats neutralised in order to capitalise on the orgnisational strengths and minimise the weaknesses.
3. Strategic alternatives and choice are required for evolving alternative strategies, out of the many possible options, and choosing the most appropriate strategy or strategies in the light of environmental opportunities and threats and corporate strengths and weaknesses. The end result of this set of elements is a strategic plan to be implemented.
4. For implementation of strategy, the strategic plan is put into action through six sub-processes: project implementaion, procedural implementation, resource allocation, structrual, functional, and behavioural implementation. Project implementation deals with setting up the organisation. Procedural implementation deals with different aspects of regulatory framework within which Indian organisations have to operate. Resources allocation relates to the procurement and commitment of resources for implementation. The structural aspects of implementation deal with the design of appropriate organisational structures and reorganising for matching the structure to the needs of strategy. The functional aspects relate to the policies to be formulated in different functional areas. The behavioural aspects consider the leadership patterns for implementing strategies and other issues like social responsibility, business ethics, organisational culture and corporate politics. The emphasis in the implementation phase of strategic management is on action.
5. The last phase of strategic evaluation appraises the implementation of strategies and measures organisational performance to exercise strategic control over the strategic management process. Strategies may be reformulated, if necessary.

Before we examine each of these elements in the strategic management process let us learn about the roles that various strategists play in strategic management.

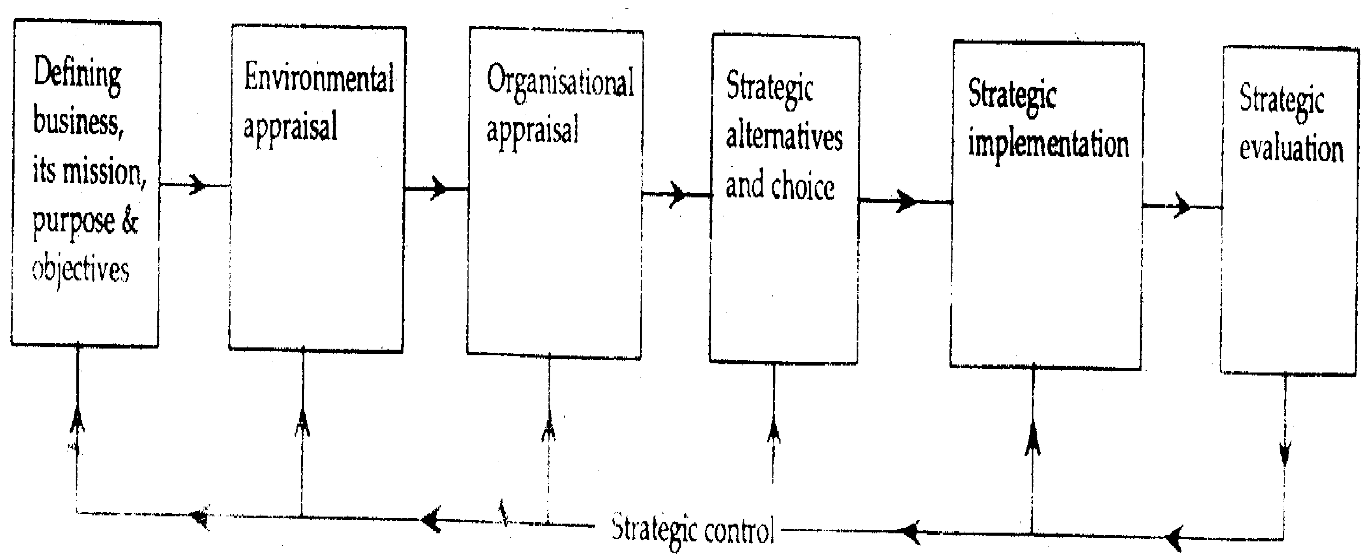

Exhibit 3.3 A working model of the strategic management process

3.7 COMPONENTS OF STRATEGY

3.7.1 Mission and Purpose

About two decades back, Peter F. Drucker raised important philosophical questions related to business: What is our business? What will it be? and What should it be? These three questions, though simply worded, are in reality, the most fundamental questions that any organisation can put to itself. The answers are based on the underlying need of the society that any organisation serves to fulfil. The satisfaction of that need is, then, the business of the organisation. **Mission is an enduring statement of purpose that identifies the scope of its operations & distinguishes one business from other similar firms.**

3.7.2 Understanding Mission and Purpose

Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission and purpose. We had described mission as "a statement which defines the role that an organisation plays in the society", and purpose as "anything which an organisation strives for." In business policy, both these terms are either used jointly or singly. Other terms used in this context are: ultimate purpose, aim, broad aim, ultimate goal, general objective, grand strategy, corporate objective or corporate philosophy. Since both mission and purpose go hand in hand, we prefer to use them together while maintaining the basic difference between them. Mission strictly refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organisation strives to achieve in order to fulfil its mission to the society. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner. Both have different purposes but an identical mission. Exhibit 3.4 provides a few illustrations of mission statements that various organisations have set for themselves.

Exhibit 3.4 A few illustrations of mission statements.

Many organisations formally state their mission and also communicate it to insiders and outsiders. Others do not state their mission explicitly and it has to be derived from what the organisation does. A mission could be called by other names too but essentially it serves to link the organisation to the society.

Oil and Natural Gas Commission states its mission and purpose as: " To stimulate, continue and accelerate efforts to develop and maximise the contribution of the energy sector to the economy of the country".

V. Sagar Sachdeva, managing director of Indian Aluminium Company Ltd. (INDAL), held several brainstorming sessions with his colleagues and redefined the statement of the corporate mission as: "INDAL will be the most innovative, diversified aluminium company in India. To achieve this, INDAL will be a customer-oriented enterprise committed to excellence and cost-effectiveness in its chosen aluminium business. Significant resources will be devoted to diversifying into hi-tech and market-oriented businesses with superior growth and profit potential. Consistent with national goals, INDAL will progressively increase exports. In the nineties, INDAL will achieve 14 per-cent or better returns on equity."

Bank of Madura Limited visualises itself as: "A vibrant bank committed to excellence in performing through customer satisfaction".

The specific mandate for which Electronics Corporation of India Ltd (ECIL) was set up in 1967 was : "to promote the develop industrial electronics with indigenous know-how and to attain self-sufficiency in atomic energy programmes"

Ranbaxy Laboratories Ltd. mission statement is to become a research based international pharmaceutical company.

Mc. Donald's states to offer the customer fast food prepared in the same high quality worldwide, tasty and reasonably, priced, delivered in friendly manner.

Sources **:** Adapted from ONGC *Annual report,* 1982-83; "INDAL's growth strategy" in *Business World,* Aug. 3-16, 1987, p.p. 19-20; *Chairman's statement* at 45th, Annual general meeting (1988) of Bank of Madura Ltd; "New vigour at ECIL" in *Business World,* Aug, 31-Sept. 13, 1987, p. 50.

3.7.3 Characteristics of a Mission Statement

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

1. *It should be feasible.* A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable–its followers must find it to be credible. But feasibility depends on the resources available to work towards a mission. In the sixties, the U.S. National Aeronautics and Space Administration (NASA) had a – mission to land on the moon. It was a feasible mission that was ultimately realised.

2. *It should be precise.* A mission statement should not be so narrow as to restrict the organisation's activities nor should it be too broad to make itself meaningless. 'Manufacturing bicycles' is a narrow mission since it severely limits the organisation's activities while 'mobility business' is too broad a term as it does not define the reasonable contour within which an organisation could operate.

3. *It should be clear.* A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organisations do adopt such statements but probably they do so for emphasising their identity and character. For example, Asian Paints stresses 'leadership through excellence', *India Today* sees itself as 'the complete news magazine'. The Administrative Staff College of India considers itself as 'the college for practising managers' and Bajaj Auto believes in providing 'value for money, for years'. To be useful, a mission statement should be clear enough to lead to action. The ITC's stated corporate philosophy of aligning its organisational activities with national priorities helps it in choosing areas for diversification like hotel, paper and agro-industry.

4. *It should be motivating.* A mission statement should be motivating for members of the organisation and of the society, and they should feel it worthwhile working for such an organisation or being its customers. A bank which lays great emphasis on customer service is likely to motivate its employees to serve its customers well and to attract clients. Customer service, therefore, is an important purpose for a banking institution.

5. *It should be distinctive.* A mission statement which is indiscriminate is likely to have little impact. If all scooter manufacturers defined their mission in a similar fashion, there would not be much of a difference among them. But if one defines it as providing scooters that would provide value for money, for years it creates an important distinction in the public mind.

6. *It should indicate major components of strategy.* A mission statement, along with the organisational purpose, should indicate the major components of the strategy to be adopted. The chief executive of Indian Aluminium Company Ltd. expresses his intentions by saying that his company "begins its fifth decade of committed entrepreneurship with the promise of a highly diversified company retaining aluminium as its mainline business, but with an active presence in the chemical, electronics and industrial equipment business". This statement indicates that the company is likely to follow a combination of stability, growth, and diversification strategies in the future.

7. *It should indicate how objectives are to be accomplished.* Besides indicating the broad strategies to be adopted, a misson statement should also provide clues regarding the manner in which the objectives are to be accomplished. The Centre for Development of Telematics (C-DOT) had set its first three year mission (1984-87) as developing, designing and engineering a large digital exchange suitable for Indian conditions, and its second mission (1987-90) as developing the technological prerequisites for an integrated system digital network of future. These mission statements specifically deal with objectives to be achieved within a given time period.

8. *It should indicate long term purpose–* Mission refers to a firms's long term purpose and its solemn resolve to achieve it. There is a clear indication of what the firm intends to become in future.

9. *Dynamic–* The concept of mission is dynamic and not a static one. It must strike a fine balance between the narrow and broad ways of doing things in years ahead.

In day-to-day decision-making, managers are not concerned about survival and, therefore, do not actively think about their organisation's mission for society. Thus, a mission statement becomes an ideology that is occasionally used for legitimisation. But for strategic decision-making, it is important to consider the mission in each phase of the strategic management process.

3.7.4 How Mission Statements are Formulated?

Most organisations derive their mission statements from a particular set of tasks they are called upon to perform in the light of national priorities. Most public sector organisations, set up in India during the fifties and sixties, own their existence to the vision of Jawaharlal Nehru, the first prime minister, who enunciated and tirelessly worked for the national aim of building a strong and self-reliant India by laying the foundations of many of our basic infrastructural industries. Mission statements, whether derived from national priorities or not, could be formulated either formally or informally. Sometimes, organisations engage consultant to draw up the mission or to revise an existing one.

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

Major strategists could also contribute to the development of a mission statement. They do this informally by lending a hand in the creation of a particular corporate identity or formally through discussions and the writing down of a mission statement. Chief executives play a major role in formulating a mission statement both formally and informally. They may set up executive committees to formally discuss and decide on a mission statement or enunciate a corporate philosophy to be followed for strategic management. Consultants may also be called upon to make an in-depth analysis of the organisation to suggest an appropriate mission statement. B.N. Sinha, managing director of the Scientific Instrument Company Ltd., who took the help of a management consultant in deciding his company's mission and purpose describes the process of formulating a mission:".. as a starting point, we (i.e. the company managers, consultant and the chief executive) spent quite a bit of time on identifying our 'mission' of buisness ..... After a lot of discussion, we identified our mission as follows: to be a vibrant orgnisation set on contributing to the scientific and technical progress of the country; keeping its customers and employees satisfied in terms of service and work reward; giving adequate return on investment to the shareholders."

A mission statement, once formulated, should serve the organisation for many years. But a mission may become unclear as the organisation grows and add new products, markets and technologies to its activities. Then the mission has to be reconsidered and re-examined to either change or discard it and evolve a fresh statement of organisational mission and purpose. A helpful approach to defining as well as refining a mission statement is to define the business itself.

The Product Concept

Like the business definition, an explicit product concept could have far-reaching implications for strategic management. A product concept is the manner in which a company perceives its product. Such a perception is based on how the product provides functions that satisfy customer needs. Consider the examples given below where companies define their product concepts and what implications such definitions have.

- Modi Xerox views its product concept as providing neat reproduction facilities at a reasonable cost per copy.
- Bhadrachalam Paperboards Ltd. views paper as a product and not as a commodity.

As a result of this, it is able to consider the productivity of its customers and make tailor-made products for them. In the process, it comes in direct contact with customers rather than the wholesale agents, thus defying the traditional way in which paper business operates.

- Hindustan Computers Ltd. perceives the computer not as a sophisticated awe-inspiring machine but as an everyday commodity. Such a product concept prompted it to advertise the computer as a consumer durable available through an innovative hire-purchase scheme.

A product concept – carefully and innovatively defined–can prove to be of significant worth to strategists in different phases of strategic management. An explicit definition will provide definite pointers to the product concept. Both the business definition and product concept are powerful tools for strategic management.

The mission, purpose, business definition, and product concept serve to determine the basic philosophy that is adopted by an organisation in the long-run. To realise its mission and achieve its purpose, any organisation will have to set objectives and goals to be pursued in the short run. The next section deals with objectives and goals.

3.7.5 Objectives and Goals

A goal or objective is a specific target that the firm intends to reach in the long term. It is the end result. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attributes which are precise and expressed in specific terms. Any organisation always has a potential set of objectives. It has to exercise a choice from among these objectives. This choice must be further elaborated and expressed as operational and measureable goals. Exhibit 3.5 illustrates how a banking institution states its objectives and formulates goals for attaining its purposes. Objectives are the products of specific and concerete thinking. Where as goal may be considered as the set of constraints that the organisation must satisfy.

From this exhibit, note that an organisation has to translate its purpose into long-term objectives and short-term goals for realising its mission. This brings us to the role that objectives and goals play in strategic management. Since objectives and goals go together, we will refer to only objectives assuming that these include the goals as well.

B. Ratnakar, ex-chairman of Canara Bank, on being interviewed by *Buisness World* just before completing his six-year term, expressed the purpose of his organisation as: "Our mission is to be the most competitive and progressive institution in our (i.e. banking) industry." The bank's stated objectives are : "growth, innovativeness, high profits as a barometer of efficiency, highly involved employees distintively charged with pride...."

During his six-year successful tenure, Ratnakar has attempted to achieve the above objectives in a number of ways.

- Growth has been achieved in terms of customers (20.4 million), reserves (Rs. 200 crore), average business per employee (Rs. 21.78 lakh), deposits per branch (Rs. 3.4 crore) and priority sector leading (47 per cent of net credit against an industry norm of only 40 per cent). All figures relate to 1987.
- Innovativeness is reflected in a number of new schemes like mutual funds such as Canstock and Canshare, and setting up of Canbank Financial Services Ltd, for merchant banking and portfolio management.
- High profits of Rs. 45 crore in 1987; the highest among all public sector banks and nearly equal to that of the industry leader, State Bank of India.
- Employee involvement has been sought through delegation of authority and devolution of power to grassroot levels through a change in administrative structure and the creation of circle and branch management boards.

Observe from the above that the bank's purpose is supported by objectives, which in turn are achieved through activities that are measurable.

Exhibit 3.5 Objectives and goal-setting at Canara Bank

Source : Adapted from "Superbanker" in *Business World,* May 23-June 5, 1988, pp. 42-51.

3.7.6 Role of Objectives

Objectives play an important role in strategic management. We could identify the various facts of such a role as described below.

- *Objectives define the organisation's relationship with its environment.* By stating its objectives, an organisation commits itself to what it has to achieve for its employees, customers and the society at large.

- *Objectives help an organisation pursue its mission and purpose.* By defining the long-term position that an organisation wishes to attain and the short-term targets to be achieved, objectives help an organisation in pursuing its mission and purpose.

- *Objectives provide the basis for strategic decision-making.* By directing the attention of strategists to those areas where strategic decisions need to be taken, objectives lead to desirable standards of behaviour and, in this manner, help to coordinate strategic decision-making.

- *Objectives provide the standards for performance appraisal.* By stating goals and targets to be achieved in a given time period, and the measures to be adopted, objectives lay down the standards against which organisational as well as individual performance could be judged. In the absence of objectives, an organisation would have no clear and definite basis for evaluating its performance.

Managers who set objectives for themselves and for their organisations are most likely to achieve them than those who do not specify their performance targets. The importance of the role that objectives play in strategic management could be aptly summed up in the truism: if one does not know where he has to go, any path will take him there.

3.7.7 Characteristics of Objectives

Objectives, as measures of organisational behaviour and performance, should possess certain desirable characteristics in order to be effective. Given below are seven such characteristics.

1. *Objectives should be understandable.* As objectives play an important role in strategic management and are put to use in a variety of ways, they should be understandable by those who have to achieve them. A chief executive who says that "something ought to be done to set things right" is not likely to be understood by his managers. Subsequently, no action will be taken or even a wrong action might be taken.

2. *Objectives should be concrete and specific*. To say that "our company plans to achieve a 12 per cent increase in sales" is certainly better than stating that "our company seeks to increase its sales". The first statement implies a concrete and specific objective and is more likely to lead and motivate the managers.

3. *Objectives should be related to a time frame.* If the first statement given above is restricted as "our company plans to increase its sales by 12 per cent by the end of two years", it enhances the specificity of objectives. If objectives are related to a timeframe, then managers know the duration within which they have to be achieved.

4. *Objectives should be measurable and controllable.* Many organisations perceive themselves as companies which are attractive to work for. If measures like the number and quality of job applications received, average emoluments offered and staff turnover per year could be devised, it would be possible to measure and control the ahievement of this objective with respect to comparable companies in a particular industry and in general.

5. *Objectives should be challenging.* Objectives that are too high or too low are both demotivating and, therefore, should be set at challenging but not unrealistic levels. To set a high sales target in a declining market does not lead to success. Conversely a low sales target in a burgeoning market is easily achievable and therefore, leads to sub-optimal performance.

6. *Different objectives should correlate with each other.* Organisations

set many objectives in different areas. If objectives are set in one area disregarding the other areas, such an action is likely to lead to problems. A classic dilemma in organisations, and a source of inter-departmental conflict is setting sales and production objectives. Marketing departments typically insist on larger variety of products to cater to a wider market segment while production departments generally prefer to have greater product uniformity in order to have economies of scale. Obviously, trade-offs are required to made so that different objectives correlate with each other, are mutually supportive, and result in synergistic advantages. This is specially true for organisations which operate on a profit-centre basis.

7. *Objectives should be set within constraints.* There are many constraints– internal as well as external–which have to be considered in objective-setting. For example, resource availibility is an internal constraint which affects objective-setting. Different objectives compete for scarce resources and tradeoffs are necessary for optimum resource utilisation. Organisations face many external constraints like legal requirements, social responsibility, consumer interests, and environmental pollution. All these limit the organisation's ability to set and achieve objectives.

8. *Multiplicity of objectives* - At every level in the hierarchy, goals are likely to be multiple. For eg. the marketing decision may have the objective of sale and distribution of products.

In sum, objective-setting is a complex process. We will further examine a few issues relevant to objectives, in order to understand this complex process.

3.7.8 Issues in Objective-setting

There are many issues which have a bearing on different aspects of objective-setting. We deal here with six issues.

1. *Specificity:-*Objectives may be stated at different levels of specificity. At one extreme, they might be very broadly stated as general objectives while at the other they might be specifically stated as goals or targets. Many organisations state corporate as well as general, specific, functional and

operational objectives. Note that specificity is related to organisational levels for which a set of objectives has been stated. Indian Airlines states corporate, general as well as particular objectives. One of its corporate objectives is to meet the demand for reliable, economic and efficient air transport through high standards of service. One of the general objectives is to provide safe, economic and reliable air transportation. One of its particular objectives, in the financial area, is to generate a specific amount of resources every year not only for meeting existing requirements but also for providing for growth. The issue of specificity is resolved through stating objectives at different levels so that they serve the needs for performance and of its evaluation.

2. *Multiplicity:*-Since objectives deal with a number of performance areas, a variety of them have to be formulated to cover all aspects of the functioning of an organisation. No organisation operates on the basis of a single or a few objectives. The issue of multiplicity deals with different types of objectives with respect to organisational levels (e.g. higher or lower level), importance (e.g. primary or secondary), ends (e.g. survival or growth), functions (e.g. marketing or finance) and nature (e.g. organisational or personal). Another issue, related to multiplicity, is the number and type of objectives to be set. Too few or too many objectives are both unrealistic. Organisations need to set adequate and appropriate objectives so as to cover all the major performance areas.

3. *Periodicity:*-Objectives are formulated for different time periods. It is possible to set long-term, medium-term and short-term objectives. Generally, organisations determine objectives for the long-and short-terms. Whenever this is done, objectives for different time periods have to be integrated with each other. Long-term objectives are, by nature, less certain and are, therefore, stated in general terms. Short-term objectives, on the other hand, are relatively more certain, specific, and comprehensive. One long-term objective may result in several short-term objectives; many short-term objectives converge to form a long-term objective. For example, a long-term objective may be continual profitability. Short-term objectives which support continual profitability may be

the return on investment, profit margin, return on net worth, etc. computed on a yearly basis.

4. *Verifiability:*-Each objective has to be tested on the basis of its verifiability. In other words, it should be possible for a manager to state the basis on which to decide whether an objective has been met or not. Only verifiable objectives can be meaningfully used in strategic management. Related to verifiability is the question of quantitative and qualitative objectives. A certain way to measure any objective is to quantify it. But it may be neither possible nor desirable to quantify each and every objective. In such cases, qualitative objectives have to be set. These objectives could also be verified but not to the degree of accuracy possible for quantitative objectives. For example, a qualitative objective may be stated as : to create a congenial working environment within the factory. In order to make such an objective verifiable, value judgements of informed experts both insiders and outsiders could be used. A few quantitative measures could also be devised which can serve as indicators of a congenial working environment. Some of these could be staff turnover, absenteeism, accident rates, productivity figures, etc. In sum, it can be said that the issue of verifiability could be resolved through a judicious use of a combination of quantitative and qualitative objectives.

5. *Reality:*-It is a common observation that organisations tend to have two sets of objectives : official and operative. Official objectives are those which the organisations profess to attain while operative objectives are those which they seek to attain in reality. Probably no none would be in a better position to appreciate the difference between these two objectives than a harried client of a public sector bank who, on being maltreated by an arrogant bank employee, looks up to find a poster of smiling, beautiful girl with folded hands looking down at him. The poster carries the caption : 'Customer service with a smile' ! Many organisations state one of their offcial objectives as the development of human resources. But whether it is also an operative objective depends on the amount of resources allocated to human resource development.

6. *Quality:*-Objectives may be both good as well as bad. The quality of an objective can be judged on the basis of its capability to provide a specific direction and a tangible basis for evaluating performance. An example of a bad objective is: 'To be market leader in our industry', — it is insufficient with respect to its measurability. To restate the same objective as: 'To increase market share to a minimum level of 40 per cent of the total with respect to Product A over a period of the next two years and to maintain it thereafter' is a good objective since it is specific, relates to performance, is measurable, and provides a definite direction.

Recapitulating what we have said in this and the previous subsection, it can be stated that objectives have a number of characteristics and a variety of issues are involved in setting them. Determination of objectives is, therefore, a complex task. Futher, two important questions need to be asked: what objectives are chosen for achievement and how they are determined. We attempt to answer the first question in the following subsection and the second in the next.

3.7.9 What Objectives are Set ?

Objectives have to be set in all those performance areas which are of strategic importance to an organisation. In general, according to Drucker, objectives need to set in the eight vital areas of market standing innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility. A prescriptive approach, such as the one suggested by Drucker, is based on those strategic factor which are supposedly vital for all types of organisations. But, in practice, organisations differ widely with regared to the objectives that they choose to set.

Research studies, based on survey of a large number of companies, too lead to a set objectives that the companies determine for themselves. But even here, the list of objectives is more of a least common denominator rather than a true reflection of the objectives that the companies *actually* set for themselves. For illustrating this point, we consider one such study in the Indian context. Singh, who has studied 28 large companies, each having a turnover of more than Rs 50 crore at the time of study, reports that the objectives were set in areas like :

- profit (return on investment, return on shareholder's capital and net profits as a percentage of sales);
- marketing (increase in sales volume, market development for existing products, new product development, reduction in marketing cost, improving customer service);
- growth (output, sales turnover, investment);
- employees (industrial relations, welfare and development);
- social responsibility (community service, rural development, auxiliary industry development, family welfare).

In a later sub-section, we will consider critical success factors which are actually used by organisations to set objectives. For the present, consider the following examples of objective-setting by different types of rganisations. We are not including the usual financial parameters used to judge performance.

- Two-wheeler companies can use measures of performance such as the number of vehicles manufactured per annum, market share in percent, level of indigenisation achieved in per cent, average cost per vehicle, and fuel efficiency achieved in kilometers per litre.
- Advertising agencies set objectives in terms of billings achieved in rupees per year.
- For steel manufacturing companies, a basic measure is the quantity of saleable steel, both in terms of installed capacity and actual production leading to capacity utilisation in per cent. Another operational measure is energy consumed per tonne of saleable steel.
- Insurance companies may set objectives in terms of the number of policies executed, sum assured and expense-income ratio. Social objectives could be measured in terms of the percentage of insurable population covered, and an

investment mix consisting of government securities, social schemes and corporate securities.

- Railways are basically concerned with objectives in the area of passenger traffic and freight handling. Passenger traffic is indicated by the volume of traffic handled in terms of the number of passengers and number of seats and berths available. Freight traffic is in term of the volume of traffic handled expressed in weight and utilisation percent of wagons and locomotives.

- Hotels may set objectives in terms of the number of rooms available, occupancy rate and cost per room. Subjective measures are maintenance, the quality of hotel properties and quality of customer service provided.

3.5.10 How are Objectives Formulated ?

From the foregoing discussion, it is clear that organisations need to set objectives at different levels, of different types, for different time periods and such objectives should possess certain desirable characteristics and should resolve certain issues before being used. The question that we now face is : how are objectives formulated? For an answer, we consider four sets of factors that have to be taken into account for the formulation of objectives. Glueck identifies these factors as : the forces in the environment, realities of enterprise's resources and internal power relationships, value system of top executives, and awareness by management of the past objectives of the firm. Here is a brief description of each of these factors.

(a) The forces in the environment. These take into account all the interests— sometimes coinciding but often conflicting—of the different stakeholders in an organisation. Each group of shareholders, whether they are the company employees, its customers or the government, put forward a set of claims or have expectations to be considered in setting objectives. It is important to note that the interests of various shareholders may change from time to time, necessitating a corresponding shift in the importance attached to different objectives.

(b) Realities of enterprises' resources and internal power relationships:– These mean that objectives are dependent on the resources capability of a

company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resources—both material and human—place restrictions on the objective-achieving capability of the organisation and, in order to set realistic objectives, they have to be considered. Internal power relationships have an impact on objectives in different ways. A dominant group of strategists such as the board of directors, or an individual strategist such as a chief executive may wield considerable power to set objectives in consonance with their respective views. Again, since power configurations within a firm are continually changing, the relative importance attached to different objectives may also vary over a period of time.

(c) The value system of the top executive:–This has an impact on the corporate philosophy that organisations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or undesirable. This applies to the choice of objectives too. For example, entrepreneurial values may result in prominence being given to profit objectives while a philanthropic attitude and values of social responsibility may lead to setting socially oriented objectives.

(d) Awareness by the management. Awareness of the past objectives and development of the firm leads to a choice of objectives that has been emphasised in the past due to different reasons. For instance, a dominant chief executive lays down a set of objectives and the organisation continues to follow it, or marginally deviates from it in the future. This happens because organisations do not depart radically from the paths that they have been following in the recent past. Whatever changes occur in their choice of objectives take place incrementally in an adaptive manner.

Keeping in view the four factors, as described above, we observe that objective-setting is a complex task which is based on consensus-building and has no precise beginning or end. Mission and purpose provide a common thread' to bind together the different aspects of the objective-setting process by providing a specific direction along which the organisation can move.

There is enough practical evidence to suggest that strategists do not, in reality, follows a well-balanced, integrated and comprehensive approach to objective-setting. In fact, they might start with asking the question : what do we have to achieve in order to be successful in our business? The next sub-section takes up this question for discussion.

Critical Success Factors

Critical success factor are the essential areas of activity that must be performed well in order to achieve the mission and objectives of a firm. Many of us occasionally ask ourselves questions like: What do we need to do in order to be successful in—our studies? Our career? our profession? our marriage? Similarly managers too are concerned about knowing those critical factors which lead to success for their organisations. *Critical success factors (CSFs),* sometimes referred to as *strategic factors* or *key factors for success,* are those which are crucial for organisational success. When strategists consciously look for such factors and take them into consideration for strategic management, they are likely to be more successful, putting in relatively less efforts. Exhibit 3.6 illustrates the case of a group of companies each of which faced different prospects at the time of starting business. What ultimately happens depends on the CSFs that were considered at the time of their inception.

ELGI is a group of 14 family-owned companies which had a turnover of more than Rs 60 crore during 1985-86. Having its origin in transport business based at Coimbatore in Tamil Nadu, this group has made rapid strides in a number of areas.

Since it was familiar with bus fleet operations, it entered the areas of bus body building, wood working machinery, reclaiming of rubber from used tyres, automotive chains, and garage equipments. During the sixties, different companies of the ELGI group entered these five areas but each of these businesses experienced differing fortunes.

- Bus body building did not prove to be profitable as tourism was stagnant and nationalisation of routes was taking place, discouraging private sector activity in these areas.
- Manufactures of wood working machinery turned out to be unsuccessful as carpentry continues to be dominated by craftsmen.
- The technology used in reclaming rubber from used tyres was both simple and easily accessible, making competition in this area very tough. The company failed in this area too.

But in the areas of automotive chains and garage equipments, the end was not so tragic. The reason could be ascribed to what P.V. Nathan, who looks after marketing for the entire group, says : "These two products had to be handled differently."

- The critical success factors for automotive chain business was capturing the original equipment market by assuring quality and reliability in delivery. By the mid-seventies, half the group's turnover of Rs 12 crore was accounted for the chains and related items with a 75 per cent market share.
- The critical success factor for garage equipments was emphasis on customer service through offering the complete range of equipments and efficient after-sales service. By 1975, the product lines accounted for a quarter of the turnover, i.e Rs 5 crore and a market share of 60 per cent. From Exhibit 1.5 we observe that companies can either fail orsucceed, depending on whether the CSFs have been identified or not.

Exhibit 3.6 Critical success factors at ELGI

Source : Adapted from "ELGI diversifying into success" in *Business India.* Nov. 4-17, 1985, pp. 73-74

Ohmae treats CSFs (or *key factors for success,* as he calls them) as a basic business strategy for competing wisely in any industry. He suggests identifying the CSFs in an industry or business and then "to inject a concentration of resources into a particular area where the company sees an opportunity to gain significant strategic advantage over its competitors." Resources are allocated to a particular area only when objectives are set for achievement in that area. A strategy based on CSFs would, therefore require setting objectives for those CSFs also. Rockart has applied the CSF approach to several organisations through a three-step procedure for determining CSFs. These steps are : to generate the success factors (asking,'what does it take to be successful in this business?'), refining CSFs into objectives (asking, 'what should the organisation's objectives and goals be with respect to CSFs?'), and identifying measures of performance (asking, 'how will we know whether the organisation has been successful on this factor?'). Steiner, based on a study related to identifying strategic factors which are important in different businesses, confirms that "there are indeed strategic factors needed for the success of a business and they can be identified." Seen in this light, the eight attributes of excellence found by Peters and Waterman could be considered as generalised CSFs across several different American industries. Consider the examples given below of certain CSFs (examples are illustrative, not exhaustive) which are *currently* relevant to different industries in the Indian context.

- A toothpaste is a very personal product and so enjoys a high brand loyalty. Besides this, four qualities are important in a toothpaste : form, flavour, foam and freshness. A company manufacturing toothpaste has to excel in these qualities besides building up a high brand loyalty in order to be successful.
- Another common consumer product is a pair of shoes. For a shoe manufacturing company, it is important to consider the following CSF high manufacturing quality, cost efficiency, sophisticated retailing, a flexible product mix and creation of a product image.
- In general, service organisations exist on the basis of the quality of their customer service. But there are other CSFs too. A courier service, for

instance is critically dependent on three factors : speedy despatch, reliability and price.

- Shipping is a stagnant industry worldwide. A few shipping companies which manage to survive and grow lay great emphasis on factors like good financial management, a well- diversified fleet, a good sense of timing in buying and selling ships, the right mix between long-term charters and spot contracts, meticulous route planning and weighing the risks of sending ships into war zones.

Observe from these examples that if organisations keep in view the relevant CSFs, they can be used for objective-setting as well as for exercising a strategic choice. Here we note certain important points related to Critical Success Factors.0o

1. A set of CSFs is the result of asking the question : what do we need to do in order to be successful in a particular context?
2. CSFs are based on practical logic, heuristics or a rule of thumb rather than an elaborate procedure or an esoteric theoretical model.
3. CSFs are the results of long years of managerial experience which leads to the development of intuition, judgement and hunch for use in strategic decision-making.
4. An analysis of what relevant CSFs operate in a particular context could be based on the manager's statements, expert opinions and organisational success stories.
5. CSFs could also be generated internally through creative techniques such as brainstorming.
6. The use of CSFs in objective-setting and strategic choice distinguishes the successful organisations from the unsuccessful ones.
7. CSFs are used to pinpoint the key result areas, determining objectives in those areas, and devising measures of performance for judging the objective-achieving capability of any organisation.

Having seen what CSFs are and how they can be used for strategic decision-making, we now consider another aspect of objective-setting. Objectives are structured in a hierarchy.

Hierarchy of Objectives

The hierarchy ranges from the broad aim to specific individual individual objectives. Organisational performance is judged on the basis of key result areas which depend on an analysis of critical success factors for any organisation. Objectives, as we know are set at different levels. When placed at different levels and linked to each other, objectives form a hierarchy.

A hierarchy of objectives starts with the mission and purpose of an organisation. Next, we have a business definition operating at the corporate level and another at different business levels. Each business-level set of objectives is followed by divisional, departmental, functional and operational objectives. In essence, a hierarchy of objectives spans the entire gamut of organisational levels, across different businesses, functions and operations. For example, mission and purpose give rise to corporate objectives. These are divided into business-level objectives which are further sub-divided into functional objectives such as marketing objectives. Functional objectives give rise to operational objectives. A functional objective in marketing area could be broken down into advertising, sales and market research objectives. Carried to its logical end, a hierarchy of objectives may terminate by stating the individual objectives for managers. Not all organisations, of course, create a complete hierarchy of objectives. But many organisations do state objectives at two or more levels. For example, Indian Airlines has a set purpose to provide a safe, efficient, adequate, economical and properly coordinated air transportation according to the Air Corporation Act., 1953, The purpose is elaborated through a set of corporate objectives, general objectives and particular objectives for financial, operational, passenger services, personnel, industrial relations and welfare, and public relations activities.

An explicit structuring of a hierarchy of objectives has important implications for strategic management. First, it serves as a charter of aims the organisation plans to achieve. Second, it is helpful in laying down the aims of different sub-systems within an organisation. Third, it is a powerful means of communicating the organisational purpose down the line. And lastly, it ensures the creation of a result-oriented organisational system set to achieve the purpose and realise the mission of the organisation.

When objectives are structured in a hierarchy, the organisation knows the answer to the question : What is to be achieved? The next important question is: What are the means to be adopted in order to achieve the objectives?

3.7.11 Policies

Policy is a guide to action. Newman and Logan define policy as a standing plan which is used to guide specifications. Steiner, Miner and Gray consider policies as "guides to action or channels to thinking". These definitions of policy more or less convey the same meaning of the term. i.e. policies are guides to action in organizations. A similar meaning is conveyed by a definition, used by the General Electric Company (of USA).

A policy is a definition of common purposes for organisation components of the company as a whole in matters where, in the interest of achieving both component and overall company objectives, it is desirable that those responsible for implementaion exercise discretion and good judgement in appraising and deciding among alternate courses of action.

Though the above definitions connote broadly the same meaning of the term "policy", in the business world there is a lack of consensus about it. The confusion about the nature of policies arises from a number of factors. Policies are not always clearly demarcated from the other elements of planning and plans. The process of strategic planning, which sometimes encompasses the formulation of important policies, is not publicised; hence it is shrouded in some kind of a mystery; and in some organizations some policies are considered to be confidential. As mentioned earlier, policy and strategy are sometimes used synonymously. This is true when strategy is considered to be a means for achieving the broader organizational purposes or missions. Some authors have conceptualised policies in a Hierarchical realationship.

Figure 3.1
Pyramid of Business Policies

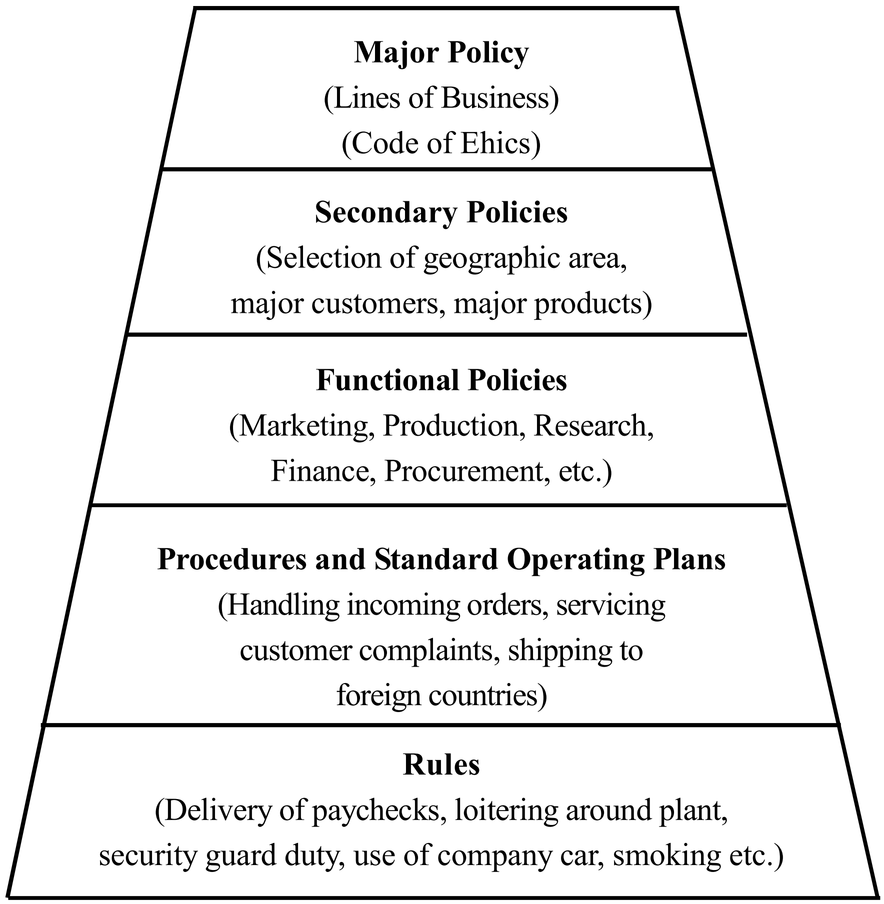

Figure 3.1 presents a hierachical relationship between policies of great significance which are at the top of the pyramid and rules which are of much lesser importance.

Source : Steiner, G.A. *"Top Management Planning", p.*268

Policies, procedures, standard operating plans and rules are all guides to action but differ in the degree of guidance provided or the freedom given. A procedure is a series of related steps in a sequence to achieve a certain end. A well- established and formalised procedure may be called a standard operating plan. A procedure or standard operating plan is in other words a means to implement a policy. Rules are specific course of action which permit very little flexibility and freedom of interpretation.

3.8 SUMMARY

Purposes, missions, objectives and policies are known as master strategies. Programme strategies refer to the specific action plans or methods to be used to achieve an already established objective. An organisation might have decided upon a long term objective of growth in sales turnover at the rate of 25 per cent per year. To achieve this objective, the organisation would have to formulate relevant programme strategies e.g., new product development programme, product improvement programme, programme for certification of products by renowned inspection agencies, etc.

A programme is a collection of activities that are designed to achieve a certain end or a specific purpose. Programmes and projects have a finite life and have very clearly defined goals, e.g. "to improve productivity by 15 per cent in a period of one year."

3.9 GLOSSARY

- Mission : A statement that defines company's business, its objectives and its approach.
- Objective : A specific result that a person or system aims to achieve.
- Goal : An aim or designed result.
- Purpose : The reason for which something is done or created.
- Policy : It is the guide to action.

3.10 SELF ASSESSMENT QUESTIONS

Q.1. How objectives are formulated ?

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____

Q.2. What is the difference between objective, mission and goals?

____

____

Q.3. What is the Strategic Management Process ?

____

____

Q.4. What are the basic elements of strategic management process ?

____

____

3.11 LESSON END EXERCISE

Q1. "All vision statements are not effective". Discuss.

Q2. To what extent, do you believe that managers you have known in business have a clear understanding of their objectives? If, in your opinion, they do not, how would you suggest that they go about setting them?

3.12 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

School of thought in strategic management & THE McKINSEY 7-S FRAMEWORK

UNIT I

LESSON - 4

STRUCTURE

4.1 INTRODUCTION

A company's strategy is made up of the blend between competitive moves and business approaches performed by the managers to satisfy, customers and directs towards successful competition and guidelines to achieve organisational objectives. The basic plan which a company establishes as their mean of achieving their objectives can be described as strategy. So there are many schools of thought that suggest how strategies should be formulated. These schools of thoughts discuss about the methods that businesses should use in order to devise a strategy.

In order to be successful it is useful for every organisation to have a good understanding of the internal organisation and to find out how work can be done more effectively and efficiently. The 7S Framework or McKinsey 7S Framework provides this understanding. The McKinsey 7S Framework was designed by former employees like Tom Peters, Julien Philips, Richard Pascale and Robert Waterman formers consultants of McKinsey, the American consulting firm in 1980s and is applied in organisations all over the world.

4.2 OBJECTIVES

The lesson will help you to:

(i) know the meaning of school of thought

(ii) discuss different schools of thought

(iii) criticise different thoughts

(iv) Evaluate of Mintzberg's school of thought

(v) Understand Mc Kinsey Framework

(vi) Examine process of Mc Kinsey

4.3 SCHOOL OF THOUGHT IN STRATEGIC MANAGEMENT

A school of thought refers to intellectual tradition collectively drawn by a group of people who share common characteristics of opinion or outlook of a philosophy, discipline, belief, social movement, economics, culture, or art. In strategic management the Ten Schools of Thought model by Henry Mintzeberg is a framework that can be used to categorise the field of Strategic Management. Henry Mintzberg is an internationally acclaimed academician and author on business and management. The model describes each school in strategic perspective and provides a critical viewpoint, thus, it acts as a very good overview to the entire field of Strategic Management. While academicians and consultants focus on narrow perspectives of strategies, the business managers are able to see the larger picture. One fact about strategies is they fail when they are seen very narrowly.

Many companies and marketing managers have dedicated staff for strategy formulation. It is a very important process for the company, as it tells the future direction which the company has to take, and the way that the company can succeed. The 10 school of thoughts tell us how Strategy formulation can be done, and what are the various ways in which you can formulate a strategy.

4.3.1 The Design School

In this thought process of strategy formulation, the focus is on conception of ideas and to design new ideas.

- The company does an internal analysis with the help of SWOT analysis
- The company then tries to match its internal strength with the market strength which is required.
- This works well in a stable environment, where competitors might not disrupt the market suddenly & it gives time to the firm to adapt.

However, we have to understand that conducting an internal analysis of the firm depends on the firms own knowledge about itself. Similarly, matching the firms internal abilities to the external market, requires external market knowlege. Ultimately, knowledge is a limitation to the Design school of thought of strategy formulation. If proper knowledge is not used, this school of thought will fail.

The Design School: The design school proposes a model of strategy making: it looks at strategy formation as a process of conception. It is a fit between internal capabilities and external potentials. Strategy formulation is a deliberate process of conscious thought. The CEO is the key strategist who develops the strategy and controls its execution. Strategies become successful when process of strategy formulation is kept simple and formal. Formulated strategies should be clear and the plan must be kept simple. The strategy design process is complete once a strategy is formulated. Strategies can only be implemented once they are fully formulated. The design school is laid the foundation of strategic planning. Strategy formulation is a deliberate, conscious process and stating the need for both external and internal analysis.

The Critical View of Design School: It assesses strengths and weaknesses bypassing the learning. Structure follows strategy, which makes strategy explicit. This promotes inflexibility. Under design schools thought formulation of strategy gets separated from implementation of strategy which detaches thinking from acting.

4.3.2 The Planning School

In this case, the thought process runs towards planning the entire strategy in a rigorous manner, so that the firm advances forward.

- The complete process and the plan which the company will implement is documented from the start to finish.
- At all times the plan is referred to whenever the management wants to take new decisions.
- With the plan in hand, the management gets a clear direction to move in, helping the company to move forward unanimously.

The issue arises in the planning school of thoughts when anything happens out of plan. If you have planned for years in advance, and any new competitor pops up, or any external business variable is changed, then the complete plan gets affected. Hence, proper prediction is most essential when using the planning school of thought.

The Planning School: Here, strategy formation is considered a formal process. Also, the thought process runs towards planning the entire strategy in a rigorous manner, so that the firm advances forward. The complete process and the plan which the company implements is documented from the start to finish. In short the strategy planning is treated as distinctive processes. In planning school thought of strategy the plan is given more importance whenever the management wants to take new decisions. With the plan in hand, the management gets a clear direction to move ahead, helping the company to move forward steadily

4.3.3 The Positioning School

In this process of strategy formulation, the management decides that they want to position the product at the top of the mind and makes decisions accordingly.

- The management has to determine the competition already present in the market, and where is their own company positioned
- It can use tools like Five forces, Value chain, BCG matrix and others to position its products

- Once the market has been analysed, the right strategy is needed to improve the positioning of the product.

Again, in the positioning school of thought, the strategy assumes the market as it is, and does not take into consideration future entrants or change in business environment. Like the planning strategy, the positioning of school of thought can also fail if there are major changes in the business environment.

The Planning School: Criticality arises when something happens out of plan. This typically happens when plans are made years in advance, and changes takes place either in the industry or in the organisation. When an internal or external variable changes, then the complete plan gets affected. Hence, proper prediction is most essential when using the planning school of thought. The Positioning school: Here the entire focus is on strategy content. The management of firms decide that they want to position the product at the top of the mind and make decisions accordingly. In this case firms need to determine the competition already present in the market, and how the firm is positioned. Here the Five Force Model, Value chain and BCG matrix are few strategic tools which can be used under the positioning school. Once the market is analysed, the right strategy can be applied to improve the positioning of firm's product.

The Critical View of Positioning School: in the positioning school of thought, the strategy assumes that the market will remain as it is, and it does not take into consideration new entrants or change in business environment. Like the planning strategy, the positioning school of thought can also fail if there are major changes in the business environment.

4.3.4 The Entrepreneurial School

This school of thought puts all the focus on the CEO of the company. Most observed in small businesses which want to make it large, or even large corporations which trust their leaders (Steve jobs, Mark Zuckerberg), in this strategic process, the company follows whatever the CEO says.

- In this case, the CEO needs to be visionary, needs strong leadership skill, and has to have the right judgement and direction.

- This strategy has been proven right in very few cases over the years where the leaders were legendary by themselves. Steve jobs, Bill gates, Mark Zuckerberg are all examples of people who have grown companies to astounding proportions due to their leadership skills.

The problem with this management school of thought is a single one – How do you find such a leader? If you want to design your marketing strategy based on the recommendations by the leader of the company, then this leader can be wrong as well. And you need someone who is very strong on the business front and is dynamic to make the necessary changes.

The Entrepreneurial School: This school of thought considers strategy formation as visionary process. The entrepreneurial school focuses on the CEO's vision as the key determinant of strategy. The leader has particular perspective, a sense of long-term direction, a vision of the organisation's future. The process of strategy formation occurs in a rather unconscious way. It is deep rooted in the experience of the leader. The leader promotes the vision by maintaining close personal control of the implementation in order to be able to reformulate specific aspects as and when necessary. The organisation responds to leader's directives. The best examples Entrepreneurial school are examples in small businesses which want to make it large, or even large corporations which trust their leaders such as Apple Inc employees trusted Steve jobs, and the trust enjoyed by Mark Zuckerberg from his employees is explicit. The entrepreneurial school organisations follow whatever the CEO says. Leadership pipeline models and situational leadership model are best tools to keep searching for good leadership in organisations.

4.3.5 The Cognitive School

In this thought process, people's perception and information is studied. One of the best examples of cognitive studies is the Johari window. Wherein, you can better your business by understanding your customers.

- It is a mental and psychological process to find out what is in the minds of the consumer and how do we improve on that or use that information.

- Once you know customers perception and thought process about you, you can change the same with strategy. You can either improve or you can communicate better so that your customers have more information about you.

The problem with the cognitive model is that it is not practical beyond a certain point. A top company cannot rely on surveys alone to find new ideas or to make connections with their customers, because it has become a mass company by that time. Cognitive reasoning cannot be done at a mass stage.

Moreover, innovations are brought when you think of products which the customers have not thought of – which is not possible in the cognitive school of thought. Because you are only improving on the things which your customers perceive.

The Cognitive School: Under this school of thought, organisations give lot of importance to people's perception and their behavior. One of the best examples of cognitive studies is the Johari window. Wherein, organisations can do better business by understanding of their employees, suppliers and customers. Customer's perceptions matter and therefore, their information processing should be given a thought. This is where corporate communication plays an important role. Once the organisation knows what their customers demand and want sending the right signals becomes easy for them. Even Howard-Sheth buyer behavior model is a good example of the cognitive school of thought. It attempts to explain the rationality of choice of the product by the consumer under conditions of incomplete information and reduced processing capability. It analyses the external symptoms of behavior, reactions and thought processes that cannot be subject to direct observation.

The Critical View of Cognitive School: The problem with the cognitive model is that it is not practical beyond a certain point. A top company cannot rely on surveys and marketing research reports alone to find new ideas or to make connections with their customers. Fact is that every day some new product gets introduced in the market and keeping a tab on each movement in market is not possible in the cognitive school of thought.

4.3.6 The Learning School

In this thought process, the management keeps a watch over what has already happened and then forms the future strategy looking at the past. It might not necessarily look at its own past. It might look at the way things worked for some other company, or how some other company failed. And then decide on which strategy to implement and which one to ignore.

- The company looks at things that worked and tries to implement the same thing over time with the assumption that it will work again.
- The company also looks at things that did not work in its favour (or in favour of a competitor who tried the same thing), and discards such things / processes.

More than a strategy, the learning school of thought looks like maneuvering or guiding the company on the basis of the previous road that has gone by. We all know it is not a good decision because the road can change at any time. Hence this thought process is not at all useful at time of crisis, nor does it help in creating something outstanding. This strategy can be used when the firm is stable, and wants to work on auto mode while it develops something else in the meantime.

The Learning School: Organisations which follow this thought process, depend a lot on their experiences and market happenings. The complex and unpredictable nature of business environment, coupled with a decentralized distribution of knowledge inside the organisation, rules out deliberate control. Organisations following learning school model make strategies looking at the past; not necessarily their own past. They take cues from strategies in market which became successful or failed. Organisations following this school of thought look at things that worked in market and try to implement the same thing over time with the assumption that it will work again. Such organisations discard strategies that dint work for others.

The Critical View of Learning School: More than a strategy, the learning school of thought looks like steering or guiding the company on the basis of the previous road maps that have gone by. It is not advisable to depend on decisions of past because change is constant in the market. This strategy can be used when the firm is stable, and wants to work on auto mode while it develops something else in the meantime.

4.3.7 The Power School

In this school of thought, the people who are in power take the decisions. These people can be your customers, they can be your stakeholders, they can also be certain people from within the management.

- Anyone who is known to have power over the company, can drive the company forward.

- This ensures that there is lesser resistance for the strategy to be implemented
- It is a very realistic thought process, because in corporates, there are so many people that power should reside in few hands.

The problem with the power school happens when the powerful people stop listening to feedback or stop implementing measures of improvement, and only focus on minor improvements. At such times, the power needs to change hands so that the company keeps moving forward.

The Power School: This school of thought is power centered. The people who are in power take the decisions. The power centers can be customers, suppliers, worker's unions or leaders in the organisation. The power school views designing strategy as a political process for negotiating, forming alliances and promoting one's own interests. Strategy formation is shaped by using power and politics. Anyone who is known to have power over the company drives the company forward. The power center ensures that there is lesser resistance for implementing the strategy. Macro power sees strategy making as the interplay of stakeholders through persuasion, bargaining, negotiating and at times with direct confrontation. Power school revolves around political games and shifting coalitions. Politics are a system of influence can act in a Darwinian way to ensure that the strongest members of an organisation are brought into positions of leadership. Politics can ensure that all sides of an issue are fully debated, whereas the other systems of influence may promote only one.

The Critical View of Learning School: The problem with the power school happens when the powerful people stop listening to feedback from others and stop implementing measures of improvement, and only focus on minor improvements. At such times, the power needs to change hands so that the company keeps moving forward.

4.3.8 The Cultural School

The cultural school of thought says that the company has a fantastic capital in terms of its human capital as well as its social capital. A positive culture in the firm can give a proper direction to the firm.

- The cultural school tries to involve many different departments within a company.
- It is most useful during mergers and acquisitions.
- It emphasizes the role of social values, beliefs and culture in decision making.

There can be resistance to the cultural school as the same people whom we are trying to unite, might not like the idea of change, due to which they become united and the company moves in the opposite direction. Moreover, even if you have got the people united, and have built a strong culture, your direction still remains unclear.

The Cultural School: The cultural school of thought says that human capital is most important in organisations. A positive culture in the firm harnesses innovations and entrepreneurial culture in organisations. Under the cultural school, strategy formation becomes subject to a company's unique values and subjective perspectives and styles of decision-making. Strategy formation is a process of social interaction which is based on the beliefs and understandings shared by the members of an organisation. An individual acquires these beliefs through a process of socialization within the organisation. Strategy takes the form of perspective, rooted in collective intentions and which is reflected in the patterns by which the embedded resources or capabilities of the organisation are protected and used for competitive advantage. The cultural school believes in involving as many departments possible within a company. This becomes very useful during mergers and acquisitions. Cultural school organisation emphasises the role of social values, beliefs and culture in decision making.

The Critical View of Cultural School: Especially during any changes taking place in organisation, people resist it because they get used to a typical culture. Politics in organisations plays an important role. It is difficult to unite people in organisations, there are several groups with variety of ideologies. To get the people in organisation united, herculean efforts are required and direction remains unclear. Because culture and especially ideology do not encourage strategic change; they tend to promote shifts in position within the organisation's overall strategic perspective. But, this is the only school of thought which introduces a collectivist dimension of social process in strategy formation.

4.3.9 The Environmental School

More of a situational school of thought, the environmental school gives most of the importance to the environment. For example - In a paper industry, wood plays a major role. And if the wood is scarce, the strategy formulation will have to be done on the basis of wherever the wood is available.

- Major emphasis is on the environment – which can be a raw material or a major factor in the strategy of the company.
- Situational analysis is the most used tool in the environmental school.

Obviously, this thought process depends on the situation, and is used when there is total dependence on environmental factors.

The Environmental School: The environmental school of thought is more of situationally related. The environmental school gives most importance to the environment. For example in Information Technology industry expertise of people matters and the knowledge of people needs regular up gradation. When expert knowledge become scares, the strategy formulation needs a change on the basis of available expertise of people. Under the given dimension, environment plays a major role. Therefore, situational analysis is the most used tool in the environmental school. Obviously, this thought process depends on the situation, and is used when there is total dependence on environmental factors.

The Critical View of Environmental School: Under this school of thought, process entirely depends on the environment which constantly changes. It is difficult for organisations to keep changing their strategies constantly.

4.3.10 The Configuration School

One of the most preferred amongst the 10 School of thoughts is the configuration school. It basically says, that the strategy needs to be configured. The strategy allows the firm to move from one position to another, hence a simple set of values will not help this movement.

- As per the configuration school, strategy needs to consider a lot of thing which can go wrong, and cannot be derived from simple set of values.
- Over a period of time, an organisation forms various sets of values which have to be transformed so that the organisation reaches the point that it desires.

- To do this, the organisations stable business might need to be disrupted, and the organisation has to be configured so that it reaches the success it was looking for.
- Hence, the name configuration school, so that the organisation is configured over and over again unless it reaches the desired result.

This school of thought tries to attain stability via various ways, and keeps transforming as long as needed.

The Configuration School: One of the most preferred amongst the 10 School of thoughts is the configuration school because the basic premise in this is that the strategy needs to be configured. The strategy allows the firm to move from one position to another, hence simple set of values will not help this movement. As per the configuration school, strategy needs to consider a lot of facts and cannot be derived from simple statistical data and values. The configuration school attempts to find a combination of all aspects of the nine other strategy schools. An organisation stands on the basis of a stable configuration of its characteristics.

Overall, the **Mintzberg's 10 school of thoughts for strategy formulation** are applicable even today. However, one firm can follow a single strategy only. And hence, deciding where your firm stands, the influencers in the firm, its dependency on environment and culture, and in general looking at your own firm, you can decide which of the **10 school of thoughts of management** are suitable for you.

Exhibit 4.1 Mintberz's Different School of Thoughts

4.4 MC KINSEY 7'S FRAMEWORK

Since the introduction, the model has been widely used by academicians and practitioners and remains one of the most popular strategic planning tools. In the 7S Framework the so-called hard and soft elements are incorporated, in which hard elements aim at matters an organisation can influence directly. The soft elements are present in an organisation in a more abstract way and can be found in the organisational culture. The hard elements in the 7S Framework are Strategy, Structure and Systems; the soft elements are Style, Shared Values, Skills and Staff. It sought to present an emphasis on human resources (Soft S), rather than the traditional mass production tangibles of capital, infrastructure and equipment, as a key to higher organisational performance. The goal of the model was to show how 7 elements of the company: Structure, Strategy, Skills, Staff, Style, Systems, and Shared values, can be aligned together to achieve effectiveness in a company. The key point of the model is that all the seven areas are interconnected and a change in one area requires change in the rest of a firm for it to function effectively.

Below you can find the McKinsey model, which represents the connections between seven areas and divides them into 'Soft Ss' and 'Hard Ss'. The shape of the model emphasises interconnectedness of the elements.

McKinsey 7s Model

It is a tool that analyses firm's organisational design by looking at 7 key internal elements: strategy, structure, systems, shared values, style, staff and skills, in order to identify if they are effectively aligned and allow organisation to achieve its objectives. The model can be applied to many situations and is a valuable tool when organisational design is at question. The most common uses of the framework are:

- To facilitate organisational change.
- To help implement new strategy.
- To identify how each area may change in a future.
- To facilitate the merger of organisations.
- Understanding the weaknesses of an organisation.

In McKinsey model, the seven areas of organisation are divided into the 'soft' and 'hard' areas. Strategy, structure and systems are hard elements that are much easier to identify and manage when compared to soft elements. On the other hand, soft areas, although harder to manage, are the foundation of the organisation and are more likely to create the sustained competitive advantage.

The McKinsey 7-S Model is applicable in a wide variety of situations where it's useful to understand how the various parts of an organisation work together. It can be used as a tool to make decisions on future corporate strategy.

4.4.1 Strategy is a plan developed by a firm to achieve sustained competitive advantage and successfully compete in the market. What does a well-aligned strategy mean in 7s McKinsey model? In general, a sound strategy is the one that's clearly articulated, is long-term, helps to achieve competitive advantage and is reinforced by strong vision, mission and values. But it's hard to tell if such strategy is well-aligned with other elements when analyzed alone. So the key in 7s model is not to look at your company to find the great strategy, structure, systems and etc. but to look if its aligned with other elements. For example, short-term strategy is usually a poor choice for a company but if its aligned with other 6 elements, then it may provide strong results. The strategy is the plan deployed by an organisation in order to remain competitive in its industry and market. An ideal approach is to establish a long-term strategy that aligns with the other elements of the model and clearly communicates what the organisation's objective and goals are.

4.4.2 Structure represents the way business divisions and units are organised and includes the information of who is accountable to whom. In other words, structure is the organisational chart of the firm. It is also one of the most visible and easy to change elements of the framework. The structure of the organisation is made up of its corporate hierarchy, chain of command, and divisional makeup that outlines how the operations function and interconnect. In effect, it details the management configuration and responsibilities of workers.

4.4.3 Systems are the processes and procedures of the company, which reveal business' daily activities and how decisions are made. Systems are the area of the firm that determines how business is done and it should be the main focus for managers during organisational change. Systems of the company refer to the daily procedures, workflow, and decisions that make up the standard operations within the organisation.

4.4.4 Skills are the abilities that firm's employees perform very well. They also include capabilities and competences. During organisational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure. Skills comprise the talents and capabilities of the organisation's staff and management, which can determine the types of achievements and work the company can accomplish. There may come a time when a company assesses its available skills and decides it must make changes in order to achieve the goals set forth in its strategy.

4.4.5 Staff element is concerned with what type and how many employees an organisation will need and how they will be recruited, trained, motivated and rewarded. Staff refers to the personnel of the company, how large the workforce is, where their motivations reside, as well as how they are trained and prepared to accomplish the tasks set before them.

4.4.6 Style represents the way the company is managed by top-level managers, how they interact, what actions do they take and their symbolic value. In other words, it is the management style of company's leaders. Style speaks to the example and approach that management takes in leading the company, as well as how this influences performance, productivity, and corporate culture.

4.4.7 Shared Values are at the core of McKinsey 7s model. They are the norms and standards that guide employee behavior and company actions and thus, are the foundation of every organisation. Shared values are the commonly accepted standards and norms within the company that influence and temper the behavior of the entire staff and management. This may be detailed in company guidelines presented to the staff. In practice, shared values relate to the actual accepted behavior within the workplace.

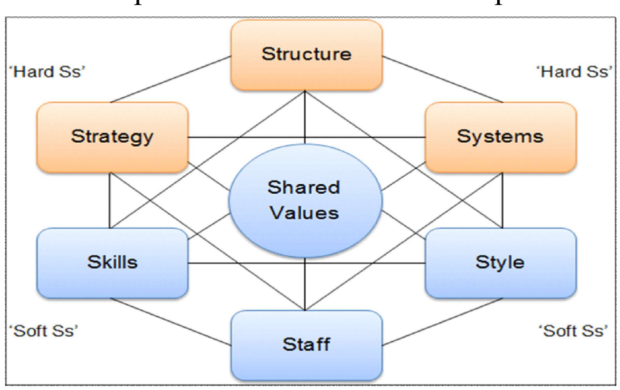

Exhibit 4.2: Mc Kinsey's Framework

4.5 MCKINSEY 7'S PROCESS FRAMEWORK

As we pointed out earlier, the McKinsey 7s framework is often used when organisational design and effectiveness are at question. It is easy to understand the model but much harder to apply it for your organisation due to a common misunderstanding of what should a well-aligned elements be like.

We provide the following steps that should help you to apply this tool:

4.5.1 Identify the areas that are not effectively aligned

During the first step, your aim is to look at the 7S elements and identify if they are effectively aligned with each other. Normally, you should already be aware of how 7 elements are aligned in your company. After you have answered the questions outlined there you should look for the gaps, inconsistencies and weaknesses between the relationships of the elements. For example, you designed the strategy that relies on quick product introduction but the matrix structure with conflicting relationships hinders that so there's a conflict that requires the change in strategy or structure.

4.5.2 Determine the optimal organisation design

With the help from top management, your second step is to find out what effective organisational design you want to achieve. By knowing the desired alignment you can set your goals and make the action plans much easier. This step is not as straightforward as identifying how seven areas are currently aligned in your organisation for a few reasons. First, you need to find the best optimal alignment, which is not known to you at the moment, so it requires more than answering the questions or collecting data. Second, there are no templates or predetermined organisational designs that you could use and you'll have to do a lot of research or benchmarking to find out how other similar organisations coped with organisational change or what organisational designs they are using.

4.5.3 Decide where and what changes should be made

This is basically your action plan, which will detail the areas you want to realign and how would you like to do that. If you find that your firm's structure and management style are not aligned with company's values, you should decide how to reorganize the reporting relationships and which top managers should the company let go or how to influence them to change their management style so the company could work more effectively.

4.5.4 Make the necessary changes

The implementation is the most important stage in any process, change or analysis and only the well-implemented changes have positive effects. Therefore, you should find the people in your company or hire consultants that are the best suited to implement the changes.

4.5.5 Continuously review the 7s

The seven elements: strategy, structure, systems, skills, staff, style and values are dynamic and change constantly. A change in one element always has effects on the other elements and requires implementing new organisational design. Thus, continuous review of each area is very important.

4.6 SUMMARY

There are many schools of thought that suggest how strategies should be formulated. These schools of thoughts discuss about the methods that businesses should use in order to devise a strategy. In order to be successful it is useful for every organisation to have a good understanding of the internal organisation and to find out how work can be done more effectively and efficiently which is provided by McKinsey 7S Framework

4.7 GLOSSARY

- Strategy: Strategy is the basic plan which a company establishes as their mean of achieving their objectives.
- School of Thought: A school of thought refers to intellectual tradition collectively drawn by a group of people who share common characteristics of opinion or outlook of a philosophy, discipline, belief, social movement, economics, culture, or art.
- Shared Values : These are the commonly accepted standards and norms.

4.8 SELF ASSESSMENT QUESTIONS

Q1. Describe the different schools of thoughts given by Mintzberg.

Q2. Explain how staff and systems are interlinked.

Q3. Briefly criticise the various school of thoughts.

Q4. Describe the various steps involved in application of Mc Kinsey's Framework.

4.9 LESSON END EXERCISE

Q1. Mention and discuss any 3 companies which have applied the framework given by Mc Kinsey. Also explain how it helped in developing future corporate strategy

Q2. Discuss which category of schools of thoughts are best suitable to Indian companies.

4.10 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Strategic Management by V S P Rao**

FUNDAMENTALS OF BUSINESS POLICY AND
STRATEGIC MANAGEMENT

Corporate Planning

UNIT I

LESSON - 5

STRUCTURE

5.1 INTRODUCTION:-

In management literature, sometimes even corporate planning, strategic planning, long-range planning are used interchangeably. This chapter provides an elobarote concept of corporate planning.

5.2 OBJECTIVES

After reading this chapter, the student is able to assess the following objectives:

- make an assessment of the meaning of corporate planning.
- evaluate upon different types of corporate plans.
- discuss different benefits and limitations of corporate planning.
- describe the steps of corporate planning process.

5.3 MEANING OF CORPORATE PLANNING

Corporate Planning means determining long term objectives of the organisation and devising strategies to achieve these objectives. Planning to be effective, has to take into account all the internal and external environmental factors affecting the corporation. Planning would had been easy if these factors could be accurately forecasted. In that case, the job of the management would be to allocate the resources according to some mathematical model and planing would be simple and straight forward. But in practice, it is the experience that it is not so. There are some people who are planning enthusiasts and would carry planning to extreme conditions and would find that it does not work. On the other hand, there are people who would say that planning does not serve any purpose. They would contend, that the corporate business is subject to so many changing factors that it is very difficult to judge them with any degree of accuracy. Both these views are unjustifiable, and just because planning sometimes fails does not mean that it has no purpose utility. Planning as a tool of corporate management has to be handled with proper training. If the worker who handles the tool makes mistakes, it does not mean that the tool is bad, but the worker needs training.

5.4 DEFINITIONS OF CORPORATE PLANNING

The various writers on the subject Corporate Planning have defined it in different ways. We may define it as follows :

Corporate Planning can be defined as follows : "It is to determine the long term goals of a company as a whole and then to generate plans designed to achieve these goals bearing in mind probable changes in its environment."

Corporate Planning may be defined as, "the systematic preparation of forward-looking strategic plans defining the objectives to be pursued in the long, medium and short term, within the framework of corporate policy established by the board of directors for the business as a whole."

Corporate Planning may be defined as, "A continuous process of defining business, corporate objective time span of planning, and developing system of objectives, quantifying them to identify gaps, evolve actions and decide resources."

It can well be seen from the above definitions that corporate planning is concerned with the company as a whole. The purpose of corporate planning is to determine the long range objectives of the company and to devise strategies and plans of actions to achieve them, in conformation with the policy of the company. The planners should also take into account the environment in which the company has to function and make the plan flexible to adjust according to the changing environment. Corporate planning, therefore, is an important tool of modern management and in the context of modern day business exigencies, corporate planning has come to achieve a predominant position in company management process.

Today, it is recognised that maximisation of profit is not the only objective of a company, though it still remains the prominent one. Return on invested capital is not sole criterion of measuring the success of a business firm. The objectives such as survival and growth are equally important, in fact, it is the predominate goal of a company today. It cannot also forget in the present day social and political context, its social responsibility and its duty towards the employees and the consumers for whose betterment and benefit it professes to exist. In order to fulfill all these varied goals, the company has to take into account diverse interests, both internal and external and devise its course of action to satisfy the internal and external interests of many groups. Hence, the aim of corporate planning may be stated as, "the planning of resources to ensure their optimum utilization, to achieve an optimum rate of return on the capital employed, Whilst optimising the extent of customer satisfaction, but also ensuring the future survival of the business and the highest level of job enrichment possible for the personnel employed."

Corporate planning also requires the evaluation of alternative course of action in a given situation, with assessment of constraints to any particular line of action. These constraints may be limited to plant capacity, finance, shortage of manpower, availability of materials, know-how, etc. It should be also remembered that there is always at present an element of uncertainty or risk in any planning and the probability factors for the areas of uncertainty should be considered and weighted carefully based on the available date and must be quantified so that a probable line of action may be drawn up. This will enable the management to take proper decisions.

5.5 NATURE OF CORPORATE PLANNING

(1) Nature of Business :-Untill a few decades ago, most of the companies were small and almost all of them were run by one man—the owner. However, nowadays there are thousands of small, medium and large companies, which have multinational operations. Business operations have become complex and complicated and require the services of many persons. In the past, it was possible for the companies to make profits with little and no planning as there was rapid growth in production, demand and rise in population. There was also limited competition. Many companies earned remarkable returns on the their investment.

(2) Environment :-All this has changed now. Today the companies are part and parcel of the environment in which they operate and depend upon various services and infra-structure provided by the public utilities and other very important various services such as power supply, water supply, means of transport, communication system like telephone and telegraph services, supply of rare and scarce raw materials over which they may have no control. They have to depend upon the public financial institutions for loans and advances for supply of capital. The individuals invest and the relation of the company with the shareholder is also very important. It has to take into account the Government economic policy, tax legislation and other relevant laws. It has to reckon with the labour and their unions, consumer movement and the press. In other words, any activity the company plans to undertake in furtherance of its objectives now impinges on variety of other activities and it cannot undertake any activity without considering the various above factors. It will be realised that the corporation nowadays will have to plan in advance its various activities in order to be successful in its business operations.

(3) Specialisation :- If consider even the main activities of a business corporation such as production, finance, sales, and personnel and industrial relation, we will notice that each of these activities require proper planning and execution. Production today is highly mechanised and specialised. It requires precision, machinery, highly specialised staff and personnel, scientific layout of the factory, quality, raw materials, inspection and quality control and above all involves mass production. All these are clearly interlinked and production planning has to be undertaken in a systematic manner in order to maintain smooth flow of goods, keep down costs, avoid waste and bottlenecks. It is a highly specialised job. Similar is the case with the financial planning. It has become highly complicated because of diffusion of ownership, and the emergence of financial institutions as the suppliers of capital and invertible funds. Such things as maintenance of adequate supply of working capital, cash flow of inventories, minimising the burden of corporate taxes and adverse effects of inflation, maintaining a fair rate of dividend etc.—all these call for proper planning of finances. This aspect of corporate activity is cardinal to the survival, and success and growth of the corporation. It is the basic function. Hence financial planning is a *sine qua non* of corporate planning.

(4) Sales Planning :- In the case of sales management, distribution of goods and advertisement and providing various after sale services is very important. In sales, the opinion of the customer, his likes and dislikes, his attitude towards the company, activities of competitors, packaging, window displays are some of the important factors to be reckoned with. Nowadays packaging plays an important part in distribution. It must fulfill the criteria of low cost, protection to the product, easy handling, and transportation and attractive get up. All these activities call for proper planning. Sales planning, therefore, occupies an important place in the overall corporate planning.

(5) Personnel Relation :- The industrial and personnel relations have become highly today. The smooth functioning of the corporation is largely dependent of the high morale and good industrial relations between the management and the employees. Personnel management as well as industrial relation has become a highly specialised subject, and has emerged into full time function. In company administration, problems like collective bargaining, trade union activities, labour welfare measures, safety devices, medical care and recreational and educational facilities occupy the attention of executives. These are sensitive areas and require tactful handling. The morale and attitude of the workers depend upon the solutions of these problems. It can be realised from the above discussion that each function of the corporation has become highly specialised complex and complicated and requires high skills of management. These various function cannot be carried out by one man, however, highly talented, experienced and trained he may be because of the complexities involved in the nature of corporate business. It is noticed that each main function requires proper planning and even though each departmental activities should be properly planned, the overall planning of the corporate objectives cannot be lost sight of. Corporate planning is the integrated planning of and inter-linking of various activities of the corporation so that an overall picture is derived about the future course of corporate activities. This is the job of the top management and should be undertaken by the board of directors with the help of a few top executives. It will be seen from the above analysis that modern day company cannot survive for long without proper planning.

(6) External Factors :-Apart from the above main functions of the corporation, there are other factors which affect the activities of the corporation. These are external factors such as social conditions, sociological changes, political developments, technological changes, and population growth and migration which compel the corporation to plan more comprehensively. The corporate planners will have always to bear in mind these underlying forces. These forces comprise an essential background and suggest a possible future development.

Though the need for corporate planning is obvious in the present context of environmental factors, there are so many companies which do not undertake planning. Even where planning is undertaken it is left to various departments. Some companies have special staff for planning and they help the executives to plan their activities. However, a vast number of companies do not have special planning department or staff. "Many are too busy to do it properly, some do not know how to do it, and others do not want to; even if they did they can only take a departmental view of any plan. These companies run the risk of stagnation, of running out of steam, corporate planning offers an approach to these twin problems."

However, much remains to be accomplished in the development of corporate planning. So far there are a few established procedures and techniques. The subject of corporate planning cannot be put down in simple facts, universal truths or easy how to do it formulas. This is because, the subject deals with a basic and more subtle aspect of business planning. The comprehensive planning involves unforeseen factors, many imponderables and difficulties of implementation. These cannot be avoided and have to be faced in the existing social and economic and organisational development. However, it may be said that the modern manager is so overburdened with the day-to day problems of management that he cannot be expected to find time to give thoughtful and undivided attention to comprehensive corporate planning. If there is any such manager, he should be considered an exception. Corporate planning is the job of a group of specialists who can delve deep into the problem of planning and after careful and thoughtful analysis, come out with an integrated overall plan for the business of the corporation.

5.6 REQUIREMENTS OF CORPORATE PLANNING

Corporate planning is said to be a sound method of producing desirable results over a period of time. If this is so, then why is it not accepted and universally applied by all the managers of companies? This is because some managers are not prepared to accept the argument that corporate planning is desirable. They do not accept the fundamental requirements of planning. They believe that planning is not useful over long periods and it does not solve any problems. They think that planning involves many assumptions or there are many imponderables and hence its utility is limited.

They reject planning out of improper understanding of the planning process. They believe that effective corporate planning is difficult and long drawn out process. Their attitude towards planning is negative. Therefore, the most essential requirement of corporate planning is that it must be accepted by the top management without reservation. "The most important requirement is that the company's top management must really believe in a forward planning programme." If this is not done, then planning will be a failure. It will be a failure not because corporate planning is itself unsound but because of hazard planning and execution. Planning will get a bad name in the company for no fault of itself.

The following are some of the assumptions involved in corporate planning :

(1) Utilisation of Resources :-Planning presupposes that money and resources will be spent in the present in order to realise desirable profits of benefits in the future. These profits or benefits are not assumed but are expected on the careful evaluation of the past experience, present trends and future probabilities. Implicit in this approach is the objective of earning better or higher profits over a period of time. It is not desired to increase returns in the immediate future. The objective is to earn optimum profits. In order to do this, the management should consider the alternative means of investment of corporate resources to achieve maximum benefits.

(2) Profit Motto :-It is axiomatic that in order to achieve optimum profits, the company must have sufficient surplus resources in men, money and materials. It is not enough that sufficient funds must be available but the top management and the executives concerned must devote their undivided and careful attention to corporate planning. Many plans have become infructuous because of failure of the management to execute them properly. There should be separate staff to undertake organised planning. "A company engaged in comprehensive planning evaluates its surplus resources not only in cash and credit but also in terms of executive attitudes, management time and capability."

(3) Business Risks :-While planning for the future, the risks are always present. If future gains are to be achieved then adequate preparatory action should be taken. It should be realised that "Planning is always matter of estimating odds." It is the function of corporate planning to recognise and identify the risks and evolve strategies to overcome them.

(4) Period :-Planning is for long range future. It also considers medium and short-range periods also. But it is generally for five or ten years ahead. Consideration of immediate future is not generally undertaken. Under corporate planning, the management should be prepared to act with reference to long term and, therefore, more uncertain future. Some companies are not willing to see beyond the immediate future. So long the company is making profit, they do not see any reason for planning. It is only when they are faced with adverse conditions that they think of planning. Corporate planning is itself always active and progressive. It is opposite of the *status quo.*

(5) Best Efforts :-Corporate planning calls upon the best effort by the management. Success of corporate planning depends upon its effective implementation. Execution of plans, demands personnel of highest ability and capability. For future success, efforts must be made by individuals as well as groups in the company hierarchy of management. They must be able to take decisions and base judgements on facts and figures. They will have to make anticipatory decisions well in advance whose effects will be known—whether they were right or wrong only in future. Plans will have to be constantly evaluated and re-examined and efforts must be made to devise better methods and procedures to improve accomplishments. Efficient and forward looking management is a pre-requisite of corporate planning.

(6) Fluctuations : In the life of a company there are always good and bad times. When the times are good, that is, when the present sales and profits are satisfactory and immediate future appears to be promising, the management may not think of planning. The management may even think that corporate planning is not necessary. But it must be remembered that the business conditions are always subject to fluctuation and good times may be changed into hard times. The favourable conditions may not last long and business situations are not basically permanent and all the factors will not stay static for a considerable period of time. Taking this into consideration and bearing in mind that both internal conditions and external environment of business change, the management should not only have a plan for the immediate future but also should have planning policy based on a long term view. Comprehensive corporate planning will not only help the company to meet any problems or crisis but will enable it to circumvent any crisis and help the company to survive and grow. The management should, therefore, adopt a rational approach to planning and avoid negative attitude toward it. In corporate planning an element of change is always present. Planning is undertaken to minimise adverse effects of element of change and not to eliminate it. Corporate planning seeks to identify those forces which are beyond its control and affect its chances of success. "Not only does corporate planning seek to identify these forces, but in so far as possible, plans are drawn in terms of real expectation of chance events rather than any illusions of cause and effect." The management should not base its expectations with respect to corporate planning on unrealistic premises.

(7) Variable Problems : There was a time when business problems were far simpler and executives were able to define them and tackle them. Today, the problems are numerous and more variable and the executive has to deal with complex and constantly changing situations. The fact that corporate planning is pre-eminently a fluid process, engenders its own difficulties to acceptance by the management executives. But it is a fact that the corporate planning is a tool of management and must be wholeheartedly accepted by the executives. If the executives are halfhearted about it or display mental reservations, then the success of corporate planning will be jeopardised. But many executives are unwilling to shoulder the responsibility of comprehensive corporate planning because it is more challenging a job. Many executives prefer to deal with fixed programmes and concrete facts which help them to make positive judgements. Such programmes are much simpler and easier to understand and manage than to handle a changing situation like comprehensive corporate planning. They are reluctant to take the responsibility of planning. They display an attitude of safety first and want to play safe. They do not want to take responsibility for decisions which may not turn out to be correct and they fear that their personal advancement will be endangered. But they forget that "Nothing is permanent but change."

(8) Personal Reasons : Some executive may not accept corporate planning for personal reasons. He may be reluctant to delegate authority and responsibility. He does not want to free himself from the day-to-day management problems and concentrate and devote time on more important problems like planning of corporate business. He feels that only he can deal with day-to-day problems as they arise and his attention is needed more by those routine problems. He also may feel insecure and unequal to the task. He is at ease in dealing with a given problem than anticipating a situation and preparing for it. Thus the executives may be reluctant to undertake corporate planning for many reasons. But it is pre-requisite of corporate planning that it should be mentally accepted by the management executives for successfully putting into operation.

(9) Open Opposition : "The most serious obstacle to long-range planning is not so much the drain on management time, the actual problems of doing good planning, or the danger of revealing the company strategy as it is subtle, but occasionally open opposition of some executives which appears in the early stages of development.

(10) Management Support : Hence top management support is absolutely essential. If you add up all (those) who stipulate top management support in the area of their particular interests, each and every activity appears to need such backing—and that is a physical impossibility. But the argument in the case of long-range planning is over-riding, if only, because the activity has always been thought of as so distinctly top-level."

5.7 CORPORATE PLANNING PROCESS

The fundamental approach to corporate planning is essentially rational. The future planning is based on the analysis of data, statistical analysis, mathematical calculations and to certain extent on deduction. The facts, and figures should be taken into account and no ground should be given hunches or intuitions. It should be remembered that the business conditions are subject to various influences such as economic, political and social factors which can not be absolutely forecasted but they can be gauged and from past experience and present situation, reasonable projections can be derived. These situations cannot be based on the requirements of scientific methods. This does not mean that these situations which are more fluid cannot be properly taken into account in corporate planning.

Corporate planning is usually done for long-term period. This period is usually between 5 to 10 years. The medium term or intermediate period may be for 3 to 5 years and short term period is usually a year. The top management is concerned with the formulation of corporate plans. The process of planning includes the formulation of various functional plans which are the part of a corporate plans and may involve various time ranges. It is easy to find out the life span of physical facilities, such as building, plant and machinery and to plan the replacement of obsolete equipment. Similarly, life cycles of products, diversification of products, opening up of employer-employee relations on sound basis—all these activities should be planned involving a reasonable period of time. This is a continuous process and the planning has to be flexible and adjustable according to the available circumstances. One should understand the difference between a plan and planning. Plans are set programmes whereas planning is a continuous process. Plans are the blue prints to a set course of action to accomplish given results. For example, an architect prepares a building plan and prepares the blue prints of the whole building. But before preparing the blue prints, he has to determine initial requirements, location, designing of the building, various uses to which it is to be put, changes in design during construction, modifications, if necessary during the course of construction, various sizes of the rooms and various types of materials to be used in the construction of the building and financing. All this involves planning "process of the building and after taking into consideration all these things and the purpose of which it is to be used, the architect prepares the plans of the building. He prepares the detailed plans for each floor of the building. These plans are blue prints for actual execution. Thus, a "plan is a means or mechanism of planning, the more static blue printing necessitated by the obvious fact that if everything changed all the time, there could be few tangible accomplishments." Corporate planning should be for reasonable time span and should be stable. It should be not be constantly altered for if it is changed often it cannot achieve the desired results. "Unless the planning process itself is the cardinal emphasis and the plans are ancillary to it, the business will derive temporary benefit at best. Corporate planning, therefore, is never static. It adjusts as need be to changing conditions and goals."

It should be realised that in corporate planning there are many indeterminate and uncertain factors. There is changing environment both internal and external, particularly external factors. Planning will depend upon, the available information, data and statistics and the information that may be made available during the course of planning. Information may not be always relevant and sometimes it is difficult and costly to obtain it. Decisions sometimes have to be taken on hunches or arbitrarily. Therefore, "an understanding of the inherent open endedness of planning a coming to terms with scientifically indeterminate environment within which it must operate, and the establishment of an effective modus operandi are required for successful planning in general and corporate planning in particular" is required.

5.8 STEPS IN CORPORATE PLANNING

It is observed above that corporate planning is a continuous process. It has four aspects or phases which may be termed as objectives, plans, integration decision and implementation. Alterations may be carried out as required by the circumstances in any one or all of the phases. In order to do this, feedback of information and feedforward is required. A sound corporate plan should anticipate as for as possible, the procedure should provide room for adjustment; for example, a sales plan depends upon the estimation of consumer demand which is difficult to predict correctly and is subject to various forces. A manufacturer of children's toys may not be able to adequately forecast his sales. Whereas, for a public utility, it is reasonably possible to plan for a long range period. Thus, it will depend upon the circumstances and the nature of the business.

However, as corporate planning becomes a familiar tool of management, the degree of adjustment variation will narrow down to manageable proportions as the internal deficiencies of the organisations will be smoothened out for eliminated.

(1) Objectives :-The main purpose of corporate planning is to provide a plan of action to achieve certain pre-determined goals :—a plan cannot be prepared without objectives. It is the duty and the responsibility of the top management to clearly define the corporate objective so that what is to be accomplished is specifically laid down. These objectives are instrumental to chalk out a plan of action. These should be clearly stated and recognised. They are included and are implicit in the plan itself. The laying down of corporate objectives is the first basic factor in planning and gives direction to it. The statement of objectives is the first basic factor in planning and gives a direction to it. The statement of objectives should be a logical sequence.

A company may start the statement with its recent history and enunciate its current situation. It will include information on matters such as finance, sales and distribution, products and production, inventories, research, personnel and other facilities. Influence of outside forces such as competition is included. All this is done to arrive at the probable future development of the organisation taking into account external situation and internal constraints. The current trends are analysed to predict the future possibilities and to contemplate changes in the existing line of action. This is necessary to establish a co-relation of what is and what is intended to be in the future. In this statement it will include such environmental factors as socio-economic and political trends, domestic and foreign competition, consumer behaviour and technological developments. All this description will give a picture of existing conditions and the need for necessary action to accomplish the laid down objectives of the organisation.

The company, thus, forms an image of itself and projects as how it would like to be some years hence forward. Corporate plans are devised to achieve this projected future picture of the company. This enables the company to formulate practical lines of action in its plans, which will permit to achieve its objectives. The company arrives by such logical analysis at a combination of desirable and practical objectives. It results in long range corporate plans and provides guidelines for operational plans.

The top management will have to lay down the corporate objectives and they will have to be reviewed continually. What is the nature of the business desired by the management say five or ten years hence ? Since the business is carried on not in a static situation but in changing and dynamic conditions, there will be always certainly need for adjustment and alteration as the circumstances change. Therefore, the corporate plans will be modified to suit the changing conditions.

(2) Plans :-In presence of corporate objectives, the company prepares plans both for long term and also yearly plans. Similarly each functional department of the corporation also prepares yearly plans and also a long-term plan. The yearly plans are generally specific and are based on budgetary allocations. The goals are determined and the line of action is also laid down. Plans for additional years are not so specific but they will include some definite forecast. The top management will have to decide how far below the levels of management sectional plans should be prepared. It is not necessary to prepare plans for each sub-unit. However, it will depend upon the nature and size of the business as to what level of administrations plans should be prepared. If there are no obvious advantages to be gained in respect of evaluation of performance, training, delegation of responsibility and authority, it is not necessary to prepare plans for sub-units. If there are a large number of such sub-units plans, then it will be difficult to collect information, achieve coordination, review and modification of operation of plans. It will lead to too much complication and consequently increase in cost administration.

Generally, the sub-unit plans include such information as the expected volume and value of its products, costs and profitability, personnel required, machinery, equipment and facilities needed, specific programmes of improvement in management supervision, performance-productivity, morale organisation and other matters influencing operating achievement. These plans are not limited to activities which can be quantified and expressed directly and immediately in terms of profit and loss. These plans are, however, part of the overall corporate plans. It will be worthwhile to note certain benefits of unit plans. *Firstly,* the person responsible for the unit and other personnel in the unit are inspired and encouraged to think in advance. It is a method of stimulating forethought or thinking ahead. Of course, many unit heads do not do this thinking ahead. They are content to carry out the plan handed out to them. But there are many executives who think about the future of the organisation where they work and they have many useful ideas to contribute. When unit plants are prepared, they will be enabled to put their ideas into practice or make concrete and constructive suggestions. *Secondly,* planning promotes comprehensive view. It not only encourages thinking ahead but also requires that all the important factors of the unit are taken into account and considered. Similarly, corporate plan requires that various components of the business are integrated and projected in union. As a result of this, different units of the company are made conscious of what is happening in the entire company. They become aware of the activities below and above them. Such awareness of the various activities eliminate isolation and confusion. It also promotes identification with the problems of the business as a whole. *Thirdly,* plans also provide a measure of performance. They lay down what can be done and periodically review the actual achievement. Thus, plans help to accomplish higher level performance because of improvement in the efficiency of management.

The next steps in planning procedure are the formulation of departmental plans from unit plans. In big organisations, departmental plans may be grouped together in order to achieve greater coordination and integration. It may sometimes involve re-appraisal of some unit plans—the sole purpose is to make the plans more effective.

(3) Integration Decision :-It is the management of the company which takes the ultimate decisions and brings about integration in corporate planning. It must assess whether every important component plan is in order. It must see that there are no any omissions. It should also see that each component plan is in accordance with the final corporate objectives. For example, it may be decided to have a particular production target, then it must be asked whether the plans are in accordance with the projected production. If a company decides to put the goods in a new market, then it must be found out whether the plans are ready to undertake the introduction. Is the publicity properly done? Is the packaging attractive? Has every arrangement been made to keep up the delivery schedule? It is also necessary to see whether the action of one unit is at variance with the general objectives and policy of the company. If one division which is decentralised decides to give a pay rise, it will have repercussion on other divisions of the company and will create problem of industrial peace. The different divisions might not cooperate to the advantage of each other. Similarly allocation of funds to different units may not be properly scrutinized and synchronised. It may be sometimes necessary to divert funds from one division to another. Several such questions of practical implementation will have to be considered, identified and decisions taken for better performance. As a result of such integration, it may be necessary to alter the component unit plans. When this is done, they are combined into a comprehensive plans for the business as a whole which is the target for achievement. As has been already noted earlier, corporate planning is a continuous process and if unforeseen situations of major importance arise, it requires review and revision of corporate plan on the basis of current data available.

It has been already seen that analysis, integration and decision are applied throughout the corporate planning procedure from the lowest level of organisation. Each unit, and department takes its own decision and prepares its proposed plans which are integrated by the top management at the apex level. It can be, therefore, easily understood that if any errors are committed at the lower level—there is always a possibility to make certain errors—the consequences to the company are limited to a smaller extent. But, if errors of judgements are committed at the apex level of management by the chief executives it can result into very difficult situation for the company, sometimes resulting into heavy losses. It may also take a long time to wipe off the effects of such wrong decisions. Therefore, the top executives have to weigh the pros and cons of their decisions very carefully. In big corporations today the line executives are so busy with their day-to-day operations, that they have little time to pay attention to long range planning. They have no time to formulate and maintain personally the factual background for corporate planning. Therefore, a flow of information and a system of analysis are organised and maintained according to the procedures and practices laid down by them to provide necessary data properly evaluated and needed for judgement and decision. Today, separate planning staff who are specialists are appointed to "receive and correlate component plans, distill the most indicative data, integrate and analyse these data, project the resulting information into successive stage of future time and finally present the composite corporate situation and the probable results of alternative courses of action". At the same time the corporate planning staff is collecting information, generating special studies and maintaining selected facts and figures, relating to the national economy, government policies, financial trends, industry-wide competitions and other developments which comprised the external environment within business plans are drawn. In this way, the time and energies of the chief decision makers are focussed on the most crucial and difficult of their responsibilities, evaluation, choice, decision and action.

It will be clear from the above observation that there is this combination of line and staff support throughout the organisation. The staff support will depend upon the side of the company. The staff personnel are appointed at the departmental level also. The line management and staff advice and support are interdependent. Their mutual relation should be most cordial and cooperative based on mutual confidence and respect of each other. Thus, it is quite self-evident that a constructive attitude on the part of line executive toward planning and the utility of analytical staff assistance is prerequisite to the success for planning.

(4) Implementation :- Implementation of corporate plans is the most significant aspect of planning. If plans are not implemented and carried out as far as practicable than planning will be useless and will be an exercise in futility. In corporate planning all units, departments and divisions participate in its formulation and because of this participation in planning and its acceptance, there is a general feeling of commitment to the plan throughout the organisation. They know that they have prepared certain plans, formulated certain targets and it is now their responsibility and duty to put them into practice successfully. They know that their achievement will depend upon the effective implementation of plans which they have themselves prepared. Since every manager at all levels of management has proposed his own plan for the future, he is involved in its implementation also. Such involvement is very important in successful implementation. In the beginning, when the plan is implemented, there may be considerable difference between the plans and performance. By experience, this gap will be narrowed down and very soon processes and procedures are well understood and adequately formulated and there will be little variation between plans and accomplishments. The plans may have to be revised and reviewed only when the circumstances change beyond control. What is needed at such times is a flow of information which will help in revising the targets.

Under corporate planning, the executive knows the targets set and, therefore, he knows in what effectively and chart his course of action in accordance with the pre-determined line of action. Since, all the plans of the units and the departments are correlated and coordinated, there will be less chance for mistakes. However, one of the most difficult decisions in implementation is when and how much to revise this plan when the basis on which it is prepared is altered by circumstances. He is in a dilemma in such a situation. He does not want to lose the benefits already achieved because of planning and he also does not want to pursue the existing plan in the light of changed circumstances. If he persists to continue the old plans, he may land himself in serious trouble and difficulties. There is no complete escape from this dilemma. But if a plans is to be modified in mid-stream, its adverse effects can be softened by following certain principles and efficient management. It is true to say that, "it is a bad plan that admits of no modification." If the original plans are flexible, then the impact of change can be mitigated by adjustments.

It is not necessary to be absolutely certain about future production in long range comprehensive planning. What is required is the flow of information about current happenings, a clear picture of present situation and judgement about current trends and ability to forecast the future in the short-run period. With such short-ranged plans, the variations in planning and implementation will be reduced to minimum. It is like a sailing strip which has to alien its sails according to the direction of the winds but always keeping to its course of destination. In the same manner implementing the corporate plans, the manager may also have sometimes to adjust the plans but always keep in mind the goals of planning.

5.9 PRE-REQUISITES FOR THE SUCCESS OF CORPORATE PLANNING

Corporate planning is a process, that is to say, it is an activity which has to be undertaken in a certain order of steps. For example, if an article is to be manufactured certain steps are to be taken and the raw materials fashioned until the final step when the finished product comes out of the machine. If any one is missed, then the final product will be distorted. The steps will be few and simple if the final product is simple. If the product is complicated many series of steps will have to be taken to manufacture it successfully. The corporate planner also has to take many steps—sometimes, hundreds of steps—to plan adequately and completely but the various steps can be broadly classified into five main steps, namely :

1. Determine the company's objective and decide on a target.
2. Prepare a forecast and declare the probable error.
3. Calculate the planning gap and decide the task.
4. Decide constraints and means.
5. Draw up the plan.

The above broad five steps give a picture as how to go about corporate planning. It should be borne in mind that corporate planning is a continuous process, in fact it is repetitive. It should be noted that the first step has to be reviewed independently and from the point of view of the overall objectives and the policies of the corporation. The other steps may be reviewed many times during course of the plan in consonance with the first step, that is, the overall objectives of the company.

The sequence of steps given above, is only one of the many sequences possible. But, the above sequence is more practical and logical. The corporate planner may devise a plan near may devise a plan following some other steps. But the above five steps can be also subdivided into the following nine steps :

1. Determine the company's objective.
2. Decide on a target.
3. Prepare a forecast.
4. Declare probable errors.
5. Calculate the planning gap.
6. Decide the task.
7. Decide constraints.
8. Decide means.
9. Draw up the plan.

- *Based on "Corporate Planning" by John Argenti*

It is felt that the above nine steps as how to go about corporate planning are more satisfactory. Through the first step of determining the objectives of the company is independent of other steps, they are all inter-linked and the corporate planner will have to bear in mind this interdependence. The final corporate plan will be formulated after taking into account all possible weaknesses and strengths of the company.

5.10 IMPORTANCE OF CORPORATE PLANNING

(1) Uncertainty :- It is an open secret that business operates in an environment of uncertainty and this uncertainty not only brings maximum amount of risk but gives birth to number of problems. This situation can be faced successfully provided there is proper planning. Although, it is not obligatory for every company to have planning, there may be very few companies that may not be having the project of planning. Companies having no planning generally "muddle" through and may get the result but not the desired one.

(2) Competition :- Similarly where competition is strong, it will be very difficult for the company not wedded to planning to have victory over its competitors. It should be noted that all those concerns getting success in their lines have paid due respect to the planning department. Whatever result is obtained by them is the outcome of planning and not the effect of getting the "muddle" through. Planning is, therefore, so important that we have no other choice but to have it. Of course the benefits of any individual plan are not assured but are probable and it should be borne in mind that planning does not always lead to profit. This does approach if we think in negative terms.

(3) Fulfilment of Objectives :-In fact, every successful business concern is a planner and not a non-planner. As already pointed out, planning focuses attention on objectives. Under planning one will have to look towards future and if there is no planning, the manager concerned would be too short sighted. In the absence of planning, managers will fail to tackle the problems that crop up on account of changed conditions. Although they might be doing their day-to-day routine work, planning is becoming equally important for them on account of shifting time dimensions as new products come out of research and development. It is under such circumstances that the necessity of planning arises for disposing of such products.

(4) Changing Demands :- Another salient feature of the present day products is that they have shorter life cycles and, therefore, it has become a problem for every modern management to keep up a regular flow of new products to meet new but ever changing demands. These objects can be fulfilled only by having a regularised planning.

(5) Control over Cost :-Further, all actions to be undertaken from lower management to the top management are inter-connected and they are to be put into operation as per predetermined plans and decisions. It is here full control over such actions is necessary if we want to accomplish our goals. To fulfil the object of having necessary control, planning is must and without which coordination and control will go away. The importance of planning arises on account of its helping management to control and economic expenditure so as to see product is manufactured at a minimum cost and thereby helps to maximise profits. Planning with its basic plan will draw number of derivative or subsidiary plans for each segment of the company and thus each course of section of every department is properly and perpetually checked. This step indeed helps company to :

(i) face uncertainty and any change commercial or political;

(ii) meet competition;

(iii) minimise costs and maximise profits; and

(iv) to have proper control.

5.11 HOW FAR AHEAD TO PLAN ?

The next important problem before planners is whether the planning should be for a short period or for a long one. Even though there is no any hard and fast rule in this regard, determining the planning period depends upon different factors and thus a short range plan fixed for one company for a stipulated period may not be suitable for another company. Planning periods even within the same company are likely to differ for different matters depending upon present as well as future conditions. We will discuss below some of the factors that determine the planning period.

(1) General Trend :-Sometimes companies irrespective of their size, plan their business keeping in pace with the general tendency prevailing in business world. The general tendency for most of the companies, whether small, medium or large-scale, is to engage themselves in long-range planning extending to three to five years. In some cases, the planning period may be ten to twenty years in advance. The prevailing tendency dominates the decision and thus many companies fall to what we may call as “fad.”

(2) Principle of Commitment :- One should note that planning in general aims at fulfilling predetermined objectives. Planners before deciding the planning period should study carefully the objectives of the company, their purpose and within what period they are to be accomplished. This commitment is required to be fulfilled, if any company desires to survive successfully. While taking into consideration the nature and purpose of objectives economic viability must be taken into account. These factors will undoubtedly help planners deciding the planning period—short-range or long-range one. The planning period should ultimately economically be justifiable so as to fulfil the commitment of the company.

(3) Recovery of Costs and Capital Sunk :- Any commitment of manufacturing a specific product involves expenditure. The company is required to see that it will no longer commit to itself to spending for a long period but will see that the product is manufactured at a minimum cost. At the same time, the capital sunk in this regard should be recovered within a minimum period so as to avoid future financial liability. Bearing in mind these commitments the planners will have to decide as to what should be the planning period. In this respect, the planning period fixed should help company in getting the full benefit of minimum cost, recovery of capital sunk within the most reasonable period without affecting the quality and reputation of the product.

(4) Principle of Compromise :-Planning periods, as noted above are bound to differ depending upon various commitments but in practice the planning periods used are often compromises. The short-range plans may be selected to conform to quarters or years for making plans conform to accounting periods. Similarly, long-range plans extending to five to seven years may be based on the belief that the degree of uncertainty over longer period makes planning of questionable value. This is all done because of practical needs.

Sometimes the firms may plan for periods longer than those necessary extending ten to twenty years for justifying the future in which the proposed plan can best adapt its objectives and policies to the trends disclosed.

(5) Coordination between Long-range and Short-range Plans :-Generally in practice, short-range plans are framed with no reference to long range planning. In fact this is a faulty planning as the final success of long-range and short-range planning is integrated between the two. If any short-run decision is taken without referring the long-range plans, it is likely to have adverse effects on long range planning. For example, if a small company accepts a large order for its goods without reckoning with the effect on productive capacity, or cash position, it may so hamper its future ability to finance an orderly expansion as to require a complete reorientation of its long-range programme. In other words, there should be perfect coordination between long-range plans and short-range Plans so that short-range plans will positively contribute toward L.R.P. objectives. Any planning period short or long will be effective provided there is coordination.

5.12 TECHNIQUES OF CORPORATE PLANNING

Planning techniques are the ways and means of finding out the atmosphere congenial to planning. Planning thrives where it is always encouraged and supported by the top management. The executives and other personnel at all levels of management should have awareness of planning and should be ready to face physically and psychologically the economic and should be ready to face physically and psychologically the economic and political factors with all their strength, knowledge and willingness. Where once planning has proved successful and the habit of planning is widespread among executives of the company, further or perpetual planning programmes will take place with no obstacles. Even a company which finds its financial condition is in jeopardy and has to face formidable competitive problems will undoubtedly stick upto planning when the question of survival arises.

One of the planning techniques of making planning more feasible is to assign to planning programme to *committee of expert executives.* Committees will be formed at different levels of a management for solving problems of all nature. It is through these committees, wide range or talent among persons available are pooled. Next to this technique, to have maximum effectiveness plan should be in writing and that too in a document form. All major plans should be made available to all for inspection, comments and suggestions. The course of action to be taken must be properly watched at every stage of the plan and should be seen that all such actions are being taken in confirmity with the plan. It should be seen that drawing up the plan finally assures that all levels can come to grips with their strategic role in connection with the plan.

Planning process will be effective and smooth if it is accompanied by *problem-solving techniques*. Problem-solving techniques start with acquiring information, about the problem, gravity of the same and is nature. This will enable executives to take proper measures but they cannot be arrived at mechanically. Executives concerned may differ according to their foresight imaginations and creativity. So different techniques may be followed and hence steps taken for coordinated action toward problem-solving technique may be different but are inevitable in the planning programme. Another important planning technique is to see that the first step taken justifies the steps to be taken at the next stage. Planning technique is incomplete if the plans are not subject to modification and reassessment. It further involves raising of crucial questions for problems and a search for resolving the same.

5.13 TYPES OF CORPORATE PLANS

(1) Financial or Money Plans :-No plan can be chalked out unless we consider the financial resources available for its implementation. Different activities are allocated on the basis of available during the planning period. While planning we always consider on which item money is to be spent and if so how much during a stipulated period. Thus, every planning has a money side. It is, therefore, under planning that we decide as to how much is to be spent for accomplishing the goals of the near future. In other words, planning will have no importance if no attention is paid to the monetary resources of the company.

During business, there will be an inflow and outflow of money at different rates. Sometimes the enterprise may receive more money or less money and, therefore, care should be taken to see that under the plan, there will be a regular flow of cash. It should be arranged in such a way that, the planners should see that money is paid only after they receive it. Cash squeeze can be seen from the cash flow plan and if it is anticipated, reducing expenses will be taken under the plan. Thus, we see that every plan with money side will help us know not only the financial position of the concern but the measures to be taken for borrowing money, if necessary.

In short, financial planning includes "broadening capital base of the company, greater attention to stock holder, relations with investment banking concerns, setting conservative dividend policies, and giving consideration to opportunities for mergers and acquisitions."

(2) Formal Plans :-Mere thinking of something is no "Planning." People may have different ideas about a particular object. He may be thinking of doing or undoing a particular thing. All this will not result into planning unless he sits down and writes in words as to what to do, where to do and why and how to do. When all these ideas are put on paper with proper approval and discription, they will be deemed to be the formal plans. Formal plans are more than just talk put on paper. For example when we wish to develop a particular department, planners will have to analyse strong as well as weak points, put them in back and white and chalk out plan in writing for removing all the weaknesses. Efforts put forward towards these objectives will be considered as a whole plan. In a formal plan, therefore, we should develop the specific goals, data, etc. Planning is also made in regard to the sales effected on the basis of product, area and time. Even money plans are drawn up and allocation of jobs and duties is made. From all this, one can see whether plans are feasible or not and this can be judged from what we call a formal plan.

(3) Routine Planning :-Every department of an enterprise is regularly planning for the promotion of sales. A publication house will deal with planning during the beginning of academic season and a departmental store may also be busy with planning "X" mas" or "Deepavali" approaches. Similarly a factory manufacturing umbrellas will do a great deal of planning as the monsoon approaches so that production may be kept ready for meeting the rush orders. According to Ralph Davis, this type of planning may be called "Routine Planning" because most of it is repetitive. In routine planning the methods adopted for accomplishing a particular object, during a particular period are the same without any major changes. Methods are merely repeated under a planned programme. It should be borne in mind that generally management of routine planning is adopted at a lower level. The plan may be fresh each time, details may change but not the basic procedures. Routine planning, therefore, does not require ingenuity or creativity on the part of the planners.

(4) Profit Planning : Every person, who is doing business, is interested in earning profit. But profit will not generate itself unless some efforts are made to achieve it. Profit planning is generally based on forecast and, therefore, to get profit, certain steps must be taken, duties must be assigned and forecast the future in such a way as to get the object fulfilled. Similarly all steps on the production and distribution side of goods must be considered to get desired income.

But to have an effective planning for profit, there should be considerable freedom of movement. Profit plan suggests steps to be taken to boost the company's earnings. If further sets up profit objectives and guides the management how to reach this goal. With a view to reaching the goal of earning more profit, the plan under review suggests :

(a) reduction of production cost ;

(b) improvement of customer relations ;

(c) development of new customers ;

(d) improvement of quality of products ;

(e) training of salesmen ; and

(f) getting into fast growing industries.

Although, all these measures are not new, yet they should be taken at the right time by proper persons. It is only the profit plan that lead to achieve the desired results. According to Moore "a profit plan makes you push a little harder yet, it makes you put out a little extra effort and that is what produces the plan results."

Advantages of Profit Plans

1. They help management to reach higher level of profits,

2. They further help to get necessary men who can reduce the cost of production and do all such actions as are favourable to the management.

3. Under this plan, different activities are required to be performed and hence people working do not feel that they are serving merely for earning profits.

4. Needs are distinguished from wants and only those things that are essential for the benefit plan are performed, i.e., whatever necessary and desirable is selected.

5. Profit plans being one of the kinds of plans, have the characteristics of all plans. They always look ahead and reach the goal.

6. Like other plans, profit plans provide intermediate check points enabling the management to appraise the progress made towards predetermined goals. If deviation are found from the main plan, methods of operation can be altered to suit then needs of the situation.

(5) Long-Range Plans (L.R.Ps.):- In every walk of life, every one is preparing for his career. Every one has a long-range plan that looks years ahead. Even in business, long-range plans are very common. Plan on long-term basis, say for five or seven or ten years are prepared bearing in mind definite goals to accomplish. But these plans go deep into the future needs of the enterprise and are more profit-oriented than short-range plans. Since, future is uncertain and this plan is mainly based on long-range future, the plan will have to deal with a number of contingencies and changes Because of the frequent changes that are likely to take place within a period of five to ten years, alterations in the plans are necessary in order to suit new conditions. Long-range plans are generally undertaken by the management since major commitments are to be fulfilled. In this plan, from the highest department to the lowest, essential long-range goals are fulfilled.

So far as the present work is concerned, it appears that the management can do away with long-rang planning. But this is partly an illusion. In the first place, whatever we do today influences our future activities. Secondly, we undertake to do something today which we will complete only at a future date. It should, therefore, be noted that whatever we do, viz., choosing a product, raising up of loans, or constructing building etc, will affect our future for years to come. It is under this plan that the uncertainties involved are more and, therefore, to cover the risk of adverse conditions, two plans are kept ready, one being optimistic and the other pessimistic. This will help the planner to watch for better prospective gains against the risk.

Advantages of a Long-Range Plan (LRP)

1. It helps industry to grow and to earn higher profits.
2. It guides businessmen as to the business to be handled in the future along with the steps to be taken for accomplishing them at minimum costs.
3. It assists us to build our strength in performing different activities and at the same time guides us to correct our weaknesses by enabling us to take stock of the plan.
4. It gives us an idea as to the requirement of total number of executives in the years ahead and the type of work to be performed by them. In other words, it help us to take manpower inventory and see also to men's utility and compare it with those we may need.
5. It provide a chance to retain junior executives of today so that they may be capable to take up responsible work for tomorrow.

Difficulties with L.R.Ps.

1. A long-range plan falls short expectations more often than a short-range plan.
2. This plan suffers much when one person is not put in charge of the planning programme. To make the plan effectual a person with high administrative capacity should be appointed resting him with powers to make suitable alteration in the proposed plan as and when necessary.
3. The Plan under review (LRP) takes too much of everyone's time and the day-to-day work is much disturbed by the planner although they are concerned with long-range future.
4. When the conditions change, planners may hold the plan too tightly and it may not be adopted as a side line.

5. As the LRP is planned by special staff, extra cost is incurred and hence it proves to be a costly one.

LRP and SRP Characteristics

(1) Both LRP and SRP (Short Range Planning) are continuous :-The activities under both planning are never ending. LRP is never finalised, yet the deadlines are established for the sequential segments of LRP and SRP.

(2) LRP are without error :-Under LRP, planners will have breathing time to think over and to collect correct data or information. If certain information is not available at the time of formulation of plan, planners would refrain from making assumptions or to supply an imperfect plan. Planners under LRP can spend more time in trying to improve their plan from 90 to 100 percent perfection.

(3) SRP is usually more easily evaluated than LRP :-Results of planning if taken as measurement are certainly known sooner in the case of SRP than that or LRP. Because factors affecting the results in SRP are tangible, i.e., they can be measured quantitatively. Evaluating the results of LRP is more difficult as it is involved in long future which is more uncertain.

(4) Both LRP and SRP are difficult, broad yet detailed work :- Difficulties and hardship are encountered in locating and selecting significant data and in analysing and obtaining reliable results. This work is time consuming and frustrating.

(5) LRPs are top managers in multi-product enterprises :- In large enterprises the top managers must depend, in some degree, upon other members of the managements to see that large enterprise survives. The size of the enterprise itself makes this necessary. Intimate knowledge of all the operations by the top management team is simple and direct. Although LRP is helpful to a small enterprise, it is generally having its active role in a large multi-product, multiplant enterprise.

5.14 BENEFITS OF CORPORATE PLANNING

(1) Planning helps orderly and purposeful activities :- To accomplish desired or predetermined results, efforts should be made. What is important is, the determination of order or sequence in which course of action is to be put, Any action that is to be taken should be purposeful so as to achieve the goal. Unproductive efforts should be eliminated. Thus, proper planning directs as to the purpose, elimination of unproductive labour and proper sequence of action.

(2) Planning points out need for future change :- Although future is gloomy and uncertain, it can be properly visualised for necessary action through planning. With the help of statistical data of enterprise and comparative study generally undertaken under planning, one can appraise the measures or steps for future programmes. Future reading with probable changes is possible only because of planning which has a fundamental base of decision-making, leadership and forecasting. Planning does come to the rescue of manger to avoid the tendency to let things "Run Down" and to see things as they night be and not as they are. It is planning alone that makes managers and other top executives aware of future opportunities, possibilities and changes. In other words, future is clear and brought closer to the executives only through planning.

(3) Provides a basis for control :- Every course of action must be properly guided, watched and if necessary modified when it is desire of all to ensure the anticipated results. It is under planning, this object is fulfilled having controlling mechanism. Controlling is one of elements of planning and as such planning functions are put under check through the so called " Budgetary Controls. " Through this technique when and how a particular course of action is to start and close, how much amount is to be spent, what standard of performance is expected etc. are controlled and therefore, the controlling technique that is predeterminent under planning helps planners to achieve predetermined goals. Timely checks-over starting and completing each activity, setting limits for expenditure etc. serve as basis for controlling which ultimately bring about the results sought.

(4) Encourages achievement :-Under planning not only thoughts are put on paper but various measures for converting those thoughts into reality are also determined. Thus the planners get necessary guidance as to what course of action to be taken, how and when. Such a full guidance positively encourages planners and executive concerned with the operation of planning to achieve the results sought. Achievement of results under planning is easier than under non-planning programmes because under planning, unproductive efforts are avoided, random activity is reduced, expenditure is incurred as per planned budget and sequences of actions are determined.

(5) Helps visualization for entirety :-When any decision or action is taken it should be properly checked. Evaluation of such decision or action is must for effective implementation of business policies. It is under planning executives and managers can visualise, check and make timely modifications of effecting the different courses of action. In addition to this, planning does help the executives to get complete idea about relationship between different basis upon which their actions are supported. In short, planning provides managements overall picture of all commercial activities to be effected toward achieving predetermined objective. Further, complete picture is made available by reducing isolation and confusion.

(6) Provides maximum utilisation of facilities :-The most important feature of planning is to chalk out a programme for getting maximum benefit of available resources—material and financial. It also arranges to get additional facilities. Thus, planning helps executives to make best use of available resources and facilities during a given period of time. To achieve this aim, the activities are so balanced in respect of timing and amount to be spent that mutual support is ensured among themselves. This is possible only under planning which helps management to make best use of available facilities.

(7) Helps manager in gaining status :-Aggressive leadership is possible only when there is proper planning and without confident leadership, no enterprise can expect any success. Planning therefore, helps business executive to manage all affairs of the company under his control and guidance. Even where powers are delegated, it is down as per the planned programme. It is said by many executives that planning is an organised approach to future problems. Under well thought out plans, executives can ponder over things ahead of times and, therefore, planning further provides long term stable guides. All these do help planners or managers to achieve goals as per schedule and when plans are accomplished with success, that help managers to enjoy high status in the world of trade, commerce and industry.

(8) Helps management to implement future programmes :-Planning helps management to implement future programmes in systematic manner so that the management can get the maximum benefit out of the programmes chalked out. This will again indirectly lead to large-scale economies by avoiding waste of men, material, money and machinery. Under planning, the best course of action is generally selected and thus it so used to get maximum utilisation of available resources.

(9) Assists toning up administration :-Because of planning, other management aspects such as organisation, coordination, and control are functioning in an orderly manner. Since under planning, time schedule is required to be maintained. On account of planning, the structure of organisation, selection of staff, assignment of duties and responsibilities, etc. are done before hand so that the anticipated results may be obtained as per the plans.

5.15 WHY CORPORATE PLANNING FAILS?

(1) Accuracy of Information and Future Facts Limit the Scope of Planning :-Planning is generally based on assumptions regarding the future. Correct evaluation of the future is one of the conditions of successful planning. It should be pointed out here that no expert planner or any experienced manager can predict completely and accurately the events of the future which are always uncertain. If the future conditions on which the plan is framed undergo considerable change, implementation of the plan under such changed conditions will either be difficult or a failure and thus must of the value of the plan will be lost.

(2) Planning is Costly :-It is a general opinion of those directly concerned with planning. They are of opinion that the money could better be spent in performing the physical work to be done correctly rather than sinking the same for the work to be done in future which is uncertain and difficult to predict completely and accurately. The high expenditure of planning could not be justified by planners who will have to work under odd future conditions. The difficulty in keeping pace with the individual circumstances current as well as future in respect of amount and extent of planning activities makes planning costly on the whole.

(3) Planning suffers from Psychological Barriers :-In this regard it can be said that a “Bird in the hand is worth two in the bush.” People have more regard for the present than the future. As it is, present is more reliable, certain and desirable with minimum amount of risk, changes and adjustments. Planning that is mainly dealing with future course of action fails to impress the people to go for planning with a free mind.

(4) Planning Hampers Initiative :-Once the plan is chalked out number of rules and restrictions are laid down and sometimes they are so rigid as to put limits on the powers of the managers supposed to execute the plan. These rigidities along with procedural difficulties restrict the flow of action in implementing the plan and also kill all initiative on the part of managers who have neither freedom of choice nor action. For effective planning a certain degree of elasticity and interpretation of plan in their application are provided so as to see that every last detail is carefully planned and spelled out so that manager's initiative is not hampered. However, in practice, it does not work. Planning decides the means and methods of production, fixes the responsibilities of the personnel and frames the rigid formula to carry out the work. This type of rigid control and setting up of rigid formula would kill the initiative and zeal of the worker, in carrying out his daily work.

(5) Planning Machinery is Defective :-The machinery of planning used in our country is not perfect. Forecasting methods, statistical data supplied etc. are all inaccurate and the results of operation research cannot be applied to all cases that come under planning.

(6) Planning Delays Action :-Quick decision and prompt action is very essential in a business enterprise which is under emergencies and unusually difficult situations. Under planning, rigid rules are framed and managers are expected to execute the plan within the framework of those rigid rules. Such a planning set up, prohibits managers to take a particular course of action if some one does not fall within his area of action for which he will have to seek permission from higher authority. Although we know quick action does not necessarily mean useful accomplishment but it cannot be denied that quick actions do help accomplishing the plan aimed at achieving the goal within the stipulated period of time. Thus the importance of quick action is not over-emphasised but is rather difficult to practice it under the rigidities of planning.

(7) Planning is Overdone by Planners :-Planners are generally over ambitious and as such they overdo their contribution. They prepare elaborate reports and instructions beyond any practical need. Plans prepared beyond the possibility of getting proper resources and manpower become unrealistic and financially not viable. Many a time, endless follow-ups of results are practised and excessive time and money are spent on collecting data and information on different phases of planning. In this way, the whole plan is lacking the realistic approach and finally ends in a failure.

5.16 APPROACHES OF CORPORATE PLANNING

All organizations plan, the only difference is their approach. Prior to starting a new strategic planning process it will be necessary to access the past planning approach that has been used within the organization and determine how the organization's culture may have been affected. Addressing these cultural issues is critical to the success of the current planning process.

The four possible approaches to corporate planning are:

1. Reactive - past oriented approach

Reactive planning is an active attempt to turn back the clock to the past. The past, no matter how bad, is preferable to the present. And definitely better than the future. The past is romanticized and there is a desire to return to the "good old days." These people seek to undo the change that has created the present, and they are scared about the future, which they try to prevent.

2. Inactive - present oriented approach

Inactive planning is an attempt to preserve the present, which is preferable to both the past and the future. While the present may have problems, yet it is better than the past. The expectation is that things are as good as they are likely to get and the future will only be the worse. Organisations believe that any additional change is likely to be for the worse and should therefore be avoided.

3. Pre active - *predict* the future approach

Pre active planning is an attempt to of an organisation predict the future and then to plan for that predicted future. Technological change is seen as the driving force bringing about the future, which will be better than the present or the past. The planning process will seek to position the organization to take advantage of the change that is happening around them.

4. Proactive - *create* the future approach

Proactive planning involves designing a desired future and then inventing ways to create that future state. Not only is the future a preferred state, but the organization can actively control the outcome of their actions. Planners actively shape the future, rather than just trying to get ahead of events outside of their control. The predicted changes of the pre active planner are seen not as absolute constraints, but as obstacles that can be addressed and overcome by the organisations.

5.17 SUMMARY

In management literature, sometimes even corporate planning, strategic planning, long-range planning are used interchangeably. Hence, corporate planning includes the setting of objectives, organising the work, people and systems to enable those objectives to be attained, motivating through the planning process. Therefore, the concept of corporate planning may be taken as total planning activities in the organisation and not the total managerial functions.

5.18 GLOSSARY :-

• Corporate Planning: A process used by business to map out a course of action that results in revenue growth and profits.

• Routine Planning : Routine Planning means repeated planning on regular basis.

5.19 SELF ASSESSMENT QUESTIONS

Q 1. Discuss the nature of corporate planning in detail.

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Q 2. Evaluate upon the importance of corporate planning.

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Q 3. Discuss the different steps involved in corporate planning process.

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Q 4. Describe the different benefits and limitations of planning.

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5.20 LESSON END EXERCISE

Q1. What is the importance of having a good management team with a clear cut vision, stragety and planning guiding the destinies of a company in these days of killer competition.

Q2. Make an assessment of different types of corporate plans.

5.21 SUGGESTED READINGS

- Contemporary Strategy Analysis; Robert M. Grant; 2005
- A Problem-finding Approach to Effective Corporate Planning; Robert J. Thierauf; 1987
- Managing Transport Operations; Edmund J. Gubbins; 2003
- Strategic Management by VSP Rao

STRATEGY FORMULATION

ENVIRONMENTAL ANALYSIS

UNIT-II

LESSON - 6

STRUCTURE

6.1 INTRODUCTION

The environment in which an organisation exists could be broadly divided into two parts : the *external* and the *internal* environment. In this chapter, we deal with the appraisal of the external environment. We start with gaining an understanding of the concept of environment. This is done through a description of four important characteristics of the environment, dividing the environment into its external and internal parts, observing how a systematic approach like SWOT analysis can help in environmental appraisal, and classifying the external environment into two parts, the general and the relevant environment. Next, we see how the external environment—specially that part which is more relevant to an organisation—can be divided into different components. For the purpose of understanding and analysis, we have discussed seven components of the external environment: *the social, political, economic, regulatory, market, supplier* and *technological* components of the external environment. This chapter, we deal with *environmental scanning:* the process through which strategists monitor the external environment and collect information for strategy formulation. Specifically, we deal with factors, approaches, sources of information, and methods and techniques for environmental scanning. Lastly, we describe the manner in which environmental appraisal takes place. We have pointed out the various factors that affect environmental scanning, how environmental issues can be identified and the way in which environmental appraisal can be structured.

6.2 OBJECTIVES

After reading this unit, one is able to assess :

i) the concept of environment

ii) discuss external and internal environment

iii) make an assessment of strengths weaknesses, opportunities and threats

iv) evaluate upon the factors to be considered for environmental scanning.

6.3 CONCEPT OF ENVIRONMENTAL ANALYSIS

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organisation is "the aggregate of all conditions, events and influences that surround and affect" (Davis) Since the environment influences an organisation in many ways, its understanding is of crucial importance. The concept of environment can be understood by looking at some of its characteristics. To analyse the various factors which effects the business Internally and externally is known as Environmental Analysis.

6.3.1 Characteristics of Environmental Analysis

Business environment (or simply environment) exhibits many characteristics. Some of the important—and obvious—characteristics are briefly described here.

1. *Environment is complex :*-The environment consists of a number of factors, events, conditions and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. All in all, environment is a complex phenomenon relatively easier to understand in parts but difficult to grasp in its totality.

2. *Environment is dynamic :*-The environment is constantly changing in nature. Due

to the many and varied influences operating, there is dynamism in the environment causing it to continuously change its shape and character.

3. *Environment is multi-facted:* What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment, or a new development, may be viewed differently by different observers. This is frequently seen when the same development is welcomed as an opportunity by one company while another company perceives it as a threat.

4. *Environment has a far-reaching impact :-*The environment has a far-reaching impact on organisations. The growth and profitability of an organisation depends critically on the organisation in several different ways.

Since the environment is complex, dynamic, multi-faceted and has a far reaching impact, dividing it into external and internal components enables us to understand it better.

6.3.2 External and Internal Environment

The external environment includes all the factors outside the organisation which provide opportunities or pose threats to the organisation. The internal environment refers to all the factors within an organisation which impart strengths or cause weaknesses of a strategic nature.

The environment in which an organisation exists can, therefore, be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment. The four environmental influences could be described as follows :

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

2. *A threat* is an unfavourable condition in the organisation's environment which creates a risk for, or causes damage to, the organisation. An example of a threat is the emergence of strong new competitors who are likely to offer stiff competition to the existing companies in an industry.

3. *A strength* is an inherent capacity which an organisation can use to gain strategic advantage over its competitors. An example of a strength is superior research and development skills which can be used for new product development so that the company gains competitive advantage.

4. *A weakness* is an inherent limitation or constraint which creates a strategic disadvantage. An example of a weakness is overdependence on a single product line, which is potentially risky for a company in times of crisis.

An understanding of the external environment, in terms of the opportunities and threats, and the internal environment, in terms of the strengths and weaknesses, is crucial for the existence, growth and profitability of any organisation. A systematic approach to understanding the environment is the SWOT analysis.

6.3.3 SWOT Analysis

Business firms undertake SWOT analysis to understand the external and internal environment. SWOT, which is the acronym for *strengths, weaknesses, opportunities and threats,* is also known as *WOTS-UP analysis.* Through such an analysis, the strengths and weaknesses existing within an organisation can be matched with the opportunities and threats operating in the environment so that an effective strategy can be formulated. An effective organisational strategy, therefore, is one that capitalises on the opportunities through the use of strengths and neutralises the threats by minimising the impact of weaknesses. Describes some of the primary environmental influences operating currently in the context of the instant foods industry in India.

Instant foods industry is one of the sunrise industries that has come up well in India in the recent past. Essentially meant for middle and upper-middle class urban consumers, instant foods are a product line that offers considerable potential for growth.

The business environment in which the instant foods industry exists at present could be explained in terms of the opportunities and threats operating currently. *Opportunities* are supported by factors like ;

- High demand potential, estimated at around Rs 20,000 crore. At present, the total industry output is just Rs 300 crore.
- Rising personal incomes, emergence of nuclear families and rise in the number of working women.
- Availability of packaging material to keep instant foods fresh and unadulterated.
- Spread of television as media for advertising.

Threats arise due to factors like :

- Problem of acceptability, as Indians are typically used to eating fresh vegetables and foods.
- High taxes, as instant foods are considered a luxury item; direct and indirect taxes constitute 70 to 80 per cent of the price of processed foods.
- High raw material costs.
- High overhead expenses.

The process of strategy formulation starts with, and critically depends on, the appraisal of the external and internal environment of an organisation.

Source : Adapted from " The quest for instant success" in *Business* World, May 9-22, 1988, pp. 15-17.

Exhibit 6.1 Environmental influences on the instant foods industry

6.3.4 General versus Relevant Environment

The external environment, as we said earlier, consists of all the factors which provide opportunities or pose threats to an organisation. In a wider sense, the external environment encompasses a variety of factors like international, national, and local economy, social changes, demographic variables, political systems, technology, attitude towards business, energy sources, raw materials and other sources, and many other macro-level factors. We could designate such a wider perception of the environment as the general environment. All organisations, in some way or the other are concerned about the general environment. But the immediate concerns of any organisation are confined to just a part of the general environment which is of high strategic relevance to the organisation. This part of the environment could be termed as *the immediately relevant environment* or simply, *the relevant environment.*

A conscious identification of the relevant environment enables the organisation to focus its attention of those factors which are intimately related to its mission, purpose, objectives, and strategies. Depending on its perception of the relevant environment, an organisation takes into account those influences in its surroundings which have an immediate impact on its strategic management process. Having identified its relevant environment, an organisation can systematically appraise it and incorporate the results of such an appraisal in strategic planning. In order to cope with the complexity of the environment, it is feasible to divide it into different components or sectors.

6.4 COMPONENTS OF ENVIRONMENT

The classification of the relevant environment into components or sectors helps an organisation to cope with its complexity, comprehend the different influences operating, and relating the environment changes to its strategic management process. Different basis for classification have been adopted by different authors but the basis itself is not as important as the fact that all the relevant factors in the environment have to be considered. Depending on a variety of factors such as the size of the organisation, level and scope of activities, geographical spread of markets, nature of products, type of technology used, and managerial philosophy, an organisation may divide its relevant environment into components capable of being analysed conveniently. We are using a seven-category classification of environment. These seven components of the environment are : the social, political, economic, regulatory, market, supplier and technological sectors of environment. We will now take up each of these sectors for discussion.

6.4.1 Social Environment

Social Environment includes the values, attitudes, beliefs, opinion and lifestyles of persons. The social environment consists of factors related to human relationships, and the development, forms and functions of such a relationship having a bearing on the business of an organisation.

Some of the important factors and influences operating in the social environment are :

1. Demographic characteristics, such as population, its density and distribution, changes in population and age composition, inter-state migration and rural-urban mobility, and income distribution.

2. Social concerns, such as the role of business in society, environmental pollution, corruption, use of mass media, and consumerism.

3. Social attitudes and values, such as expectations of society form business, social customs, beliefs, rituals and practices, changing lifestyle patterns, and materialism.

4. Family structure and changes in it, attitude towards and within the family, and family values.

5. Role of women in society, position of children and adolescents in family and society.

6. Educational levels, awareness and consciousness of rights, and work ethics of members of society.

The social environment primarily affects the strategic management process within the organisation in the areas of mission and objective setting, and decisions related to products and markets. Strategists, in the Indian context, do not seem to be fully aware of the impact of the social environment on business or they are so preoccupied with other environmental influences that they do not give a high priority to social factors. One reason for such a lack of interest could be the nature of social influences. The social changes take place very slowly and do not seem to have an immediate and direct impact on short-term strategic decisions. Nevertheless, some social changes are too prominent to be ignored. One such social change in the Indian context is the emergence of the middle-class as a powerful socio-economic group having considerable influence and purchasing power. Exhibit 6.2 describes a few aspects related to the emergence of the middle-class in India.

According to the World Development Report for 1987 of the World Bank, the top 20 per cent of India's population have an income share of 50 per cent of the GDP or a per capita income of Rs 10,000 and family income of Rs 50,000. This part of the population, consisting of 15 crore people, constitutes what is known as the rising middle-class of India. Owing to the black economy which largely benefits this class and the repatriation of money from abroad by non-resident Indians who mainly belong to this class, the rising Indian middle-class possesses the real purchasing power. By 2000 A.D., this class is expected to expand to the size of 30 crore and would, most probably, be the single largest middle-class group in the world.

There are important implications of the changing socio-economic structure, taking shape in India currently for the economy in general and industry and business in particular. Much of the macro-level sectorial shift away from agriculture to manufacturing and services could be attributed, directly or indirectly, to the middle-class affluence. To the corporate sector, the middle-class provides more than a crore investors and a continuing demand potential for a variety of consumer items, ranging from detergents to refrigerators, and a number of services like insurance, leisure and advertising. New lifestyles and images have appeared due to the consumerist and materialistic ethos prevailing in the middle-class society. Urban middle-class spend time and money on leisure activities like amusements parks while the rural middle-class takes pride in wearing readymade garments and driving motorcycles.

In sum, the social environment facing Indian business is radically changing and these changes have to be taken into consideration for strategic management.

Sources : Partially adapted from "The rise of the new middle-class" in *Gentleman,* April 30, 1988, pp. 26-40; and " India's middle-class power" by V.A. Pai Panandikar in *The Hindustan Time,* July 25, 1987.

Exhibit 6.2 The rise of the Indian middle-class

6.4.2 Political-Environment

The political environment consists of factors related to management of public affairs and their impact on the business of an organisation.

Some of the important factors and influences operating in the political environment are :

1. The political system and its features like nature of the political system, ideological forces, political parties and centres of power.
2. The political structure, its goals and stability.
3. Political processes like operation of the party system, elections, funding of elections, and legislation with respect to economic and industrial promotion and regulation.
4. Political philosophy, government's role in business, its policies and interventions in economic and business development.

India is a democratic country having a stable political system where the government plays an active role as planner, promoter and regulator of economic activity. Businessmen, therefore, are conscious of the political environment that their organisations face. Most governmental decisions related to business are based on political considerations in line with the political philosophy followed by the ruling party at the centre and the state levels. Here are a few examples of the impact of political environment on business.

- The Janata government, during the three-year rule at the centre after 1977, followed a strict policy with regard to multinationals. As a result of the socialistic leanings of some of the ministers, Coca Cola and IBM were forced to move out of India, causing a far-reaching impact on the business environment within the country. For instance, a vast market was opened up for indigenous soft drink manufacturers. The decision to allow Pepsi Cola to set up a plant in Punjab is viewed by many political commentators as a part of the government's policy to deal with the Punjab problem.

- It is generally believed that the success or failure of public sector enterprise hinges primarily on the kind of rapport a chief executive is able to maintain with the secretary and minister in the controlling ministry. When such a rapport does not exist, it proves to be detrimental to the strategic interests of the company.

- An example where the political environment had a direct impact on a company is of a Apollo Tyres Ltd set up in 1972 in Kerala. The company suffered on account of a hostile political environment and was taken over by the Janata government in 1978. Legal battles ensued till 1982, when the management was restored to its promoter, Raunaq Singh. After that, the company has turned around and is now on the path to stability and growth.

6.4.3 Economic Environment

The economic environment consists of macro-level factors related to the means of production and distribution of wealth that have on the business of an organisation.

Some of the important factors and influences operating in the economic environment are :

1. The economic stages existing at given time in a country.
2. The economic structure adopted, such as a capitalistic, socialistic or mixed economy.
3. Economic planning, such as Five-Year Plans, annual budgets, etc.
4. Economic policies such as industrial, monetary and fiscal policies.
5. Economic indices like national income, distribution of income, rate and growth of Gross Net Profit per capita income, disposable personal income, rate of savings and investments, value of exports and imports, the balance of payments, etc.
6. Infrastructural factors such as financial institutions, banks, modes of transportation, communication facilities, every sources, etc.

Strategists are acutely aware of the importance and impact of the economic environment on their organisations. Almost all annual company reports presented by the Chairman devote attention to the general economic environment prevailing and the specific aspects that have an impact on their organisations and the business they are in.

We provide here two examples of the factors and influences operating in the Indian economic environment that have had a far-reaching impact on all business organisations.

- Liberalisation of the economy since the last six years has had a mixed effect on Indian industry. While most of the companies have benefitted in terms of the resulting freedom to alter product mix and capacities, there have been some adverse effects too. These have been in the areas of overcapacity and increased competition. Partial decontrol of cement in 1982 led to a rapid increase in production capacity and resultant supply, changing the market situation from that of acute scarcity to a comfortable surplus. Liberalisation of imports has led to increased competition in the capital goods industry, causing profits to decline and many companies not being able to sustain their business.
- Public savings in India have been traditionally invested in fixed assets and precious metals. The share of savings entrusted to the government has been channelled through post offices and banks. However, after the seventies, the investors have increasingly turned to other avenues like stock-markets and company deposits. Recent changes in economic and fiscal policies have led to many developments. Leasing and financing companies, public sector bonds, mutual funds, venture capital business, newer financial instruments, entry of banks and financial institutions in stock trading are some of these developments which provide the resources for capital markets and project financing.

6.4.4 Regulatory Environment

The regulatory environment consists of factors related to planning, promotion, and regulation of economic activities by the government that have an impact on the business of an organisation.

Some of the important factors and influences operating in the regulatory environment are as follows :

1. The constitutional framework, directive principles, fundamental rights and division of legislative powers between central and state governments.
2. Policies related to licensing, monopolies, foreign investment and financing of industries.
3. Policies related to distribution and pricing, and their control.
4. Policies related to imports and exports.
5. Other policies related to the public sector, small-scale industries, sick industries, development of backward areas, control of environmental pollution and consumer protection.

Since the Indian economy is centrally planned and controlled, the principle of regulation of economic activities by public authorities in the larger interests has taken roots. Business and industry operate within a regulatory environment . The relationship between industry and the regulatory environment exists as a two-way process. The government lays down the policies, procedures and rules according to which the industry functions. Occasionally, the industry also tries to influence the government through lobbying, creating public awareness and opinion by issuing press advertisements, and through the parliamentary process to create a favourable policy framework for the benefit of its constituent businesses and companies. But such a two-way relationship is heavily tilted in favour of the government. It acts through its various ministries and agencies, both at the central and state levels, to regulate the activities of business. Owing to the controls exercised through the regulatory mechanism, the regulatory environment is one of the most important components that any organisation has to take into consideration for its strategic management.

There are a number of administrative controls over business that are exercised through the regulatory mechanism. Some of the important areas of control are :

1. Industrial policy and licensing
2. Monopolies and restrictive trade practices
3. Legislation related to company operations
4. Capital issues control and control over stock exchanges
5. Import and export control, and control over foreign exchange
6. Control over foreign investment and collaboration
7. Control over distribution and pricing of commodities
8. Control over development and regulation of industries
9. Control through consumer and regulation of industries
10. Control of environment pollution

During the course of its activities, the industry interacts with the government in innumerable ways. In fact, the industry often blames the government for exercising excessive control through a plethora of rules and regulations. On the other hand, the government holds the industry responsible for many of the economic problems, for not working within the framework of national priorities, and for failing to live up to the expectations of the society in general. Such a love-hate relationship between the industry and the government is clearly evident when managers and bureaucrats interact with each other. Exhibit 6.3 presents an interesting and perceptive insight into the differing views and attitudes of managers and bureaucrats.

S.K. Bhattacharya, an emient management consultant, makes a perceptive analysis of the mistrust that exists between the industry and government and makes suggestions to bridge the gap in such a relationship. The differing perceptions that the industry and government have could be largely attributed to what managers and bureaucrats feel about each other.

	What managers feel	What bureaucrats feel
1.	Bureaucrats are procedure-bound, precedent-oriented, unable to look at the overall situation indenpendently and lack pragmatism.	Managers are of low intellectual cablire, selfish, unaware of macro-level police matters and do not contribute significantly to economic development.
2.	Bureaucrats are easy-going, lack motivation and drive, are more concerned about wielding power and playing politics.	Managers are snobbish, adopt an exagg-eratedly high-style living and indulge in conspicuous consumption.
3.	Bureaucrats do not understand the value of time, delay decisions, play into the hands of their political masters.	Managers are unprincipled, manipulative and try to use unfair means to gain benefits.
4.	Bureaucrats fail to appreciate that industry has to be viable in the short run so as to achieve long-term national objectives. They use state involve-ment and interventions as levers for exercising power and patronage.	Managers do no understand the political administrative equations on which the industry and business-related decisions rest.

Bhattacharya further suggests that the reality is far removed from what the managers and bureaucrats feel about each other. He advocates that a consultative and collaborative approach should be adopted by the government through open communication, while the industry should adopt a supportive attitude by recognising that it is the government's prerogative to regulate and guide industrial and economic development in the light of national priorities.

Exhibit 6.3 Why the industry and government mistrust each other

Source : Adapted from "The industry-government hiatus" in *Business World,* Mar. 28-Apr. 10, 1998,pp. 20-21 and "Bridging the gap in government-industry relationship" in *Business World,* Apr. 25-May 8, 1988, pp. 39-40. Both the articles have been written by S.K. Bhattacharya.

6.4.5 Market Environment

The market environment consists of factors related to the groups and other organisations that compete with and have an impact on an organisation's markets and business.

Some of the important factors and influences operating in the market environment are as follows :

1. Customer or client factors such as the needs, preferences, perceptions, attitudes, values, bargaining power, buying behaviour and satisfaction of customers.
2. Product factors such as the demand, image, features, utility, function, design, life cycle, price, promotion, distribution, differentiation and availability if substitutes of products or services.
3. Marketing intermediaries factors such as levels and quality of customer service, middlemen, distribution channels, logistics, costs, delivery systems and financial intermediaries.
4. Competitor-related factors such as the different types of competitors, entry and exit of major competitors, nature of competition and relative strategic position of major competitors.

The market environment largely depends on the type of industry structure. in monopolies and oligopolies, the concern for market environment is lesser than what it is under pure competition. In a controlled economy, like that of India, public utilities like electricity boards and most public sector companies such as petrol and cooking gas companies operate in a protected environment.

In recent years, the government policies have increasingly moved towards allowing a limited competition within the public sector such as between banks and also between the public and private sector companies like in the case of television and computers. With liberalisation in the form of broadboarding of licensing and minimum economic capacities, the market environment has assumed a greater importance in strategic management.

Here are several examples to show how the market environment affects, and is taken into consideration by, the companies.

- Many companies make a special effort to be in touch with their market environment. For instance, Richardson Hindustan Ltd (now Proctor & Gamble) has made it mandatory for its executives to visit the market once a year, talk to twenty dealers and twenty housewives as a precondition to their annual salary reviews.

- The automobile industry hardly seemed to care about its customers. The companies existed in a seller's market and customers had to wait for a long time in order to buy a car. Now the situation has changed to such an extent that companies carry unsold stocks, have to resort to various sales promotion measures, and provide new customer services in order to compete in the market.

- About ten years ago, personal computers were sold at a unit price of Rs 1 lakh. In 1986, Hindustan Computers Ltd nearly halved its prices of personal computers, causing a dramatic impact on the strategic calculations of many companies in the computer industry.

- Sales promotion, advertising and market research, which did not occupy an important position in the marketing policies of companies have now assumed a greater significance. Distribution has been straightened so that customers are not put to inconvenience. After-sales service, specially for consumer durables, has become significant in the context of marketing strategies of many companies.

6.4.6 Supplier Environment

The supplier environment consists of factors related to the cost, reliability and availability of the factors of production or service that have an impact on the business of an ogranisation.

Some of the important factors and influences operating in the supplier environment are as follows :

1. Cost, availability and continuity of supply of raw materials, sub-assemblies, parts and components.
2. Cost and availability of finance for implementing plans and projects.
3. Cost, reliability and availability of energy used in production.
4. Cost, availability and dependability of human resources.
5. Cost, availability and the existence of sources and means for supply of plants and machinery, spare parts and after-sales service.
6. Infrastructural support and ease of availability of the different factors of production, bargaining power of suppliers and existence of substitutes.

A survey of domestic and multinational companies, with regard to the environmental factors for strategy formulation in the Indian context, reports that availability of raw materials is accorded the highest priority among 122 environment factors included in the survey. Both domestic as well as the multinational subsidiary companies lay great emphasis on the supplier environment. The supplier environment, therefore, occupies a dominant position in strategy formulation. This is understandable since India is a developing country having problems of scarcity of capital and appropriate raw material resources. Unlike some of the western nations and Japan the reliability of supply is very low causing companies to devote a lot of attention to, and energy in, maintaining continuity of supply. Almost all annual company reports lament the shortage of power and cite the high costs of raw materials as the reason for low profitability.

Here are a few illustrations to highlight the importance of the supplier environment.

- Power shortage affects industry considerably. The most energy-intensive industries in India are aluminium, cement, fertilisers, petrochemicals, pulps and paper refineries and steel. Considering the case of mini-steel plants, we find that their viability is critically dependent on the cost and availability of power, as nearly 15 per cent of the total manufacturing costs are accounted for by power. It is mainly used in electric arc furnaces for both melting and refining scrap for steel manufacturing. Alternative sources of power supply like generating sets are not economical to use in mini-steel plants as large volumes of power are required.

- Among infrastructural inputs, road transport is one of the most important in a developing economy of a large country like India. But there are many problems faced by this sector. For instance, high taxes on vehicles, tyres, diesel and spare parts; poor conditions of roads, and delay in transit are some of these problems. One company in this industry estimates that fuel wastage due to bad condition of roads could be around Rs 500 crore per year while delays at checkposts alone account for a loss of Rs 1,000 crore annually. These problems have a negative impact on the cost and timely delivery of raw materials and other inputs to the industry.
- A specific example where the supplier environment threatened the very existence of a company is of Grasim Industries pulp unit at Mavoor in Kerala. It has faced, besides industrial relations problems, acute shortage of raw material and its high cost. It used bamboo and other softwood, supplied by the Kerala government, as its main raw materials. The price charged was thought to be unreasonably high and the supply was not only erratic but much less than required. Due to such an unfavourable supplier environment, the company had to temporarily close its factory in 1985.

6.4.7 Technological Environment

The technological environment consists of those factors related to knowledge applied, and the materials and machines used in the production of goods and services that have an impact on the business of an organisation.

Some of the important factors and influences operating in the technological environment are as follows :

1. Sources of technology like company sources, external sources and foreign sources; cost of technology acquisition; collaboration in, and transfer of, technology.
2. Technological development, stages of development, change and rate of change of technology, and research and development.
3. Impact of technology on human beings, the man-machine system, and the environmental effects of technology.
4. Communication and infrastructural technology, and technology in management.

Strategists can ill afford to ignore the technological environment, as technology, besides customer groups and customer functions, defines the business of their organsations. The strategic implications of technological change, according to Boris Petrov, are three: it can change relative competitive cost positions within a business; it can create new markets and new business segments; and it can collapse or merge previously independent businesses by reducing or eliminating their segment cost barriers.

In the Indian context, we find that the state of technological development varies among different sectors of the industry. Generally, it is felt that the technology used depends on a number of factors such as cost and availability of technology, nature of competition, relevance to customer needs, and government policy. At the macro-level, foreign technical collaborations are popular in India but subjected to strict regulation regarding indigenations, impact on local technological development and employment, export commitments, etc. Technology is often used as a strategic weapon by companies operating in highly competitive environment.

A few specific examples of the factors operating in the technological environment and their impact on business are provided here.

- Rising petrol prices have forced automobile manufacturers to emphasise fuel economy. Fuel economy is dependent on variety of factors such as weight, aerodynamics, engine technology and frictional losses. The technological environment currently offers a few solutions to support these factors. For instance, aerodynamically designed cars to minimise resistance to air, front wheel drive to reduce fuel consumption, ceramic component technology for engine construction, and alternative fuels like diesel, vegetable oils and alcohol are some of the means to increase fuel economy.

- The harmful side-effects of allopathic drugs and symptomatic relief that they offer have made many companies look towards alternative systems of medicines. Proctor and Gamble Ltd, through its acquired company Richardson Hindustan Ltd, is interested in exploiting the potential of *ayurvedic* technology in finding herbal solutions to common chronic ailments. The herbal research centre of the company is part of a worldwide programme in drug research on natural ingredients for respiratory, gastro-intestinal and inflammatory diseases.
- In line with its concern for the technological environment, the Industrial Credit and Investment Corporation of India (ICICI) has set up the Technology Development Corporation (TDC) to finance ventures that have a high risk but possess potential for growth, resulting from ideas coming from research institutions. The TDC also intends to provide a technology information service facility for industry.

This section of the chapter has been devoted to a discussion of seven different sectors constituting the relevant environment of an organisation. It should be noted that the classification of the relevant environment into sectors is artificial and is meant solely for gaining an understanding of the different environmental factors. In reality, the dividing line between the different sectors of the environment is hazy and there is a high level of interaction between variables belonging to various environmental sectors. For example, market demand, which is a part of the market environment, does not exist in isolation but is dependent on other factors such as the general state of the economy, buyer motivation or technical quality of the products. Apart from the inter-sectoral interaction, there are complex interlinkages existing between the factors in the same sector of the environment. To consider an example of such an interlinkage, the technological environment has a number of factors and influences. Among these, collaboration in, and transfer of, technology affect the development of technology in a particular company and also in the industry as a whole. When the technological level is raised, it has repercussions on human beings and the man-machine system. There are implications also for the environmental effects of technology. In this manner, both inter-sectoral and intra-sectoral interaction have to be considered while understanding the different environmental sectors. Strategists have to constantly monitor the environment, and its different sectors for opportunities and threats that have, or are likely to have, an impact on their organisations. Such a monitoring is done through environmental scanning.

6.5 ENVIRONMENTAL SCANNING

In the preceding two sections, we have seen how organisations can comprehend the environment in which they exist, identify their relevant environment, and classify it into different sectors. In this section we return to the method and techniques employed by the organisations to monitor their relevant environment and to gather data to derive information about the opportunities and threats that affect their business. The process by which organisations monitor their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning. Environmental scanning is the process of monitoring an organisational environment to identify both present and future threats and apportunities that may influence the firms ability to reach its goals.

6.5.1 Factors to be Considered for Environmental Scanning

The external environment in which an organisation exists consists of a bewildering variety of factors. These factors (could also be termed as *influences)* are events, trends, issues and expectations of different interested groups. *Events* are important and specific occurrences taking place in different environmental sectors. *Trends* are the general tendencies or the courses of action along which events take place. *Issues* are the current concerns that arise in response to events and trends. *Expectations* are the demands made by interested groups in the light of their concern for issues. For example, the gas leakage accident at the Union Carbide factory at Bhopal and the resulting holocaust was an event. The trend that has arisen is a general tendency on the part of the regulatory authorities and organisations to be conscious about safety form hazardous exposure to chemicals. The issue is of a rising concern about environmental pollution. The expectation of the general public from the government is of legislating changes in rules and regulations pertaining to safety measures and stricter enforcement through mechanisms. By monitoring the environment through environmental scanning, an organisation can consider the impact of the different events, trends, issues and expectations on its strategic management process. Since the environment facing any orgainsation is complex and its scanning absolutely essential, strategists have to deal cautiously with the process of environmental scanning. The effort has to be to deal with it in such a manner that unnecessary time and effort is not expended, while important factors are not ignored. For this to take place, it is important to devise an approach, or a combination of different approaches, to environmental scanning. Environmental scanning helps the firms to adjust to environmental change at a right time to encash opportunities. It tries to improve organisational performance be making manager aware of issues related to firm's environment

6.5.2. Approaches to Environmental Scanning

Kubr has suggested three approaches which could be adopted for sorting out information for environment scanning. We could call these approaches as *systematic, adhoc* and *processed-form approaches.*

1. *Systematic approach :*— Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, changes in legislation and regulations that have a direct impact or an organisation's activities, government policy statements pertaining to the organisation's business and industry, etc. could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.
2. *Ad hoc approach :*— Using this approach, an organisation may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, when an organisation has to undertake special projects, evaluate existing strategies or devise new strategies. Changes and unforeseen developments may also be investigated with regard to their impact on the organisation.
3. *Processed-form approach :*— For adopting this approach, the organisation uses information in a processed form available from different sources both inside and

outside the organisation. When an organisation uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form.

Since environment scanning is absolutely necessary for strategy formulation, organisation use different practical combinations of approaches to monitor their relevant environments. These approaches may range from an informal assessment of environment factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and *ad hoc* studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure in anticipation of changes in environment factors and structured data collection and processing systems may be used continuously. Between the two extremes of the informal and formal approaches may lie different stances adopted by organisations depending on varying degrees of concern. Such stances are situational. For example, when an issue-related decision has to be taken, periodic monitoring of the environment may be done. Systematic and ad hoc approaches can be used for the relevant environment of the organisation while the processed-form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning, data collection is necessary for deriving information about environment factors.

6.5.3 Sources of Information for Environmental Scanning

The various sources of information tapped for collecting data for environment scanning could be classified in different ways. There could be formal and informal sources. Then there could be written as well as verbal sources. In terms of origin, data sources could be external and internal.

Given below are some of the important types of sources of information.

1. *Documentary or secondary sources* of information like different types of publications. These could be newspaper, magazines, journals, books, types of publications. These could be newspapers, magazines, journals, books, trade and industry association newsletters, government publications, annual reports

of competitor companies, etc.

2. *Mass media* such as radio and television.

3. *Internal sources* like company files and documents, management information system, company employees, etc.

4. *External agencies* like customers, marketing intermediaries, suppliers, trade associations, government agencies, etc.

5. *Formal studies* done by employees, market research agencies, consultants and educational institutions.

6. *Spying and survelliance* through ex-employees of competitors, industrial espionage agencies, or by planting 'moles' in competitor companies.

Strategists use different information sources depending on their needs for environmental scanning Government publications, though they are a rich and comprehensive source of information, usually are available after a considerable time lag. Private sources, though relevant and timely, are quite expensive to tap. Therefore, whenever a particular information source is used, it should be checked for its reliability, time frame, methods of data collection and analysis used, form of presentation, etc. Exhibit 2.4 provides some important information sources that could be used by strategists in the Indian context.

A few selected and important sources which can be used in the Indian context for collecting information for environmental scanning are given below.

1. *Government publications*

   (a) Governmental information sources such as the Census of India reports, Five Year Plan reports, Statistical abstracts of Indian Union, etc. provide valuable macro-level data useful for the planning purpose. The main drawbacks are the delay in a availability of the data and the fact that the data available has to be adapted for its particular use.

   (b) Periodic reports like economic surverys, annual surveys of industries, annual reports of ministers, etc. which provide current data and reflect governmental thinking and priorities.

   (c) Occasional reports brought out by various statutory agencies such as guidelines to industries, policies related to specific industry, export-import policies, etc. which are relevant for business and industry. Reserve Bank of India's Department of Statistics also publishes valuable occasional papers related to different of Statistics also publishes valuable occasional papers related to different aspects of the economy and industry.

   (d) References such as *India—a reference annual* published by the Ministry of Information contains comprehensive information on the geographic and demographic features of India, its political and social institutions economy and culture, plan, programmes, etc.

2. *Institutional publications*

   (a) Bombay Stock Exchange Directory valuable and timely statistical and financial data related to public limited companies, besides latest information on statutory and other regulations.

   (b) The Centre for Monitoring Indian Economy (CMIE), which is a private institution, provides publications which contain comprehensive, and timely information on economic indices.

(c) Kothari's Industrial Directory of India published by Kothari Enterprises, Madras contains analysis of several industries and companies, besides general information on the economy and industry.

(d) Publications of market research agencies such as the Operations Research Group (ORG), which provide extensive contemporary data on the demographic profile of customers that can be used for strategic and marketing planning. The National Council for Applied Economic Research (NCAER) a statutory agency, also provides similar publications.

(e) Publications of trade and industry federations such as FICCI, ASSOCHAM, and industry associations like ATMA.

(f) Annual company reports, which contain data related to the balance sheet and profit and loss account apart from information of plans and programmes, are an important source for studies of industry and and for competitor analysis.

3. Periodical and newspaper

Magazines (*Business India, Business World, Technocrat, Update, etc.*); and newspapers (The Economic Times, Financial Express, Business Standard etc.) are the most timely source of information related to a wide variety of issues. There are also private agencies which provide information services based on classified magazine and paper cuttings.

4. Industrial espionage agencies

Private agencies provide information and reports on competitor plans and activities which are essential for strategic planning.

Exhibit 6.4 Sources of information for environmental scanning

6.5.4 Methods and Techniques Used for Environmental Scanning

The range of methods and techniques available for environmental scanning is wide. There are *formal and systematic techniques* as well as intuitive methods available. Strategists may choose from among these methods and techniques those which suit their needs in terms of the quantity, quality, availability, timeliness, relevance and cost of environmental information.

Various authors have mentioned the methods and techniques used for environmental scanning. LeBell and Krasner outline nine groups of techniques: *single-variable extrapolation, theoretical limit envelopes, dynamic modes, mapping, multivariable interaction analysis unstructured expert opinion, structured expert opinion, structured inexpert opinion* and *unstructured inexpert speculation.* Fahey, King and Narayanan have included ten techniques in their survey of enviromental scanning and forecasting in strategic planning. These are: *scenario-writing, simulation, morphological analysis, PPBS, game theory, cross impact analysis, field anomaly-relation, multiechelon coordination* and *other forecasting techniques.* While many of these techniques are based on statistical methods used for forecasting some of them, like scenario-writing, may not use statistical information but employ informed judgement and intuition to predict what the future is most likely to be, expressed in the form of a descriptive statement or report.

As an illustration of how environmental scanning can be done by strategists, we explain briefly a technique called *QUEST (Quick environmental scanning technique),* proposed by B. Nanus. QUEST is four-step process which uses scenario-writing for scanning the environment and identifying strategic options. The four steps involved in applying the technique are :

1. Strategists make observations about the major events and trends in their industry.
2. Then, they speculate on a wide range of important issues that might affect the future of their organisations by scanning the environment broadly and comprehensively.
3. The QUEST director prepares a report summarising the major issues and their implications, and three to five scenarios incorporating the major themes of the discussion.
4. The report and scenarios are reviewed by the group of strategists who identify feasible strategic options to deal with the evolving environment. The options are ranked and teams are designated to develop strategies.

After the environmental scanning process is complete, the strategists are faced with the questions of how to structure the mass of information available to them. The problem boils down to sifting the information in such a manner that a clear picture emerges of what opportunities and threats operating in different sectors of the environment face the organisation.

6.6 ENVIRONMENT APPRAISING

In order to draw a clear picture of what opportunities and threats are faced by the organisation at a given time, it is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal, identifying the environmental factors, and structuring the results of environmental appraisal.

6.6.1 Factors Affecting Environmental Appraisal

Given the same environmental conditions, no two strategists or two organisations would appraise the environment in a similar fashion. This is due to the many factors that affect the process of environmental appraisal. We could identify these factors by classifying them into three categories : the strategist-related, organisation-related and environment-related factors.

1. *Strategist-related factors :-*There are many factors related to the strategist, which affect the process of environmental appraisal. Since strategists play a central role in the formulation of strategies, their characteristics such as age, education, experience, motivation level, cognitive styles, ability to withstand the time pressures and strain, etc. have an impact on the extent to which they are able to appraise their organisation's environment and how well they are able to do it. Apart from these factors, related to strategists as individuals, group characteristics too have an impact on how well environmental appraisal is done. Such group characteristics could be the interpersonal relations between the different strategists involved in appraisal, team spirit, and the power equations operating between them.

2. *Organisation-related factors* :-Like those of strategists, many characteristics of the organisation also have an impact on the environmental appraisal process. These characteristics are the nature of business the organisation is in,. its age, size and complexity, the nature of its markets, and the product or services that it provides.

3. *Environment-related factors :*-The nature of environment facing an organisation determines how its appraisal could be done. The nature of the environment depends on its complexity, volatility or turbulence, hostility, and diversity.

In sum, how well environmental appraisal is done depends on the strategists, their organisations, and the environment in which their organisations exist.

Before strategists can structure the environmental appraisal, it is necessary to identify the environmental factors.

6.6.2 Identifying the Environmental Factors

Environmental scanning results in a mass of information related to different sectors of the environment. Without a technique to deal with this information,. a strategist would be at a loss to comprehend and analyses the environmental factors. These factors are the events, trends, issues and expectations of different interested groups as described in the previous section. A feasible approach in identifying the important environmental factors is to test each factor with regard to its impact on the business of the organisation, and the probability of such an impact. Exhibit 6.5 provides a matrix which can help a strategist identify the high priority environmental factors (termed as *issues* by Boulton).

Probability of Impact	Impact on business: High	Medium	Low
High	Critical	High priority	Low priority
Med.	High priority	High priority	Low priority
Low	To be watched	Low priority	Low priority

Source : Adapted from William R. Boulton: *Business Policy : The Art of Strategic Management* (New York : Macmillan Publishing Co, 1984) p. 120

Exhibit 6.5 Identifying high priority environmental issues

Environmental scanning leads to the identification of many issues that affect the organisation. These issues could be judged on the basis of the intensity of their impact on the business of the organisation and the relative probability of such an impact. In such a manner, environmental issues (and all the factors) could be distributed among the nine cells of the matrix. The issues which are most likely to have a high level of impact on the organisation are the critical issues and need immediate attention of the strategists. High priority issues are those which have a medium to high probability of impact while those currently having a high level of impact but a low probability of occurrence need to be watched. All other issues could be considered as being of low priority but still requiring continuous monitoring as conditions may change later. In this way, strategists could narrow the range of environmental issues they have to focus their attention upon. These issues, when divided into opportunities and threats and allocated to different sectors of the environment, help in structuring of the environmental appraisal.

6.6.3 Structuring Environmental Appraisal

The identification of environmental issues is helpful in structuring environmental appraisal so that the strategists have a good idea of where the environmental oppurtunities and threats lie. Structuring the environmental appraisal is a difficult process as environmental issues do not lend themselves to a straightforward classification into near categories. An issue may arise simultaneously from more than one sector of the environment. Strategists have to use their experience and judgement to place the different environmental issues to where they mainly belong so that a picture of the different opportunities and threats facing an organisation clearly emerges. There are many techniques available to structure the environmental appraisal. One such technique, suggested by Glueck, is that of preparing an *environmental threat and opportunity profile (ETOP)* for an organisation.

The preparation of ETOP involves dividing the environment into different sectors and then analysing the impact of each sector on the organisation. A comprehensive ETOP requires subdividing each environmental sector into subfactors and then the impact of each subfactor on the organisation is described in the form of a statement. A summary ETOP may only show the major factors for the sake of simplicity. Exhibit 6.6 provides an example of an ETOP prepared for an established company which is in the bicycle industry. The main business of the company is in sports cycle manufacturing for the domestic and exports markets. This example relates to a hypothetical company but the illustration is realistic based on the current Indian business environment.

Environmental Sectors		Impact of each sector.
Social	↑	Customer preference for sports cycles which are fashionable, easy to ride and durable.
Political	→	No significant factor.
Economic	↑	Growing affluence among urban consumers; exports potential high.
Regulatory	↑	Bicycle industry a thrust area for exports.
Market	↑	Industry growth rate is 7 to 8 per cent per year; for sports cycles growth rate is 30 per cent; largely unsaturated demand.
Supplies	↑	Mostly ancillaries and associated companies supply parts and components; REP licencses for imported raw materials available.
Technological	↑	Technological upgradation of industry in progress : import of machinery under OGL list possible.

Exhibit 6.6 Environmental threat and opportunity profile (ETOP) for a bicycle company

Up arrows indicate favourable impact, down arrows (if used) indicate unfavourable impact, while horizontal arrows indicate a neutral impact.

As observed from Exhibit 6.6, sports cycle manufacturing is an attractive proposition due to the many opportunities operating in the environment. The company can capitalise on the burgeoning demand by taking advantage of the various government policies and concessions. It can also take advantages of the high exports potential that already exists. Since the company is an established manufacturer of bicycles, it has a favourable supplier as well as technological environment. But contrast the implications of this ETOP for a new manufacturer who is planning to enter this industry. Though the market environment would still be favourable, much would depend on the extent to which the company is able to ensure the supply of raw materials and components, and have access to the latest technology and have the facilities to use it.

The preparation of an ETOP provides a clear picture to the strategists of which sectors, and the different factors in each sector, have a favourable impact on the organisation. By means of an ETOP, the organisation knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organisation in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment,

Before the formulation of strategies can be undertaken strategists have to assess whether the organisation has the required strengths or whether it has weaknesses which can affect its capability of taking advantage of he opportunities. This assessment is done through an analysis of the strengths and weaknesses of the organisation and forms a part of the SWOT analysis.

6.7 SUMMARY

Environment can be divided into external and internal parts. While the internal environment has been left for discussion in the next chapter, this chapter has dealt with different aspects of the external environment. The subject matter of the chapter is environmental appraisal, which is the process of identifying opportunities and threats facing an organisation for the purpose of strategy formulation.

In the first section of this chapter, we have attempted to clarify the concept of environment. The environment is complex, dynamic, multi-faceted and has a far-reaching impact on an organisation. It can be divided into external and internal parts. SWOT analysis is a systematic approach to find the strengths, weaknesses, opportunities, and threats pertaining to an organisation and its environment. Organisations are concerned about their external environment in general but more attention is paid to the relevant environment which has an immediate and a direct impact on their activities.

The relevant environment can be classified into different sectors or components. We have divided the relevant environment into seven components. The second section of this chapter deals with these seven environmental components. The components are *social, political, economic, regulatory, market, supplier* and *technological environments*. For each component, we have explained, through appropriate illustrations, the type of factors and influences which operate in that part of the environment, the significance of these factors for the strategic management of an organisation, in general, and strategy formulation in particular.

The different components of the environment have to be continuously monitored by strategists for factors that may create opportunities or threats. Such a monitoring is done through the process of environmental scanning which is the subject matter of the third section in this chapter. We have described the factors that have to be considered, the approaches to be adopted, the sources of information to be used, and the methods and techniques to be applied for environmental scanning.

The last section is devoted to a discussion of the process of environmental appraisal. Having discussed first the factors which affect environmental appraisal, we have described how environmental factors could be identified and the results of environmental appraisal structured.

6.8 GLOSSARY :-

- Environmental Analysis: A process to identify all the external & internal elements that effect organisation performance.

- Environmental Scanning : The process by which organisations monitor their relevant environment to identify opportunities and threats that affect their business.

6.9 SELF ASSESSMENT QUESTIONS

Q. 1 Mention some of the important characteristics of environment.

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Q. 2 How is SWOT analysis done? Choose any industry and outline the factors that could either create opportunities or threats for companies within that industry in the near future.

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____

Q. 3 What different types of factors effect the process of environmental appraisal ?

____

____

Q. 4 Differentiate clearly between the external and internal components of environment.

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____

Q. 5 How does the systematic approach to environmental scanning differ from the processed form approach ?

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6.10 LESSON END EXERCISES

Q1. Select a firm and describe its external environment.

Q2. Many firms neglect industry analysis. When does this hurt them? When does it not?

Q3. Give the SWOT analysis of any top 5 Indian companies.

6.11 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**
- **Strategic Business by VSP Rao**

ORGANISATIONAL APPRAISAL

UNIT II

LESSON - 7

STRUCTURE

7.1 INTRODUCTION

This lesson deals with the internal environment of an organisation. We build the foundation for understanding the internal environment through the explanation of its dynamics. The resources, behaviour, strengths and weaknesses, synergy, and distinctive competencies constitute the internal environment and we deal briefly with each of these aspects initially. All these together determine the organisational capability.

Organisational capability could be understood in terms of the strengths and weaknesses existing in the different functional areas of an organisation. We consider five such areas viz. finance, marketing, operations, personnel, and general management. For each of these, we mention the important factors influencing them and through illustrations, clarify the nature of the various functional capability factors.

The various considerations involved in organisational appraisal are discussed next. We deal with the factors that affect appraisal, the approaches adopted for appraisal, and the sources of information used to perform organisational appraisal.

With regard to the methods and techniques used for organisational appraisal, we explain the methods of financial analysis and key factor rating. The application of these methods results in highlighting the strengths and weaknesses existing in different functional areas.

The results of organisational appraisal are structured through the preparation of an *organisational capability profile* and a *strategic advantage profile.*

7.2 OBJECTIVES

After reading this chapter, one is able to assess :

i) the different organisational capability factors

ii) make an assessment to different Approaches to organisational appraisal.

iii) discuss the different methods and techniques used for organisational appraisal.

7.3 DYNAMICS OF INTERNAL ENVIRONMENT

The dynamics of the internal environment of an organisation can be understood in terms of the organisational resources and behaviour, strengths and weaknesses, synergistic effects and the distinctive competencies.

An organisation uses different types of resources and exhibits a certain type of behaviour. The combination of these different resources along with the prevalent behaviour produces synergy or dysergy within an organisation, which leads to the development of strengths or weaknesses over a period of time. Some of these strengths make an organisation specially competent in a particular area of its activity causing it to develop a distinctive competence. Organisational capability rests on an organisation's capacity and ability to use its distinctive competencies to excel in a particular field.

The resources, behaviour, synergy, strengths and weaknesses, and distinctive competence of an organisation determine the nature of its internal environment. It is expected that readers of this book are aware of these terms in general. However, we briefly explain each of these terms to place them in the specific context of business policy.

7.3.1 Organisational Resources

Organisation resources are the physical and human resources used as inputs by an organisation to create outputs in the form of products and services through a transformation process. All organisations use resources of different types. Some of the important types of resources are people, money, materials, facilities, systems, and knowledge. Very few organisations, like individuals, are born with a silver spoon in the mouth; most organisations have to acquire resources the hard way. The cost and availability of resources are the most important factors on which the success of an organisation depends. If an organisation is favourably placed with respect to the cost and availability of a particular type of resource, it possesses an enduring strength which may be used as a strategic weapon by it against its competitors. Conversely the high cost and scarce availability of a resource are a handicap which cause a persistent strategic weakness in an organisation.

7.3.2 Organisational Behaviour

Organisational behaviour is the manifestation of the various forces and influences operating in the internal environment of an organisation that create the ability of, or place constraints in, the usage of resources. Organisational behaviour is unique in the sense that it leads to the development of special identity and character of an organisation. Some of the important forces and influences that affect organisational behaviour are : the quality of leadership, management philosophy, shared values and culture, quality of work environment and organisational climate, organisational politics, use of power, etc.

7.3.3 Strengths and Weaknesses

Organisational resources and behaviour do not exist in isolation. They combine in a complex fashion to create strengths and weaknesses within the internal environment of an organisation. A strength is an inherent capability which an organisation can use to gain strategic advantage. A weakness, on the other hand, is an inherent limitation or constraint which creates a strategic disadvantage for an organisation. Financial strength, for example, is a result of the availability of sources of finances, low cost of capital, efficient use of funds, etc. A weakness in the operation area result due to inappropriate plant location and layout, obsolete plant and machinery, uneconomical operations, etc. In the following section, we will take up a detailed discussion of strengths and weaknesses in different functional areas within an organisation.

Strengths and weaknesses do not exist in isolation but combine within a functional area, and also different functional areas, to create synergistic effects.

7.3.4 Synergistic Effects

It is the inherent nature of organisations that strengths and weaknesses, like resources and behaviour, do not exist individually but combine in a variety of ways. For instance, two strong points in a particular functional area add up to something more than double the strength. Likewise, two weaknesses acting in tandem result in more than double the damage. In effect, what we have is a situation where *attributes do not add up mathematically* but combine to produce an *enhanced* or a *reduced* impact. Such a phenomenon is known as *the synergistic effect.* Synergy is an idea that *the whole is greater or lesser than the sum of its parts.* It is also expressed as the *two plus two is equal to five* or three effect. Within an organisation, synergistic effects occur in a number of ways. For example, within a functional area, say of marketing, the synergistic effect may occur when the product, pricing, distribution and promotion aspects support each other, resulting in a high level of marketing synergy. At a higher level, the marketing and production areas may support each other, leading to operating synergy. On the other hand, the marketing inefficiency reduces the production efficiency, the overall impact being negative, in which *case dysergy* (or negative synergy) occurs. In this manner, synergistic effects are an important determinant of the quality and type of the internal environment existing within an organisation and may lead to the development of distinctive competencies.

7.3.5 Distinctive Competence

On the basis of its resources and behaviour, an organisation develops certain strengths and weaknesses which when combined lead to synergistic effects. Such effects manifest themselves in terms of organisational competencies. In other words, the net result of the strategic advantages and disadvantages that exists for an organisation determines its ability to compete with its competitors. When a specific ability is possessed by a particular organisation exclusively or in relatively large measure, it is called a *distinctive competence.*

A distinctive competence is "any advantage a company has over its competitors because it can do something which they cannot or it can do something better than they can". It is not necessary, of course, for all organisations to possess a distinctive competence. Neither do all organisations, which possess certain distinctive competencies, use them for strategic purposes. Nevertheless, the concept of distinctive competence is useful for the purpose of strategy formulation. The importance of distinctive competence to strategy formulation rests with "the unique capability it gives an organisation in capitalising upon a particular opportunity. The competitive edge it may give a firm in the market place; and the potential for building a distinctive competence and making it the cornerstone of strategy".

Many organisations achieve strategic success by building distinctive competencies around the critical success factors. Recall that critical success factors are those which are crucial for organisational success. A few examples of distinctive competencies are given below :—

- Superior product quality on a particular attribute, say a two-wheelers which is more fuel efficient than its competitor products.
- Creation of a marketing niche by supplying highly specialised products to a particular market segment.
- Differential advantage, based on superior research and development skills, of an organisation not possessed by its competitors.
- Access to a low-cost financial source like equity shareholders by an organisation not available to its competitors.

Organisations build up distinctive competencies and use them for strategy formulation in many ways. We will refer to distinctive competencies and their role in strategy formulation in detail in the next chapter, where we discuss strategic alternatives. For the present we move ahead to an explanation of the term 'organisational capability'.

7.3.6 Organisational Capability

Organisational capability is the inherent capacity or potential of an organisation to use its strengths and overcome is weaknesses in order to exploit opportunities and face threats in its external environment. Since organisational capability is the capacity or potential of an organisation, it means that it is a *measurable* attribute. And since it can be measured, it follows that organisational capability can be *compared.* But such a statement is obviously oversimplified. Organisational capability is a highly *subjective* attribute and is very difficult, if not impossible, to measure. As an attribute, it is the sum total of resources and behaviour, strengths and weaknesses synergistic effects occurring in, and the distinctive competence of, any organisation.

Strategists are primarily interested in organisational capability because of two reasons. First, they wish to know what capacity exists within the organisation to exploit opportunities or face threats in its environment. Secondly, they are interested in knowing what potential should be developed within the organisation so that opportunities could be exploited and threats could be faced in future. Organisational capability is measured and compared through the process of *organisational appraisal.* A feasible approach to appraising the organisation is to start with the factors and influences operating within the organisation. These could be *organisational capability factors.*

7.4 ORGANISATIONAL CAPABILITY FACTORS

Organisational capability factors (or, simply *capability factors*) are the strategic strengths and weaknesses existing in different functional areas within an organisation which are of crucial importance to strategy formulation. Other terms synonymous to organisational capability factors are: *strategic factors, strategic advantage factors, strategic advantages, corporate competence factors,* etc.

Different types of capability factors exist within the internal environment of a organisation. For the purpose of explanation, authors divide them into different functional areas. In this, we follow an approach of dividing the organisation into five largely accepted and commonly and *general management areas.* It should be remembered, however, that such a division is arbitrary and organisations need to choose a basis for classification that would be the most relevant to their structure, functions and activities. For instance, a service organisation like a corporate hospital may have, besides different specialities, functions such as a laboratory, radiology unit, therapy purchase and stores, personnel housekeeping and accounting. The organisation of such a type would have functional areas based on its typical activities.

We now describe capability factors in the five functional areas of *finance, marketing, operations, personnel, and general management.* For each capability factor, we first define that factor point out some of the important factors that support capability in an area, give a few illustrations of typical strengths and lastly, provide a few examples from real-life business situations enhance your understanding.

7.4.1 Financial Capability

Financial capability factors relate to the availability, usage, and management of funds and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the financial capability of any organisation are as follows :

1. *Factors related to sources of funds :—* Capital structure, procurement of capital, controllership, financing pattern, working capital availability, borrowings, capital and credit availability, reserves and surplus, and relationship with lenders, banks and financial institutions.

2. *Factors related to usage of funds :—* Capital investment, fixed asset acquisition, current assets, loans and advances, dividend distribution, and relationship with shareholders.

3. *Factors related to management of funds :—* Financial, accounting and budgeting, systems; management control system, state of financial health, cash, inflation, credit, return and risk management; cost reduction and control; and tax planning and advantages.

Based on the above factors, a number of strengths and weaknesses can be found that affect the financial capability of an organisation. Exhibit 7.1 provides a few illustrations of strengths that support financial capability. The absence or unavailability of these factors leads to the occurrence of weaknesses. For instance, access to financial resources is a strength while inaccessibility to them is a weakness.

The exhibit given below show how strengths and weaknesses affect the financial capability of organisations.

- Access to financial resources
- Amicable relationship with financial institutions
- High level of credit worthiness
- Efficient capital budgeting system
- Low cost of capital as compared to competitors
- High level of shareholder's confidence
- Effective management control system
- Tax benefits due to various government policies.

Exhibit 7.1 Typical strengths that support financial capability

- LML Limited (formerly, Lohia Machines) had collected nearly Rs. 126 crore as advance for booking of scooters but within five years, its cash position deteriorated owing to a sudden and unforeseen cancellation of bookings and withdrawal of deposits, resulting in a huge interest burden. The weakness has continually affected its profitability and is likely to cause difficulties in the near future. On the contrary, another new entrant in the highly competitive scooter market is Gujarat Narmada Auto Limited (GNAL) which has entered the industry on the strength of financial backing available from its highly profitable parent company, Gujarat Narmada Valley Fertiliser Company (GNFC). GNAL had borrowed nearly Rs. 27 crore as interest-free loan from GNFC and the government of Gujarat to support itself during the initial difficult years.

- Most companies have to keep their fixed deposit schemes open for months to collect the requisite amount from the general public. But Hindustan Cocoa Products, the manufacturer of Cadbury's brand of chocolates, collected the permissible amount of fixed deposit in less than a week when it opened its collection scheme in late 1987. Such a high level of investor confidence is a great strength and helps to build financial capability. Another example of a company which enjoys a high level of investor confidence is Reliance Textiles Ltd. Its subsidiary, Reliance Petrochemicals Ltd, made the largest ever public issue by any private sector company in India in August 1988 and in the process created several records. Access to public money is an advantage since it is the cheapest form of financing available.

7.4.2 Marketing Capability

Marketing capability factors relate to the pricing, promotion, and distribution of products or services, and all the allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies. Some of the important factors which influence the marketing capability of an organisation are as follows :

1. *Product-related factors :*— Variety, differentiation, mix, quality, positioning, packaging, etc.
2. *Price-related factors :*— Pricing objectives policies changes, protection.
3. *Promotion-related factors :*— Promotional tools, sales promotion, advertising public relations, etc.
4. *Integrative and systemic factors :*— Marketing mix, distribution system, market standing, company image, marketing organisation, marketing system. Marketing management information system, etc. Some of the typical strengths leading to marketing capability are given in the below Exhibit 7.2.

- Wide variety of products
- Better quality of products
- Low prices as compared to those of similar products in the market
- Price protection due to government policy
- Effective sales promotion
- High-profile advertising
- High quality customer service
- Effective distribution systems
- Favourable company and product image
- Effective marketing management information system

Exhibit 7.2 Typical strengths that support marketing capability

Here are a few real-life illustrations of originations that possess either strengths or weaknesses which determine their marketing capability.

- To expect public sector banks to adopt a marketing-based approach with regard to their services is unthinkable. But Bank of India offers an example where marketing capability is consciously being built. Under the leadership of its Chairman, R. Srinivasan, Bank of India plans to adopt a proactive stance and start a door-to-door campaign to promote its various deposit schemes. For this, young bank officers have been trained in developing marketing skills and asked to work on a deposit mobilisation campaign. These various steps have resulted in a strong marketing cadre within the bank.

- For twenty years—from 1962 to 1982—ACC-Babcock Ltd. (ABL), one of the two manufacturers (the other is BHEL) of power station boilers in India, had been working satisfactory. It had a sort of informal agreement with BHEL for work-sharing till 1982. As soon as the agreement broke down, troubles began for ABL. The different weaknesses of the company came to the fore. BHEL has three times as much capacity as that of ABL; it could lower its price and offset this by marking up the prices of its other equipment; and it has a price advantage of 15 per cent, being a public sector unit. Owing to these competitive advantages, BHEL prospered while ABL's capacity lay idle and its turnover and profits declined to such an extent that a rescue package had to be devised by IDBI to prevent the company from closing down.

- An example of how weakness could be transformed to strength is the case of the Vicks range of products made by the chemists' association which demanded higher trade margins, a step which could have resulted in loss of sales and lower profitability. The company reclassified its products as Ayurvedic since herbs and plants are used as raw materials. Several advantages accrued from this, one being that the products could be sold by non-chemists also.

- A company which has tried to by build up its marketing capability is SIP Resins Ltd, which is competing with multinationals like Hindustan Ciba Geigy and Dr. Becks that dominate the epoxy resins market in India. The company realised early that its marketing set-up needed strengthening if it had to compete. Several steps were taken by the company. Sound marketing strategies were formulated to deal with competition. A marketing organisation, consisting of our regional offices in metropolitan centres, was set up and resident representatives appointed at major towns. A cell was established to specifically deal with customer complaints and technically qualified sales representatives were appointed. Special emphasis was laid in product quality. The initial pricing policy followed was of skimming through selling products at prices 3 to 5 per cent less then the market rate, albeit supported by higher profit margins. Personalised selling was done with the top management actively associated in marketing efforts. By 1987, the company had a turnover of Rs 6 crore and a 25 per cent market share. SIP Resins, therefore, offers an example where marketing capability was sought to be built up systematically and comprehensively.

7.4.3 Operations Capability

Operations capability factors relate to the production of products or services, use of material resources, and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence operations capability of an organisation are as follows :

1. *Factors related to the production system* Capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, etc.
2. *Factors related to the operations and control system* Aggregate production planning, materials supply; inventory, cost and quality control; maintenance systems and procedures, etc.
3. *Factors related to the R & D system* Personnel, facilities, product development, patent rights, level of technology used, technical collaboration and support, etc.

Some typical strengths supporting the development of operations capability are given in Exhibit 7.3.

- High level of capacity utilisation
- Favourable plant location
- High degree of vertical integration
- Reliable sources of supply
- Effective control of operational costs
- Existence of good inventory control system
- Availability of high calibre R&D personnel
- Technical collaboration with reputed firms abroad manufactures drug machinery.

Exhibit 7.3 Typical strengths that support operations capability

Given below are a few illustration of how the existence of strengths or weaknesses can affect the operations capability of an organisation.

• Cadila Laboratories, part of the Cadila group of companies, is the third largest manufacturer of drugs in India (Glaxo and Sarabhai Chemicals are the first two). It has been very successful in the drugs industry. Beginning with formulations, it integrated backwards into basic drugs and also manufacturing drug machinery.

One of its strengths lies in its R&D capability. It claims to have developed the know-how for 15 drugs and has recently signed a protocol with the Soviet Institute of Immunology for a joint scientific research programme. The company also plans to set up a full-fledged biotech laboratory.

• Bombay Dyeing, a manufacturer of DMT (used in the production of polyester filament yarn), uses paraxylene as its basic raw material. Due to unfavourable government policy, it was not allowed to set up a paraxylene plant, as a result of which it has to depend on costly imports. Competition like IPCL and Bongaigaon Refineries have access to captive paraxylene units creating a strategic disadvantage for Bombay Dyeing and making it a high cost producer of DMT.

• The capability to absorb imported technology is a great strength, as is evident in the case of Lakshmi Machine Works. It is one of the five companies in the world to make the entire range of textile spinning machinery and the largest such company in India. It has a collaboration with the Rieter Machine Works of Switzerland from which it has got the latest technology. The technology absorption capacity has played an important role in the company's success as compared to its other competitors like Mafatlal Engineering Company and Texmaco.

7.4.4 Personnel Capability

Personnel capability factors relate to the existence and use of human resources and skills, and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the personnel capability of an organisation are as follows :

1. *Factors related to the personnel system* System for manpower planning selection, development, compensation, communication, and appraisal position of the personnel department within the organisation, procedures and standards, etc.

2. *Factors related to organisational and employees characteristics :-* Corporate image, quality of managers, staff and workers; perception about and image of the organisation as an employer, availability of developmental.

3. *Factors related to industrial relations* Union-management relationship, collective bargaining, safety, welfare and security; employee satisfaction and morale, etc. Some of the typical strengths supporting the development of personnel capability are provided in Exhibit 7.4.

- Genuine concern for human resources management and development
- Efficient and effective personnel systems
- The organisation perceived as a fair and model employer
- Excellent training opportunities and facilities
- Congenial working environment
- Highly satisfied and motivated workforce
- High level of organisational loyalty
- Low level of absenteeism
- Safe and salutary working conditions

Exhibit 7.4 Typical strengths that support personnel capability

Here are a few illustrations of how strengths and weaknesses affect the personnel capability of organisations.

- In the advertising business, personnel talent enjoys a high priority and status. Besides, being a competitive industry, personnel turnover is a problem which affects the efficiency of an advertising agency. Lintas India Ltd, which is considered a leading advertising agency, lays great emphasis on building up personnel capability by believing in the philosophy of offering a career, not just a job and making large investments in training and development. The result is high productivity per employee and low overhead costs, creating a strategic advantage for the company.

- Metal Box India Ltd was a highly profitable company but owing to various problems it had to shut down five out of its nine plants across the country. The root cause of the problem was the severe cash crunch which was largely the result of the high-cost structure owing to wage bills. The wages paid to workers amounted to 25 per cent of the turnover, that is, nearly double the industry's average. This resulted in a serious dent in the personnel capability of the company. Besides, a large and militant work force was a weakness which the company had to overcome if it had to survive.

- Apollo Tyres has been adversely affected in the past due to the industrial relations problem. Its plant is situated in Kerala which has a highly literate, militant and unionised workforce. Due to this, the company has been plagued with a number of problems, including that of low productivity of workers. In order to overcome these weaknesses, which have affected its personnel capability, Apollo tyres has formulated a personnel selection policy under which it has decided to hire plant workers who are above 28 years of age, are financially needy, married and settled. This is being done on the reasonable assumption that older and settled workers would be less militant and would be keen to hold on to their jobs. Besides this selection policy, purview of collective bargaining. All these steps have led to a situation where the company has been largely successful in overcoming its weaknesses in the personnel area.

7.4.5 General Management Capability

General management capability relates to the integration, coordination, and direction of the functional capabilities towards common goals and all allied aspects that have a bearing on an organisation's capacity and ability to implement its strategies.

Some of the important factors which influence the general management capability of an organisation are as follows :

1. *Factors related to the general management system* :-Strategic management system, processes related to mission-purpose and objective-setting, strategy system, processes related to mission-purpose and objective-setting, strategy formulation and implementation machinery, strategy evaluation system, management information system, corporate planning system, rewards and incentives system for top managers, etc.

2. *Factors related to general managers* Orientation, risk-propensity, values, norms, personal goals, competence, capacity for work, track record, balance of functional experience, etc.

3. *Factors related to external relationships* Influence on and rapport with the government, regulatory agencies and financial institutions; public relations; sense of social responsibility, philanthropy, public image as corporate citizen, etc.

4. *Factors related to organisational climate* Organisational culture, use of power, political processes, balance of vested interest; introduction, acceptance and management of change; nature of organisational structure and controls, etc.

A few typical strengths which influence the general management capability of an organisation are given in Exhibit 7.5

- Effective system for corporate planning
- Control, reward and incentive system of top managers geared to the achievement of objectives.
- Entrepreneurial orientation and high propensity for risk-taking
- Good rapport with the government and bureaucracy
- Favourable corporate image
- Commonly being perceived as a good organisation to work for
- Development-oriented organisational culture
- Political processes used for consensus-building in organisational interest
- Effective management of organisationalc change.

Exhibit 7.5 Typical strengths that support general management capability

We provide here a few illustrations of organistions which posses either strengths or weaknesses which affect their management capability.

- SLM Maneklal Industries Ltd, an ailing company, was taken over by the Munshaw group in 1986. The new management team has been able to consolidate the company's strengths and put it back on the path to profitability. The general management capability is reflected in the various steps taken by the top management. First, the cash flow situation was eased by convincing the financial institutions to reschedule the outstanding term loans and asking the bank to lend additional working capital. Next, modernisation of existing facilities and capacity expansion was done through a rehabilitation package from ICICI and IRCI, enabling the company to honour its order commitments for textile machinery. A new board was appointed comprising experienced professionals and autonomy was provided to the top managers. Apart from these steps, other actions were also taken by the top management to strengthen the company and make its manufacturing base diversified. The result of all this has been a renewed confidence in the company and the market price of it share has gone up considerably.

- The Nagarjuna group of companies have come to signify the coming of the first generation technocrat-entrepreneurs. Led by K.V.K. Raju, the group has made rapid strides during the last decade. Though it is true that not all companies in the group are doing well, the group is known for attracting and retaining good top-level managers. For instance, Nagarjuna Finance is reputed to have some of the best leasing specialists, which is a great strength in a highly competitive industry such as leasing.

- The *Malayalam Manorama* is India's largest selling newspaper. Its roots go back to over a century to K.V. Mappilai who founded the company in 1888. Behind the success of the company is the unified, decisive, and unchallenged leadership of one family whose members have had a significant influence on the political and social life in Kerala. The stability provided by the family members and the favourable public image are great strengths for the enterprise. Today, the newspaper is considered to be the best edited and the most professionally produced newspaper in Malayalam.

Uptil here, in this section, we have observed the manner in which the strengths and weaknesses in different functional areas have an impact on the capability of an organisation. It should be remembered, however, that dividing the organisation into different functional areas is done only for ease of understanding and analysis. In reality, capability factors in functional areas do not exist in isolation. Individual capability factors within a functional area and across different areas collide and combine in the internal environment in complex ways generating the overall organisational capability. Considering an example of intra-functional area interaction the distribution capability of an organisation can only be utilised effectively if other marketing capability factors such as product, pricing, and promotion support its usage. Across different functional areas, if an organisation possesses a high level of operations capability, it can be used effectively only if other areas, such as marketing support its usage.

At any given time, the internal environment of an organisation is virtually a melting pot of forces and influences. Strategists need to adopt some approach to deal with the complexity, and to comprehend, segregate analyse and synthesise the various factors to determine the organisational capability. All this can be done through the process of organisational appraisal.

7.5 TECHNIQUES USED FOR ORGANISATION APPRAISAL

Techniques used for organisational appraisal can be identical to those used for the performance evaluation of an organisation. But, there is an important difference between performance evaluation and organisational appraisal. On the other hand, organisational appraisal is of a comprehensive and long term nature and the emphasis is not only on current behaviour but also on what the organisation needs to do in order to gain the capability to compete in the market, take advantage of the available opportunities, and overcome the threats operating in its relevant environment. Keeping in view the difference between performance evaluation and organisational appraisal, techniques used could be *financial analysis and key factor rating.*

7.5.1 Financial Analysis

The traditional methods used for evaluating financial performance cover various types of activities in different functional areas within an organisation. A technique such as financial ratio analysis assesses the liquidity, profitability, leverage, and activity aspects of any organisation. It can be used for analysing strengths and weaknesses and provides valuable data that can be used in organisational appraisal. It has an added advantage in that the existing accounting systems and procedures can be used for generating information for organizational appraisal. Besides, ratio analysis is used on the basis of the reasonable assumption that ratios cover nearly all the important aspects of an organization's activities and provide a selective approach to measuring effectiveness and efficiency. The details regarding the techniques of ratio analysis are covered well in books in the finance area so they will not be provided here. It should be pointed out, however, that though ratios have been in use for a long time and managers are aware of the techniques as well as its applications, its use in strategic management is limited. Only if financial ratio analysis is used with due care can it realistically serve the purpose of organisational appraisal. The precautions which need to be taken include realization of the limitations of ratio analysis, taking sufficiently long-term data to extrapolate trends, applying subjective analysis to numerical results by strategists, considering the data within an industry and across industries, and supplementing the financial analysis with appraisal on other areas such as marketing, technology, etc.

As an illustration of how financial analysis can be used for organisational appraisal, we provide in Exhibit 7.6 the composite index method for measuring productivity as proposed by Prof. S.C. Kuchhal.

As can be observed from Exhibit 7.6, the composite indices for the six private sector companies show their comparative performance on the basis of common ratios. The advantages that the composite index method offers, besides being used for organisational appraisal, is that comparisons can be made between different companies within the same industry, and also across industries over a period of time. This way, the method offers a convenient technique that can be used for an organisation and also for comparing the capability of the organisation vis-a-vis its competitors. The composite index method can serve the needs of organisational appraisal for private sector companies and those public sector companies that are run on commercial lines.

Exhibit 7.6 Composite index method for measuring performance in the words of Prof. Kuchhal, "Senior executives associated with different functional areas may find this approach helpful in identifying weak and strong areas of financial performance and for taking requisite action in their respective areas. It acts as a potent tool for corporate planning and control."

The computation of composite index consists of analysing financial figures on the basis of ratios in six performance areas. The six areas and their ratios are as follows :

1. *Liquidity* (current assets to liabilities)
2. *Operations and efficiency* (gross sales to capital employed; contribution to gross sales)

3. *Profitability of capital employed* (operating profit to capital employed; operating leverage contribution to operating profit)

4. *Profitability of capital owned* (net profit to net worth; financial leverage, i.e. earning before interest and tax to profit before tax)

5. *Management of earnings* (dividends to share capital; retained earnings to profit before tax in per cent)

6. *Market appraisal* (price to EPS ratio)

For each ratio, a weighted scale from zero to five has been devised and each weight is multiplied by two so that a maximum of 10 points can be allotted. The overall index consists of 100 points. The weighted assigned is on the basis of judgement and experience. For instance, considering different values of ratio between the operating profit to capital employed (a measure of profitability of capital employed), the weightages assigned are as follows :

Value of ratio	weight assigned
10 or less	0
10 to 15	1
15 to 20	2
20 to 25	3
25 to 30	4
30 and above	5

Similarly, weightages could be assigned to all the different values of the ten ratios included in the composite index. On the basis of computation, as indicated above, the six companies which score 70 or more points are : Hindustand Lever (80 points), Baja Auto (80), Brook Bond (78), Ceat Tyres (78), Lipton (70), and MRF (70); the analysis is based on their respective performances for the financial year 1986-87.

Source : Adapted from S.C Kuchhal: "Capital productivity: New approach to measurement" in Business India, Apr. 18-May 1, 1988, pp. 118-120.

The performance evaluation indication, given in exhibit can be used for assessing performance continuously over a period of time so that organisational appraisal can be done. Private sector companies and those public sector companies which exist in a competitive environment can rely on the usual appraisal indices but monopolies do not have any other organisation to compete with. The important question for such monopolies is not whether they have strategic strengths vis-a-vis their competitors but whether they possess adequate organisational capability to use public funds at their disposal efficiently and effectively.

In sum, financial analysis offers a convenient and reliable basis for organisation appraisal, provided it is used with appropriate modifications and with a complete understanding of the limitations of financial statements in any long-term assessment of organisational performance. A comprehensive method, which can be used in association with financial analysis, is that of key factor rating.

The Economic Advisory Council (EAC), in its report titled 'Public enterprises in India : some current issues, suggests using different parameters categorised under five headings for performance evaluation. The performance evaluation indicators included are as follows :

1. *Financial*
   (a) Gross margin to total capital employed
   (b) Total working capital employed
   (c) Total net interest payments due to working capital
   (d) Variance between the actual and the budgeted per unit cost
2. *Production*
   (a) Capital utilisation
   (b) Total value of production
   (c) Total outgo due to defaults on contractual performance obligations
3. *Investment efficiency*
   (a) Average slippage on ongoing projects

(b) Cumulative progress in the utilisation of plan funds

(c) Deviation between actual capital costs and the budgeted cost of the completed projects

4. *Productivity*

(a) Growth in total factor productivity

(b) Trends in international competitiveness

5. *Social audit*

Source : Adapted from "The strategic cutting edge" in *Business India,* Jan 11-24, 1988 pp. 77-79..

Exhibit 7.7 Performance evaluation indicators for public enterprises

7.5.2 Key Factor Rating

Essentially, these systems are based on a rating depending on a number of key factors each of which is analysed on the basis of a series of thoughtful and penetrating questions. A detailed study of the areas covered by these questions leads to a reliable appraisal of an organisation.

If we consider the different factors that have been mentioned under various headings of functional capabilities, we can suggest the following illustrative questions that can be asked with regard to the different functional areas. The sequence of questions roughly corresponds to factors included under different sub-sections dealing with functional capability.

(a) For financial capability factors :—

1. *Questions related to sources of funds :-*Is the organisation's capital structure satisfactory ? Can the organisation raise capital in the market? Where does the effective controllership rest? Is the debt-equity ratio satisfactory as compared to other competitive organisations? Does the financing pattern use the organisation to dependent on outsiders? Is the reserves and surplus position healthy? Is relationship with banks and financial institutions cordial?

2. *Questions related to usage of funds :-* Are adequate investment opportunities available? How does the organisation compare with others so far as dividend record is concerned? What type of relationship exists with shareholders?

3. *Questions related to management of funds :-*How effective and efficient are the financial, accounting and budgetary systems? Does the management control system satisfy the organisational needs? What trends do the various financial ratios indicate? Have they been satisfactory over the last few years? What strengths and weaknesses does the ratio analysis indicate? How inflation been taken into account? What is the status of the ongoing projects? Have there been time-and cost-overruns? How far have the tax advantages accrued to the organisation?

(b) For marketing capability factors :–

1. *Questions related to products or services :-*Does the organisations offer the requisite variety of products or services? What is the level of product differentiation? Does the product-mix satisfy market requirements? Are there products which do not contribute to profitability? What steps have been taken to phase out such products? How do the products compare with others in the industry in terms of quality packaging etc.?

2. *Questions related to price :-*What are the pricing objectives pursued? Are they oriented towards : profit maximization, sales revenue maximizations? Do the pricing policies conform to market requirements? Does the organisation avail of price protection and advantages available to it?

3. *Questions related to promotion :-*Does the organisation use relevant promotional tools? Are the different forms of promotion used effectively in organisation sale? Are the funds allocated to promotion used effectively?

4. *Questions related to integrative and systemic factors:-* How does the organisation compare with others of its kind in terms of market standing and image? What strengths and weaknesses are there in the marketing organisation? How effective is the marketing management information system?

(c) For operations capability factors :—

1. *Questions related to the production system :-*Does the plant location

offer any unique advantages or disadvantages? Is the layout appropriate? Is the plant capacity of the requisite level? Do work systems support efficiency and productivity? What is the extent of vertical integration? Does it offer certain unique advantages to the organisation?

2. *Questions related to operations and control :-* Is aggregate planning able to absorb short-term demand fluctuations? Is there an adequate supply of the factors of production? Does the organisation have any unique advantages with respect to its factors of production? Is the materials supply system reliable? Does the organisation have access to sources of material supply not available to its competitors? What is the efficiency and effectiveness of the inventory control system? How effective are the cost, quality and maintenance systems?

3. *Questions related to the R & D system :-* Does the organisation possess certain distinct advantages with respect of its R & D personnel, facilities and technology? Does it possess patent rights? Does it have access to the latest technology? How far do technology collaborations benefit the organisation?

(d) For personnel capability factors :—

1. *Questions related to the personnel system :-*How effective are the various personnel systems like manpower planning, selection, development, etc.? What importance does the personnel function enjoy within the organisation?

2. *Questions related to organisational and employee characteristic :-*How does the organisation compare with others of its kind in terms of corporate image? Does the organisation possess unique advantages with regard to the quality of its managers, staff, and workers? How is the organisation perceived as an employer? What special benefits does the organisation offer to its employees which others do not offer?

3. *Questions related to industrial relations :-*What is the organisation's record with regard to industrial relations? Is the union-management relationship amicable? Have the outstanding issues been resolved? How effectively does the system of collective bargaining work? Does the organisation offer safety, welfare and security measures over and above the statutory requirements? What is the general level of employee satisfaction and morale? Does it benefit the organisation in terms of competitive advantage through

increased productivity and low cost ?

(e) *For general management capability :—*

1. *Question related to general management system :-*Does the organisation use strategic management systems and what is the level of their effectiveness? Have the mission, purpose and objective been identified clearly? What is the effectiveness level of the strategy formulation, implementation and evaluation process? Is the management information system reliable? Does the organisation possess distinctive advantages with respect to its corporate planning system? Are the rewards and incentives systems for top managers consistent with the achievement of objectives?

2. *Questions related to general managers :-*Does the top management possess the required orientation to implement strategies? As compared to similar organizations, what are the qualities and capabilities of general managers ? Do these qualities and capabilities offer any unique advantages to the organisation?

3. *Questions related to external relationship :-* What is the level of influence that the organisation has on governmental regulatory institutions and financial institutions? Is the organisation able to mange its public relations well? Does the organisation discharge its social responsibilities well? How does the organisation compare with regard to its public image with respect to its competitors?

4. *Questions related to organisational climate :-* Does the organisational culture support the achievement of objectives? Is the use of power, political equations, the balance of vested interests conducive to the achievement of objectives? Do these factors offer any unique advantages? How effectively does the organisation imbibe strategic changes? How effectively does the organisation imbibe strategic changes? Is the nature of organisational structure and control consistent with strategy implementation?

Having answered the questions detailed above, the strategists are in a position to pinpoint the strategic strengths and weaknesses in each of the functional areas. Based on this, the organisational capability can be judged. A comprehensive picture of organisational capability can be prepared through structuring the process of organisational appraisal.

7.6 SUMMARY

This chapter has been devoted to an understanding of the internal environment of the organisation. We started with an explanation of the dynamics of the internal environment in terms of organisational resources, behaviour, strengths and weaknesses, synergy, and distinctive competencies. All these determine the organisational capability.

7.7 GLOSSARY

• Strategic Alternatives : These are developed to set direction in which huma and material resources of a business will be applied to achieve the designed goal.

• Marketing Capability : Marketing capability relate to pricing, promotion and distribution of products of services.

• Personnel Capability : It refers to the existence and use of human resources and skills that have bearing on organisations capacity.

7.8 SELF-ASSESSMENT QUESTIONS

Q 1. Explain the different aspects of the internal environment emphasising the nature of their impact on the capability of an organisation ?

____

____

Q 2. With the help of a few examples, illustrate how strengths or weaknesses create synergistic effects?

____

____

Q 3. What sources of information can be used for appraising an organisation ?

____

____

Q 4. How are the methods of financial analysis and key factor rating methods used for organisational appraisal ?

Q 5. Why are strategists interested in determining organisation capability ?

7.9 LESSON END EXERCISE

Q1. "Assessment of the internal capabilities of the firm centres on the appraisal of performance in different functional areas". Critically examine the statement.

Q2. Why is it so 'important to assess a firm's strength and weakness in relative terms?

Q3. Examine which organisational capability is most important for a company.

7.10. SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

STRATEGY FORMULATION

UNIT II

STRATEGIC ALTERNATIVES

LESSON - 8

STRUCTURE

8.10 Self-Assessment Questions

8.11 Lesson End Exercise

8.12 Suggested Readings

8.1 INTRODUCTION

Environment appraisal and organisational appraisal lead to the generation of strategic alternatives. These are the possible strategies that an organisation can consider for adoption. The choice of strategies is wide and much would depend on how an organisation perceives its strengths and weaknesses vis-a-vis the opportunities and threats the strategic alternatives that are present before any organisation. We first see a framework of grand strategies and then the dimensions along which these grand strategies could be defined. Further we see the major types of strategies that are usually adopted by Indian organisation. We cover modernization, diversification, integration, merger, takeover, joint venture, turnaround, divestment, liquidation, and finally the combination strategies.

8.2 OBJECTIVES

After reading this chapter, the student can assess the following objectives :

i) establish an inter-relationship between different strategic alternatives.

ii) make an assessment of diversified and integrated strategies.

8.3 MODERNIZATION STRATEGIES

In developing countries like, India, technology is often employed as a strategic and competitive tool. Modernization, which basically involves technological upgradation, is used to achieve organisational objectives such as increased production, lower costs, efficiency, productivity, etc. Here, modernization is dealt with, not in an operational manner indicating technological upgradation, but in a strategic sense. With respect to the classification of strategic alternatives (described in the previous section), modernisation could be considered as :

- Internal stability strategy if the pace of modernisation is low to moderate;
- Internal expansion strategy if the pace of modernisation is high;

- External expansion strategy if the organisation merges with or acquires another company for the purpose of modernisation;
- Internal retrenchment strategy if resources are redirected from one area to another with the aim of modernisation; and
- External retrenchment if part of the organisation is divested or liquidated with the aim of modernisation.

8.3.1 Reasons for Adopting Modernisation Strategies

Modernisation strategies are used for different reasons. As we pointed out earlier, some of these are : increasing production, lowering costs, improving efficiency and productivity, etc. Most of these objectives apparently seem to be aimed at improving the overall performance but they may also be aimed at increasing the competitive ability.

Consider these examples

- National Organic Chemicals Industries Ltd. (NOCIL), a major manufacturer of petrochemicals in the private sector, undertook a Rs. 100 crore modernisation plan in order to compete effectively.
- Modi Industries Ltd has planned to invest Rs. 30 crore for technological upgradation of its steel unit, primarily for widening its product range.
- The corporate planning team at Steel Authority of India Ltd. (SAIL) envisages a Rs. 15,000 crore capital spending programme spread over seven years to modernize its steel plants with a variety of objectives such as lower costs, energy saving, higher capacity utilisation, closing down unprofitable units, etc.

Modernisation could be used for different purposes as can be seen from the above examples. Some of these could be operational but most modernisation programmes involve a huge amount of resources and, are aimed at gaining competitive and strategic strengths. Some organisations, in fact build their strategies around technology. The next sub-section deals with such strategies.

8.3.2 Technology as a Strategic Tool

In a developing country like India, technology assumes a special role in strategic management. Organisations look to different sources : in-house research and development, indigenous technologies, and foreign collaborations for technology employed for the production of goods and services. With increasing competitiveness and stress on quality, technology is increasingly being recognised as a strategic tool. A strong Research and Development set up and trained technical personnel are viewed as corporate strengths. Lack of appreciation of the importance of technology often results in loss of competitiveness and, in extreme cases, may lead to a threat to profitable existence. Exhibit 8.1 provides two examples illustrating a successful and an unsuccessful use of technology.

Technology can play a decisive role with regard to strategic management. Thetwo contrasting examples below illustrate how a successful use of technology is crucial for organisations.

- Loyal Textiles Mills Ltd. (LTML) situated in Kovilpatti in Madurai district of Tamil Nadu has built its strategy around technology. It had consistently and systematically modernised itself all through the eighties. Being in a traditional textile industry where modernisation has taken place very slowly, LTML has consciously tried to plough back profits and invest in new processes and machinery. As a result, it is now a highly profitable company and is involved in further expansion and diversification.

- KTC Tyres, promoted jointly by Kerala Transport Company and Kerala State Industrial Development Corporation in 1982, is now a sick company. Apart from problems in marketing, the main reason for its failure has been on the technology front. It was unsuccessful in using indigenous technology for tyre production resulting in a very low capacity utilisation and bad quality products. Till October 1989, it was available for takeover but had no offers.

Source : Based on "Loyal Textile Mills Ltd. : One step ahead" in *Business India*, Dec., 29, 1988–Jan. 11, 1989 pp. 67-71 & "KTC Tyres : Looking for Succour" in *Business India,* Oct. 16–29, 1989, pp. 70-71.

Exhibit 8.1 How technology affects strategic management.

Modernisation strategies are extensively used by Indian organisations quite often for providing stability and sometimes as a prerequisite to the adoption of other strategies like expansion and diversification.

8.4 DIVERSIFICATION AND INTEGRATION STRATEGIES

Diversification is a much-used and much-talked about strategy. In reality, it is not a strategy but a set of strategies. These strategies involve all the dimensions of strategic alternatives. Diversification may involve internal or external, related or unrelated, horizontal or vertical, and active or passive dimensions—either singly or collectively.

Essentially, diversification involves a change in business definition either in terms of customer functions, customer groups, or alternative technologies.

Exhibit 8.2 Diversification matrix

	New Products	
New functions	Related technology	Unrelated technology
Firm its own customer	Vertical integration	
Same type of product	Horizontal diversification	
Similar type of product	Marketing and technology-related diversification	Marketing related concentric diversification
New type of product	Technology-related concentric diversification	Conglomerate diversification

Source : H.I. Ansoff : *Corporate Strategy* (New York : McGraw-Hill, 1965), p. 132.

Exhibit 8.2 provides a popular classification, by Ansoff, of diversification strategies.

8.4.1 Different Types of Diversification Strategies

Based on Exhibit 8.4, we could describe the different types of diversification strategies as follows :

1. **Vertical Integration :-**When an organisation starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity undertaken with the purpose of either supplying inputs (such as raw materials) or serving as a customer for outputs (such as marketing of firm's product) is vertical integration.

Vertical integration could be of two types : *backward* and *forward* integration. Backward integration means moving towards the source of raw materials while forward integration involves taking up activities that will bring the organisation nearer to the ultimate customer. Exhibit 8.3 illustrates how a company integrates vertically.

> Expansion strategies at Modern Group, consisting of five companies having a combined turnover of Rs. 115 crore in 1989, involved diversification in the form of backward and forward integration.
>
> Forward integration took place at Modern Suitings when it diversified into worsted suitings. With an investment of Rs. 7 crore, it acquired sulzer looms, sophisticated fabric processing facilities and other sophisticated equipments to manufacture a premium terrywool suiting with the brand name 'Amadeus'.
>
> Backward integration at Modern Woollens involved a collaboration with Schild of Switzerland for wool processing, combing, and woollen tops which are necessary for the production of woollen textiles. In this manner, a number of backward and forward linkages are being attempted within the Modern Group with the objective of raising the turnover to Rs. 250 crore by 1992.

Source :Based on "A Modern Thrust" in *Business World,* Aug. 2-15, 1989, p. 33.

Exhibit 8.3 Vertical integration in Modern Group

2. **Horizontal Integration** :-When an organisation takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration. When a luggage company takes over its rival

luggage company, it is horizontal integration (or merger). Horizontal integration strategy may be frequently adopted with a view to geographically expand by taking up a competitor in another area, to increase the market share, and to benefit from economies of scale. For example, Solidaire India Ltd is a prominent manufacturer of TVs and has a sizeable presence in markets in southern India. It started with the name of Hi Beam Electronics Ltd in 1974. Subsequently, this unit was merged with two other units to form a consortium called TriStar Electronics. In 1978, the brand name Solidaire was adopted. The growth strategy of the company in this manner started with horizontal integration. Another recent example of horizontal integration is the takeover of Neyveli Ceramics and Refractories Ltd. (Neycer) by Spartek Ceramics India Ltd. Both the companies are in sanitaryware and tile production. By acquiring Neycer, Spartek now becomes the largest ceramic tile manufacturer in the country.

3. Concentric Diversification :-When an organisation takes up an activity in such a manner that it is related to its existing business definition either in terms of customer groups, customers functions, or alternative technologies, it is concentric diversification. Concentric diversification may be of three types.

(a) *Marketing and technology-related concentric diversification :-*When a similar type of product (or service) is provided with the help of related technology, e.g. a raincoat manufacturer makes other rubber-based items such as waterproof shoes and rubber gloves sold through the same retail outlets.

(b) *Technology-related concentric diversification :-*When a new type of product or service is provided with the help of related technology, e.g. a leasing firm offers hire-purchase services to institutional customers and consumer financing for purchase of durables to individual customers.

(c) *Marketing-related concentric diversification :* When a similar type of products is offered with the help of unrelated technology, e.g. a company in the sewing machine business diversifies into kitchenware and household appliances, which are sold through a chain of retail stores to housewives.

4. **Conglomerate diversification** :-When an organisation adopts a strategy which requires taking up those activities which are unrelated to its existing business definition either in terms of customer groups, customer functions, or alternative technologies, it is conglomerate diversification. Frequently, such companies are referred to as *conglomerates*. There are several examples of Indian companies which have adopted a path of growth and expansion through conglomerate diversification. The classic example is of ITC, a cigarette company diversifying into the hotel industry. Some other recent examples are of the Essar Group (shipping, marine construction, oil support services, iron and steel); Shriram Fibres Ltd. (nylon industrial yarn, synthetic industrial fabrics, engineering plastics, flourocarbon refrigerant gases, ball and needle bearings, auto-electricals, hire-purchase and leasing, and financial services); the Polar group (fans, marble, and granite), and the TTK group (pressure cookers, chemicals, pharmaceuticals, hosiery, contraceptives, publishing, etc).

8.4.2 Why are Diversification Strategies Adopted?

There are many reasons why organisations adopt diversification strategies. The three basic and important reasons are :

1. Diversification strategies are adopted to minimise risk by spreading it over several businesses.
2. Diversification may be used to capitalise on organisational strength or minimise weaknesses.
3. Diversification may be the only way out if growth in existing businesses is blocked due to environmental and regulatory factors.

The different types of diversification strategies described above (vertical, horizontal, concentric and conglomerate diversification) each have their own advantages and disadvantages. Exhibit 8.4 attempts to summarise the major advantages and disadvantages of each of these diversification strategies.

Diversification strategy	Advantages	Disadvantages
1. Restrical integration	· Access to and control of supply or demand · Economising operations	· Risk of unfaneiliar bueinss · Less flexibility due to more comentment to a line of business
2. Horizontal integration	· Eliminating competitors · Access to new markets	· Increase in risk and comm-entment. · Reduction in flexibility.
3. Concentric diversification	· Attain synergy by exchange or sharing of resources and skills · Economics of scale and tax benefits	· Additional investment in markegting infrastructure or new technology. · Untried markets and tech-onologies.
4. Conglomerate diversification	· Better mangement and allocation of cash flows and obtaining high ROI · Reducing risk by spreading investment in different businesses and industries.	· Diversion of resoruces and attention to other areas leading to lack of conent-ration · Risk of managing entirely new business.

Exhibit 8.4 Diversification strategies : Major advantages and disadvantages

Pattern of Diversification

It is widely accepted that the post-1984 period has seen a gradual liberalisation of the Indian economy. The relaxation of controls has generally made a positive impact on the business policies of firms. Many companies have taken the various advantages offered by liberalisation measures and diversified into related and unrelated areas. But as Exhibit 8.5 shows, diversification is not a new phenomenon in the Indian economy.

A research study of 72 large public and private sector companies in India, which highlighted the pattern of diversification in the Indian industry during the period 1960-75, concluded that :

1. The larger enterprises in the Indian industry in both the private and public sectors are very diversified.
2. Both the private and public sector companies have diversified rapidly but in different ways. Private sector companies have typically diversified into unrelated areas while public enterprises have diversified into related ones.
3. Governmental regulation plays a greater role in diversification strategies than the interplay of market forces.
4. Private sector companies have followed diversification strategies in response to the needs of regulatory mechanisms such as industrial policy resolutions, the IDR Act, MRTP Act, FERA, etc.
5. Public enterprises have adopted diversification in response to the public policy of national self-sufficiency and import substitution.
6. Diversification strategies have important implications from the view-point of public policy and corporate management moved from traditional banking to merchant banking and mutual funds Peerless General Finance & Investment Co., the country's largest non-banking investment company with investible resources of about Rs. 800 crore, plans to move into related areas of finance, adopting a defensive diversification strategy to generate more resources to contain rising establishment costs.

Source : S. Chaudhary, K.Kumar, C.K. Prahalad and S. Vathsala : "Patterns of diversification in larger Indian enterprises" in *Vikalpa,* 7(1), January 1982.

Exhibit 8.5 Pattern of diversification in Indian companies.

Diversification strategies have been adopted by a number of business groups and individual companies both in the public and private sectors. While BHEL had undertaken the path of backward integration from the manufacture of assorted equipment such as switchgears and transformers to the full-fledged production of thermal, hydel and nuclear power generation equipment, another public sector giant, Oil India Ltd (OIL), operating in oil exploration and production, plans to diversify into related areas such as gas cracking. The reputed multinational affiliate, ITC Ltd claims to have diversified into hotels, papers; agri-business, packaging, and printing from its original cigarette business in response to national objectives and priorities. Smaller companies like Blowplast in the moulded luggage industry (now in plastic seating systems, and marketing of branded toys), Unitech in civil engineering (now in steel making, exports, consumer electronics, power transmission, and real estate) are some other examples of diversified companies. The service sector has not been left untouched by the motivation to diversify. LIC in insurance business is now also in a related area of mutual funds. Banks, like SBI and Canara Bank, too have moved from traditional banking to merchant and mutual funds Peerless General Finance & Investment Co., the country's largest non-banking investment company with investible resources of about Rs. 800 crore, plans to move into related areas of finance, adopting a defensive diversification strategy to generate more resources to contain rising establishment costs.

It is not necessary that all diversification strategies prove to be successful. In fact, both related as well as unrelated diversification which have high-risk, high-return possibilities have often proved to be disasters. For example Metal Box, the largest packaging company in India, has faced huge problems, mainly due to badly planned diversification into the manufacture of bearings. But even a high-risk unrelated diversification strategy may be adopted if it could be implemented properly. Exhibit 2.23 illustrates how a light engineering company managed its diversification into yarn manufacture.

Diversification strategies offer high rewards if steps are taken for their proper implementation. We will refer to this issue later when we deal with strategy implementation.

8.5 MERGER, TAKEOVER AND JOINT VENTURE STRATEGIES

Merger and takeover (or acquisition) strategies basically involve the external approach to expansion. Basically two, or occasionally more than two, entities are involved. There is not much difference in the three terms used for such types of strategies and they are frequently used synonymously. But a subtle distinction can be made. While mergers take place when the objectives of the buyer.

In 1978, the Munjal group of Ludhiana, Punjab—established manufacturers of Hero bicycle— planned to diversify into yarn manufacture. The reasons for diversification were :

- 95 per cent of acrylic yarn used in India comes to Ludhiana.
- A lot of cotton grows in Punjab and could be used in manufacturing yarn.
- Group Philosophy to involve itself in providing basic inputs to industry.
- In the seventies, yarn was a profitable sector.

But the company (Hero Fibres) faced many problems like a downswing in the cotton and acrylic yarn market, differing work ethos in the yarn industry as compared to that in the light engineering industry, and a high rate of turnover. The problems were resolved by adopting a plan under which the following steps were taken :

1. Close involvement of the top management and personnel from existing companies took place.
2. Avoiding employment of groups of workers to prevent formation of a coterie, orientation and training of managers and workers, and providing jobs to family members of workers to make migration of labour difficult.

This case of Hero Fibres illustrates that despite strong reasons for diversification, the actual implementation of plans is crucial to the success of diversification strategies.

Exhibit 8.6 Managing diversification at Munjal Group

Source : 'The Majestic Munjals' in *Business India*, Apr. 21-May 4, 1986, p. 53. firm and the seller firm are matched to a large extent, takeovers or acquisitions usually are based on the strong motivation of the buyer firm to acquire.

Takeover is a common way for acquisition and may be defined as "the attempt (often sprung as a surprise) of one firm to acquire ownership or control over another firm against the wishes of the latter's management (and perhaps some of its stockholders)". But this definition may not be taken very seriously as many takeovers, in practice, may not have any element of surprise, and may not necessarily be against the wishes of the acquired firm. In fact, takeovers are frequently classified as *hostile takeovers* (which are against the wishes of the acquired firm) and *friendly takeovers* (by mutual consent in which case they could also be described as a merger). Without being two fastidious, one can use these terms synonymously. (Remember Business Policy is in an evolutionary phase and such confusion in terms has often to be taken in one's stride.)

Another important point to note, before we move further, is that these strategies are very often used as a means of diversification. Recall, for instance, the example in the previous section related to horizontal integration. Spartek took over Neycer in order to integrate horizontally. Hi Beam Electronics merged with two other units to form Tristar Electronics, subsequently named as Solidaire India Ltd. Merger and takeover strategies are, therefore, also the means of achieving diversification and integration. Another means of diversification is that of joint ventures. We describe mergers, takeovers and joint venture strategies below.

8.5.1 Merger Strategies

A merger is a combination (other terms used: *amalgamation or consolidation or integration)* of two or more organisations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both the organisations are dissolved, and assets and liabilities are combined and new stock is issued. For the organisation which acquires another, it is an *acquisition.*For the organisation which is acquired, it is a merger. If both organisations dissolve their identity to create a new organisation, it is consolidation.

Types of mergers :-Mergers may be of different types. Like integration, mergers may be classified as under :

1. *Horizontal mergers* take place when there is a combination of two or more organisations in the same business, or of organisations engaged in certain aspects of the production or marketing processes. For instance a company making footwear combines with another footwear company, or a retailer of pharmaceuticals combines with another retailer in the same business.

2. *Vertical mergers* take place when there is a combination of two or more organisations, not necessarily in the same business, which create complimentarily either in terms of supply of materials (inputs) or marketing of goods and services (outputs). For instance a footwear company combines with a leather tannery or with a chain of shoe retail stores.

3. *Concentric mergers* take place when there is a combination of two or more organisations related to each other either in terms of customer functions, customer groups, or alternative technologies used. Thus, a footwear company combining with a hosiery firm making socks or another speciality footwear company, or with a leather goods company making purses, handbags, etc.

4. *Conglomerate mergers* take place when there is a combination of two or more organisations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used, *e.g.* a footwear company combining with a pharmaceutical firm.

Reasons for mergers :-For a merger to take place, two organisations have to act. One is the buyer organisation and the other is the seller. Both these types of organizations have a set of reasons on the basis of which they merge. Glueck has identified the reasons as follows :

Why the buyer wishes to merge :

1. To increase the value of the organisation's stock.
2. To increase the growth rate and make a good investment.
3. To improve stability of earnings and sales.
4. To balance, complete, or diversify product line.
5. To reduce competition.
6. To acquire a needed resource quickly.
7. To avail tax concessions and benefits.
8. To take advantages of synergy.

Why the seller wishes to merge :

1. To increase the value of the owner's stock and investment.
2. To increase the growth rate.
3. To acquire resources to stabilise operations.
4. To benefit from tax legislation.
5. To deal with top management succession problem.

Important issues in mergers :-There are many issues of importance that have to be dealt with in mergers. These are : the strategic, financial, managerial, and legal issues.

1. *Strategic issues* relate to the commonality of strategic interests between the buyer and seller firms. It is important to consider the extent to which a merger may lead to positive synergistic effects. For this, the strategic advantages and distinctive competencies of the merging firms have to be analyzed. Besides these, there has to be a match between the objectives of the firms. A merger should ideally lead to the generation of strengths that would help the post-merger organisation to achieve its objectives in a better manner.

2. *Financial issues* relate to the valuation of the seller firm and the sources of financing for mergers to take place. Valuation involves assessing the value of the seller firm. Though difficult, value may be assessed keeping in view the assets, market standing and opportunity, earnings potential, or stock value, A common procedure is to use the *discounted cash flow (DCF) method.* If liquidation of assets is involved, *the capital asset pricing method (CAPM)* may be used. The procedures of DCF, CAPM, and other methods for the valuation of firms are well-documented and available in most standard texts in the finance area. The other major financial consideration is the source of financing. Acquisition of shares through exchange of debt and equity is a method. Often used abraod to avoid cash outflow, it is difficult in India due to the provisions of capital gains taxation. Banks, stock markets, and financial institutions are also sources but are not encouraged to provide finance for mergers to take place. Only in cases where the merger is a part

of a rehabilitation plan is such financing overlooked. Non-resident Indians or resident shareholdings are also important sources. Industrialists also use previously collected funds lying idle owing to project implementation delays. Thus, the valuation of seller firms and the sources of merger financing are important financial issues in mergers.

3. *Managerial issues* in mergers relate to the problems of managing firms after the merger has taken place. It is important to note that the perception of how the management will take place after merger also matters and affects the process of the merger itself. Usually, mergers are followed by changes in staff, specially chief executives and top managers. If there is an assurance that merger will lead to a status quo, or that 'professional management' would be adopted, then the merger may take place smoothly. On the contrary, if the merger is threatening, it results in its opposition by well-entrenched groups of managers making the process of merger difficult.

Quite often, merger attempts are foiled because of the managerial issues Exhibit 8.7 draws on the ideas of an eminent management academician, author, and consultant on the managerial issues in mergers.

Mergers and takeovers invariably result in a far-reaching impact on the organisation that is taken over. Whether planned or unplanned, almost all parts of the organisation undergo a profound change as the "cultural ripple effects" of mergers and takeovers take place. These effects, according to S.K. Bhattacharya, are immediately evident in relation to "financial management, performance target setting, performance reporting marketing and industrial relations policies". These changes lead to "discomfort, tension, and dissonance in the established managerial ranks, often followed by stock acceptance and resignation." On the positive side, these effects may lead to a greater receptivity for new ideas, products, and technologies. For managing the impact of mergers and takeovers, both the parties should tread cautiously. The acquiring firm or management should realise that transitions of acquired firms from the old style to newer styles of management would take some time. Most existing managers should be provided an opportunity to assimilate rather than being forced to quit. All in all, "Mutuality of common objectives, trust and confidence— translated in the specific terms of the operations of the business— alone can provide the common meeting ground for the (post-merger and past-takeover) transformation to take roots, to be nurtured and sustained, and to be productive in future."

Source : Based on "The cultural ripple effects of takeovers and acquisitions" by S.K. Bhattacharya in Business World, Feb. 29—Mar. 13, 1988, pp. 48-49.

Exhibit 8.7 Organisational impact of mergers

4. *Legal issues* in mergers relate to the provisions made in law for the purpose of mergers. In India, the provisions relating to mergers and amalgamations, and other schemes are contained in Chapter V of the Companies Act, 1956. This chapter could be divided into three parts : Sections 390 to 394 A and 396 A, Section 395, and Section 396. Section 390 deals with the definitions of a company arrangement and unsecured creditors. Provisions of Sections 391, 392 and 394 relate to the procedure for obtaining the approval and powers of the court regarding compromise or arrangement to enforce these powers, and information as to compromises or arrangements with creditors and members. Section 394 states the provisions for facilitating reconstructions and amalgamations of companies. Section 394A empowers the central government to become a statutory party to petitions lying before High Courts. Section 395 provides for the power

and duty to acquire shares of shareholders dissenting from the scheme of amalgamation or contract approval by majority. Section 396 states the powers of the central government to provide for the amalgamation of companies in the national interest. The last section in Chapter V of the Companies Act, 1956 deals with the preservation of books and papers of the amalgamated company.

The implementation of the strategies of mergers and takeovers requires a thorough understanding of the related legal provisions. It is interesting to note that the term 'merger' is not used in the Companies Act; only the term 'amalgamation' is used in Section 394 of the Act. The only section that deals with the transfer of shares (or takeover bids) is Section 395. Apart from the Companies Act, and the MRTP Act, Section 72A(I) of the Income Tax Act is also relevant for taxation purposes of amalgamated companies and provides for carrying accumulated losses and unabsorbed depreciation of the amalgamating company.

8.5.2 Takeover Strategies

Takeover or acquisition is currently the most popular strategy being adopted by Indian companies. During the three decades after Independence, the normal route of growth was through licensing and setting up new projects. The current decade has seen an increasing use of takeover strategies (or simply takeovers) as the means of rapid growth.

The current scene. The statistics related to takeovers is both revealing and interesting. Currently, of the top hundred private sector companies, more than 40 have been involved in takeovers either as "raiders" or "targets" or "victims". Out of a total market capitalisation of Rs. 25,000 crore in India in 1986-87, around Rs. 18,000 crore (7% of the total) changed hands. For 1988, it is expected to be 10% and further increase is expected for 1989 and 1990. Almost all the top 20 business houses in the country have either taken over new companies, or handed control of their units to someone else. Major companies which have been taken over in the last few years include Shaw Wallace, Ashok Leyland, Dunlop, Harrison Malayalam, ICIM, ACC, L & T, Shalimar Paints, Scindia Steamship, and many others. The individuals involved in a majority of takeovers are non-resident Indians like Manu Chhabaria and the Hinduja brothers, local industrialists like R.P. Goenka, Dhirubhai Ambani, and Vijay Mallya. It is believed that the Chhabrias, who were virtually unknown till 1985, now have companies worth Rs. 1,500 crore and the Goenka group have gone up from Rs. 70 crore in 1979 to Rs. 1000 crore in ten years.

How takeovers take place. Certain guidelines can be proposed for takeovers to take place systematically. For instance, a six-step procedure recommended for acquisition includes the following :

1. Spell out the objective.
2. Indicate how the objective would be achieved.
3. Assess managerial quality.
4. Check the compatibility of business styles.
5. Anticipate and solve problems early.
6. Treat people with dignity and concern.

It is interesting to know how the much-talked about takeovers take place in reality. First, the motivation for takeover is defined, albeit informally. The reasons for takeover may be many: quick growth, diversification, establishing oneself as an industrialist, reducing competition, increasing the market share, or even creating goodwill (if sick units are taken over for rehabilitation). Besides these 'rational' reasons, there might be others which are purely irrational such as greed or lust for becoming rich, to accumulate wealth, to build an ''industrial empire'', to humble competitors and business opponents. The second step in a takeover is to arrange for financing. We referred to the different modes of financing of mergers earlier in this section and they are valid for financing takeovers also. (In fact, much of what we said about mergers related to the types of reasons for, and issues in, mergers is relevant to takeovers as there is not much distinction between merger and acquisition). Apart from these, there are *leveraged buyouts* (LBOs) or *bootstrap acquisitions which* involve raising funds by pledging the assets of the firm to be taken over. After finances have been arranged, a move—usually discreet— is made through a trusted intermediary, who is either an accountant, a lawyer, or a businessman. Development and merchant bankers too act as intermediaries. Negotiations are made keeping in view a number of factors like the valuation of assets, business goodwill, market opportunities, growth potential, etc. and a final arrangement made by fixing the price to be paid for shares transfer. In this manner, a friendly takeover is consummated.

Hostile takeovers (where a takeover is resisted, or is expected to be opposed, by the existing management or professionals) follow a different route. Here the shares are picked from the open markets and controlling interests obtained. With the tacit help of other majority shareholders (usually one or more of the financial institutions), a bid is made to enter the company's board and to acquire control. Resistance is offered by the existing management by refusing to register the transfer of shares, or to forestall the moves by delays through court orders and injunctions. It is believed that political support matters a lot in the measure of success achieved in a bid to takeover a firm.

Pros and cons of takeovers. Arguments for and against are often put forth related to takeovers. One school of thought believes that takeovers are necessary and desirable (at least, not bad) because they ensure management accountability, offer easy growth opportunities, create mobility of resources, avoid gestation periods and hurdles involved in new projects, offer a chance to sick units to survive, and open up alternatives for selective divestment. The opponents of takeovers argue that professionalism gets replaced by money power, that takeovers do not create any real assets for society and are detrimental to the national economy, the interest of minority shareholders is not protected, and avoidable stress and strains are created in the companies taken over or exposed to the threat of takeovers.

Emerging trends in takeovers. Despite arguments against takeovers, the phenomenon is becoming rather common and is expected to proliferate in the near future. It is also evident that the criticism of unhealthy takeovers in business and popular opinion is going to create conditions to plug the loopholes in the mandatory and legal provision and streamlines the process of takeovers. Even in the absence of such clear provisions, there are companies that have adopted a non-controversial method to take over other firms. An example of such a company is Tata Tea, which had made an open offer through the newspapers to acquire Consolidated Coffee Ltd., a company in which it already had a minority holding. Another form of takeover that may gain currency is using the concept of 'strategic alliance' in which an acquierer firm is helped to gain a foothold in the shareholding and allowed to takeover the management. The original promoters retain their share and control. This sort of alliance is believed to work to the advantage of both the parties involved. Examples of 'strategic alliances' in India are the takeovers of International Computers. India Manufacture Ltd (ICIM) and Harrisons and Malayalam Ltd, (HML) by the RPG (Goenka) group. For ICIM and HML, the advantages anticipated are: local management (since both are multinationls), dilution of the FERA image, greater flow of credit for meeting working capital requirements and access to industry and the government. For the RPG group the likely benefits are : a quick entry into promising areas of electronics and computers, consolidation in existing businesses of tyres, tea plantations, and agroproducts. Another interesting development is that of a sick company being taken over by workers. As part of a rehabilitation package, workers were allowed to take over Kamani Tubes Ltd. The takeover of a number of other companies is also under consideration.

Takeovers in India— though most of them have been controversial and, consequently, have faced adverse publicity—are expected to be a viable strategic alternative for organisations which choose the external expansion strategy. In fact, where the reasons for takeover are rational—making it a part of the investment portfolio, using it to consolidate capacities, taking assistance in diversification and integrations, and creating synergistic effects— there, a takeover strategy is a good proposition.

8.5.3 Joint Venture Strategies

Mergers refer to a combination of two or more companies into one company and may be possible in two ways— *absorption* and *consolidation.* Absorption takes place in mergers and acquisitions where the company acquires another company. Consolidation takes place when two or more companies combine to form a new company. *Joint ventures* are a special case of consolidation where "two or more companies form a temporary partnership (also called, 'consortium') for a specified purpose."

Conditions for joint ventures :- Joint ventures may be useful to gain access to new business mainly under four conditions :

1. When an activity is uneconomical for an organisation to do alone.
2. When the risk of business has to be shared and, therefore, is reduced for the participating firms.
3. When the distinctive competence of two or more organisations can be brought together.
4. When setting up an organisation requires surmounting hurdles such as import quotas, tariffs, nationalistic political interests, and cultural roadblocks.

From the above conditions, it can be seen that joint ventures are an effective strategy when development costs have to be shared, risks spread out, and expertise combined to make effective use of resources.

Types of joint ventures. Joint ventures are common within industries and in various countries. But they are specially useful for entering international markets. From the point of view of Indian organisations, the following types of joint ventures are possible :

1. Between two firms in one industry.
2. Between two firms across different industries;
3. Between an Indian firm and a foreign company in India;
4. Between an Indian firm and a foreign company in that foreign country, and
5. Between an Indian firm and a foreign company in a third country.

Strategic issues in joint ventures : Joint ventures offer the advantage of achieving objectives mutually by the participating firms. Eliminating, controlling, or reducing competition may be of strategic importance and can be brought about through joint ventures. Increasing the market share can also be achieved. Diversification strategies may be adopted by participating firm if a joint venture is planned across different industries. If technology is a critical variable in strategy, then joint ventures with foreign companies can be feasible. If legal and regulatory hurdles come in the way of external expanion, they could be subverted through a joint venture strategy of combining with a foreign firm in that foreign country or in a third country. Environmental threats within the country or opportunities abroad may cause firms to undertake joint ventures.

Strategic advantages are important for joint ventures to be set up and sustained. Consider the following examples :

- Becon Kone Ltd was set up in 1987 by Best & Crompton Engineering Ltd in collabroation with Kone Corporation, Finland and the Finnish Fund for Industiral Development with equity participation. The major advantage expected is benefit of expertise in adopting expansion and diversification strategies by BEST & Crompton in future.

- Thermax Private Ltd is a major company and exporter in steam generation industry. Its strategy is built around technology and it has more than half-a-dozen foreign tie-ups. Its latest joint venture is with Babcock & Wilcox, which is a world leader in boiler technology. A major strategic advantage anticipated is that of extension of product life cycle of its boilers and increase in capacity.

- Oil exploration is an activity that involves large investments and carries considerable risks. In India, it has been the exclusive preserve of public sector companies like ONGC. But now Hindustan Oil Exploration Co. Ltd (HOEC) plans to work in cooperation with Asia Foundations Construction Company (AFCC) and they have jointly established Hindustan Prakla Geophysical Company with technical collaboration with Prakla Seismos AG of West Germany. These two companies HOEC and AFCC have also set up another joint venture, Hindage Oilfield Services with another collaboration with a Canadian company. Such a complex joint venture setup has been necessitated due to the strategic needs of getting the needed expertise and taking advantage of environmental opportunities.

- The prospects of higher profitability, expansion outside the ambit of MRTP restrictions, creation of future markets for replacement sales, and opportunities for regular technology upgradation have prompted many Indian companies to set up joint ventures abroad. The Tata group (hotels, commercial vehicles, leather); the Birlas (textile, sugar and viscose staple fibre) the Oberois (hotels); and the Kirloskars (engineering) are the large Indian which have joint ventures abroad.
- Finally, it is important to note that joint sector projects are a very common phenomenon in India. The major strategic advantages expected are : broad-based equity participation, access to governmental and political support, and entering new fields of business. Some examples of joint sector projects are : Pepsico-Voltas' Punjab Agro Industries Corporation; Haldia Petrochemicals (West Bengal Government and the R.P. Goenka group); and Nagarjuna Fertilisers (A.P. Government and the Nagarjuna group).

Benefits and drawbacks in joint ventures : The major benefits that are likely to accrue from joint ventures include: minimising risk, reducing an individual company's investment, having access to foreign technology and equity participation, and synergistic advantages. The disadvantages that may arise in joint ventures are : problems in equity participation, foreign exchange regulations, lack of proper coordination among participating firms, cultural and behavioural differences, and the possibility of conflict among the partners.

A special mention need be made of joint ventures abroad by Indian companies as they have become significant in recent years. Sometimes, these take the form of joint enterprises with firms from other countries, which along with Indian firms set up projects in third countries. Administratively, the Ministry of Commerce deals with joint ventures. Increased liberalisation of policies since 1976 related to joint ventures has led to an increase in the number of joint ventures abroad, which in 1987 were about 180. Despite the problems faced, joint ventures offer a viable strategic alternative for organisations interested in external expansion strategies.

8.6 TURNAROUND, DISINVESTMENT AND LIQUIDATION STRATEGIES

In the beginning of this lesson we said that retrenchment grand strategy is followed when an organisation substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies. If the organisation chooses to focus on ways and means to reverse the process of decline, it adopts a turnround strategy. If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy. If none of these actions work then it may choose to abandon the activities totally, resulting in a liquidation strategy. We deal with each of these strategies below.

8.6.1 Turnaround Strategies

Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency. This usually takes the form of an operating turnaround strategy. In contrast, a strategic turnaround is a more serious form of external retrenchment and leads to divestment or liquidation. Turnaround strategies derive their name from the action involved, i.e. reversing a negative trend.

***Conditions for turnaround strategies* :-**There are certain conditions or indicators which point out that a turnaround is needed if the organisation has to survive. These danger signs are :

1. Persistent negative cash flow
2. Negative profits
3. Declining market share
4. Deterioration in physical facilities

5. Overmanning, high turnover of employees, and low morale
6. Uncompetitive products or services
7. Mismanagement

An organisiton which faces one or more of the problems is often referred to as a 'sick' company.

Managing turnaround :-There are three ways in which turnarounds can be handled.

1. The existing chief executive and management team handles the entire turnaround strategy with the advisory support of a specialist external consultant. The use of this method can only be successful if the chief executive has a reasonable amount of creditibility left with the banks and financial institutions, and a qualified consultant is available. This type of turnaround management, that is, under the existing team, is rarely attempted.
2. In another situation, the existing team withdraws temporarily and an exeuctive consulatnt or turnaround specialist is employed to do the job. This person is usually deputed by the banks and financial institutions and after the job is over, reverts to the original position. This method is also very rarely used in India.
3. The last method—the one most difficult to attempt but that is most often used—involves replacement of the existing team, specially the chief executive, or merging the sick organisation with a healthy one.

***Approaches to turnaround* :-**When a chief executive (CE) is replaced by another, the new incumbent can broadly follow two types of approaches; *surgical or humane.* The surgical approach to turnaround involves a tough attitude and the pattern of action followed is roughly the same everywhere. The new CE quickly asserts his authority by issuing orders and directives for changes, centralises fucntions, fires employees, and closes down plants and divisions. Then, the product mix may be changed, obsolete machinery replaced, R & D, marketing and financial controls strengthened, and accountability fixed until the business shows signs of turning around. The second appraoch is humane, and involves understanding problems, eliciting opinions, adopting a conciliatory attitude and coming to negotiated settlements among different factions. The emphasis is clearly on behavioural change and aimed at improving work culture and morale. Both the above approahces may succeed, depending upon the circumstances, but the latter generally has a greater potential to succeed in the long run.

***Action plans for turnaround* :-**For turnaround strategies to be successful, it is imperative to focus on the short-and long-term financing needs (as banks and financial institutions do) as well as on strategic issues. A workable action plan for turnaround should include :

1. Analysis of product, market, production processes, competition, and market segment positioning.
2. Clear thinking about the market place and production logic.
3. Implementation of plans by target-setting, feedback, and remedial action.

Exhibit 8.8 Reports the findings of an interesting research study of turnaround strategies in the Indian context.

Ten comparable Indian companies, in five groups of two each, were selected for study. In each group, one company seemed to have been more successful while the other less successful in adopting the turnaround strategy. Based on a set of ten elements that contribute to turnaround, the case studies of these ten companies were analysed.

First, it is important to note what these ten elements are :

1. Changes in the top management;
2. Initial credibility-building actions;
3. Neutralising external pressures;
4. Initial control;
5. Identifying quick payoff activities;
6. Quick cost reductions;
7. Revenue generation;
8. Asset liquidation for generating cash;
9. Mobilisation of the organisations ; and
10. Better internal coordination.

The comparative analysis of the actions taken by more successful companies and less successful companies revealed that no significance different was there as far as the first three elements were considered. The crucial difference lies in the way the companies attempted a turnaround on the basis of initial control of operation by the new management, quick cost reductions through various means, mobilising the organisation for improving motivation and morale, and better interal co-ordiantion.

Source : Pradip N. Khandwalla ; "10 elements in Turnarounds", in Business World, June 7-20 1989, pp. 18-19.

Exhibit 8.8 The elements in a turnaround strategy

What the research study referred to in Exhibit 8.10 points out is the primary need for a proper management of turnaround rather than only attempting a financial restructuring as is usually done by the external agencies like the government, banks, creditors, and financial institutions.

Role of external agencies in turnaround :- Before a turnaround strategy can be formualted for an Indian company, it has to be declared first as a sick company. The declaration is done on the basis of the Sick Industrial Companies (Special Provisions) Act, 1985, which provides for a quasijudicial body called the Board for Industrial and Financial Reconstruction (BIFR-set up in 1987), which acts as the 'corporate doctor' whenever companies fall sick. BIFR attempts to revive, rehabilitate or dispose off sick units. It is the responsibility of the company to report its sickness whenever the accumulated losses at the end of a financial year exceed 50% of the peak net worth attained during the preceding five years. BIFR prepares rehabilitation schemes for the revival of sick units, decides on the need for change of management or amalgamation with other companies, and undertakes sale or lease of the undertaking and other appropriate measures. Apart from BIFR, banks and financial institutions also play an active role in turnaround. The Industrial Reconstruction Bank of India (IRBI) provides financial assistance to sick units. IRBI has a Rehabilitation Finance Division to help banks regarding the revival of sick units. The Reserve Bank of India also coordinates activities between commercial banks and term-lending institutions. The government provides tax benefits under Section 72 A of the Income Tax Act to Companies which amalgamate sick units for revival.

Exhibit 8.9 Provides an illustration of what a rehabilitation package contains for the turnaround of a sick company.

Metal Box India Ltd, a reputed company in packaging industry, turned sick due to its wrong strategic move of diversifying into bearings manufacture in the early eighties. Eight of its nine units closed down as a result of which Board for Industrial and Financial Reconstruction (BIFR) and Industrial Credit and Investment Corporation of India (ICICI) formulated a rehabilitation package for turnaround of the company.

The BIFR-ICICI package covers the following :

1. Closure of three unprofitable units at Calcutta, Bombay and Cochin.
2. Retrenchment of 3000 workers drawn from all the nine units through compensation.
3. A flat 20 per cent cut in wages for the remaining workers.
4. Write-off or conversion of outstanding loans from financial institutions and banks.
5. Concessions and reliefs of up to 50 per cent in sales, octroi, and turnover taxes, among others from state governments.
6. Induction of a new promoter in place of the parent multinational Metal Box plc. of UK which wants to divest its 33.02 per cent shareholding.

Source : "Metal Box India : Blind man's buff" in *Business India;* Mar. 6–19, 1989 pp. 73-74.

Exhibit 8.9 Rehabilitation package for Metal Box

As can be from Exhibit 8.11, a turnaround strategy is, in fact, a combination of several strategies—the prominent among them being divestment or partial liquidation. The next sub-section deals with divestment strategies.

Disinvestment Strategies

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

Reasons for divestment :- A divestment strategy may be adopted due to various reasons :

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company. Similarly, a project that proves to be unviable in the long-term is divested.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating the need for divestment of that business.
3. Severity of competition and the inability of a firm to cope with it may cause it to divest.
4. Technological upgradation is required if the business is to survive but where it is not possible for the firm to invest in it, a preferable option would be to divest.
5. Divestment may be done because by selling off a part of business the company may be in a position to survive.
6. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable businesses.
7. Divestment by a firm may be part of a merger plan executed with another firm, where mutual exchange of unprofitable divisions may take place. The assumption is that such an exchange is in mutual strategic interest.
8. Lastly, a firm may divest in order not to attract the provisions of the MRTP Act or owing to oversize and the resultant inability to manage a large business.

Approaches to divestment :- A firm may choose to divest in two ways. A part of the company is divested by spinning it off as a financially and managerially independent company, with the parent company retaining partial ownership or not. Alternatively, the firm may sell a unit outright. In the latter case, a "marketing concept" approach is advisable, where a buyer is found who can consider the divested unit (by the selling firm) to be a 'strategic fit'. In this way, the likelihood of the unit being sold profitably is high.

Decision to divest :-The decision to divest is a painful one for the management as it amounts to admitting a failure. This is the reason why many firms fail to divest even though the strategic alternative is apparent. The CE who is associated with the project finds it psychologically difficult to reach on a commitment. This is another reason why it is easier for a new CE to divest a unit to which he is not emotionally connected.

But just as failures are inevitable and are a part of life, divestment offers a chance to companies to start with a clean slate too.

Observe how these organisations adopted a divestment strategy and under what conditions.

- General Electric Company (GEC) of India was able to take a decision in 1987 to divest Genelec, a trading company within its control, within a year of the change in the top management. The reasons for divestment were : GEC did not have enough funds to invest in Genelec, and the sale of Genelec could create funds for GEC's expansion plans.
- Indian Organic Chemicals (IOC) set up in 1960 by the Ghia group diversified into food processing in 1986 from its main business of organic chemicals. But by early 1989, its "Future" foods division and another firm, Convenience Foods reached a position where they had to be divested. These units were involved in the manufacturing of potato wafers and banana chips, and had become unviable. The reasons for their failure were : unfair competition from the unorganised sector, technological problems, mismatch between the manufacturing orientation of the Ghia group with the marketing orientation required for fast foods, and the lack of funds.
- Kelvinator of India Ltd, a major refrigerator producer, had to divest the manufacturing activity of its scooter (Avanti) as it could not cope with the competition owing to its higher production cost of scooters. The company also planned to concentrate on its moped division.

As is evident from the above illustrations, divestment may be the result of failures. But they may also be the result of prudent thinking to disinvest in unprofitable lines and divert resources to other areas. When divestment does not work, liquidation may be the only strategic alternative left.

8.6.2 Liquidation Strategies

This strategy is to be followed as 'last resort' when neither turn around nor a disinvestment seems feasible. A retrenchment strategy considered the most extreme and unattractive is *liquidation strategy,* which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

Why is liquidation difficult or undesirable? Many small-scale units, proprietorship firms, and partnership ventures liquidate frequently but medium- and large-sized companies rarely liquidate in India. This is due to a variety of factors. The company management, government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take a decision, or ask, for liquidation. Each party has its own reasons for doing so. While the management may hesitate to liquidate due to the fear of failure, the government may not easily allow liquidation due to the political and other risks involved. Trade unions would naturally resist the loss of employment of workers. Ceasing operations does not mean that a firm is freed from its contractual obligations to the creditors and suppliers unless, of course, it is declared insolvent or bankrupt.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, the firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap. Besides the practical difficulties in liquidation, there is also a psychological aspect which cannot be overlooked. The prospects of liquidation create a bad impact on the company's (or business group's) reputation. For many executives who are closely associated with firms, liquidation may be a traumatic experience. Despite the hesitancy on the part of all concerned with a company that intends to liquidate and the difficulties in the process of liquidation, sometimes a firm may be forced to liquidate. Exhibit 8.12 provides an illustration of a company which did its best to survive but could not.

On May 14, 1986, the Bombay High Court appointed a provisional liquidator in the petition for the voluntary liquidation of Empress Mills at Nagpur. Empress Mills is a 113-years-old mill owned by the Tatas. Behind the liquidation petition lie a host of reasons.

The major strategic cause for liquidation lies in the fact that for nearly the last 50 years, Empress Mills did not invest in modernisation or keep pace with competition. In the wider context, government policies have not proved to be favourable for the cotton textile industry. The management of the mill carried the blame for neglect and delayed action.

After Ratan Tata took over as Chairman of the company in 1977, some efforts were made for modernisation but proved to be grossly insufficient. A proposal to merge the mill with other textile units of the Tatas could not materialise. Rationalisation of the product mix across these units also proved to be a non-starter owing to resistance offered by executives. Efforts to negotiate a voluntary retirement scheme to cut down on the 6000 workers–employees strength also failed. Ultimately, the banks and financial institutions delayed the formulation of a rehabilitation package that could turn the mill around. The state government apparently did not provide the much needed political support that could have helped save the jobs of the workers.

The case of Empress Mills provides an important lesson that if timely strategic action is not taken and the situation is allowed to drift, even the largest business group of India, such as the Tatas, cannot save a company from inevitable death.

Source : Based on "Tata's Textile Troubles : Death of the Empress" in *Business India,* June 2-15, 1986, pp. 46-52.

Exhibit 8.10 Liquidation at Empress Mills

Planned liquidation :-Liquidation strategy may be unpleasant as a strategic alternative but when a "dead business is worth more than alive", it is a good proposition. For instance, the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident (though it is difficult to say exactly when), an abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation.

Legal aspects of liquidation :-Under the Companies Act, 1956, liquidation (termed as *winding up*) may be either by the court, voluntary, or subject to the supervision of the court. Part VII, Sections 425 to 560, deal comprehensively with the different legal aspect of liquidation.

With this, we come to the end of our discussion of pure or individual strategic alternatives. The next section deals with mixed alternatives or combination strategies.

8.7 COMBINATION STRATEGIES

An introduction to combination strategies is provided in the earlier section. Essentially, combination strategies are a mixture of stability, expansion or retrenchment strategies applied either *simultaneously* (at the same time in different businesses) or *sequentially* (at different times in the same business).

It would be difficult to find any organisation that has survived and grown by adopting a single 'pure' strategy. The complexity of doing business demands that different strategies be adopted to suit the situational demands made upon the organisation. An organisation which has followed a stability strategy for quite sometime has to think of expansion. Any organisation which has been on an expansion path for long has to pause to consolidate its businesses. Multi-business organisations—as most large and medium Indian companies are now—have to follow multiple strategies either sequentially or simultaneously.

Consider these recent cases of companies which have adopted multi-pronged strategies to deal with the complexity of the environment they face.

- Rasoi Ltd divested its tea business in early 1989 to diversify into chemicals. For its *vanaspati* division, an ambitious expansion plan is being implemented.

- INDAL adopted a turnaround strategy to deal with the many problems it faced. Then a favourable turn in government policy related to its main business, aluminium, caused it to adopt growth and consolidation strategies. These included modernisation of the existing plants and diversifying into hi-tech areas.
- Cochin Refineries had to follow a reverse joint venture strategy to break away from its foreign partners. Now it is in the process of expanding in different fields and a joint venture with a local firm has also been proposed. Diversification is also planned in some areas, which along with other expansion plans is going to cost Rs. 1000 crore over the next five years.

The examples offer just a glimpse of the constant moves that companies in India make in order to survive, grow, and be profitable.

Exhibit 8.11 offers an insight into the constant efforts that go into making a company profitable.

Thermax Private Ltd (formerly Wanson India Pvt. Ltd) was formed in 1966 to make small boilers. Building their business definition around the basic customer function of steam generation, they saw the 1973 oil crisis as an opportunity and started making coal-fired boilers. From steam generation to water treatment was a logical extension, extended further to manufacturing pollution-control equipment. Currently, the company comprises practically ten businesses.

A historical analysis shows how the company has followed sequential combination strategies in order to ensure survival and growth :

1966 : The company is formed; starts making coil-type packaged boiler and thermic fluid heaters.

1973 : Expansion to make the first packaged tube boiler for Indian coal and other solid fuels.

1975 : Related diversification into water treatment plants.

1976 : Takeover of Tulsi Fine Chemicals and the establishment of a chemicals divisions.

1977 : Expansion for making large field-erected boilers.

1979 : Related diversification into surface-coating and pollution-control equipment.

1981 : Related diversification into energy conservation equipment.

1983 : Unrelated diversifications into software and electronics, and related to oil-field equipment projects.

1988 : Joint venture with Deviebiss.

1989 : Joint venture with Babcook and Willcox.

The company's further plans are to consolidate its position and absorb the impact of the rapid changes and development it has experienced over the past several years.

Source : "Thermax builds up steam" in *Business World,* June 21-July 4, 1989, pp. 84-88; and "On the boil" in Business World War, 29-Apr. 11, 1989, p. 15.

Exhibit 8.11 Sequential combination strategies at Thermax

The illustration in Exhibit 8.12 clearly shows that the effort to survive and grow profitably is a continuous one. Organisations do not depend on one strategy alone and evolve a complex network of combination strategies to deal with the changing environment. In fact, how to deal with, and adapt to, environmental changes is what strategic management is all about.

In order to complete the discussion, it is important to note that combination strategies are also used simultaneously. The last exhibit in this chapter exemplifies a company which adopts simultaneous combination strategies.

A restructuring exercise as the one illustrated in Exhibit 8.12 is an attempt on the part of companies to formulate several combination grand strategies. Other terms used for restructuring are *revamping*, *regrouping, rationalisation, or consolidation.*

The well-known companies of the TTK group, based in southern India, have adopted a restructuring plan involving the implementation of several combination strategies simultaneously.

- TTK Ltd making pressure cookers has undertaken product development and is deversifying into the related field of making non-stick cooking utensils.
- TTK Chemicals is merging with TTK Pharma.
- TT Industries & Textiles Ltd is planning for expansion through a joint venture.
- London Rubber Co. (India) Ltd, ,making condoms, is adopting an expansion plan. Larcom & Protectives Ltd is diversifying into the unrelated fields of disposable syringes and needles.
- TT Maps & Publications is expanding into the general publishing business after a turnaround.

These several strategies are being contemplated with a view to create fewer companies and only six operating divisions within the group. The operational objectives are to increase the current turnover of Rs. 170 crore to Rs. 1000 crore in the next five years.

Source : "TTK restructures for growth and survival" in Business World, Aug. 16-19, 1989, pp. 81-87.

Exhibit 8.12 Adopting combination strategies simultaneously

It is easy to recognise that a complex network of strategies would have sequential as well as simultaneous strategies whcih have to be formulated to deal with the complexities of business. This brings us to the end of our discussion of strategic alternatives. The organisations have to choose from among the several strategic alternatives available to them. This process is of strategic choice and is the subject matter of the next chapter.

8.8 S UMMARY

Grand strategies of stability, expansion, retrenchment, and combination, when defined along the internal/external, related/ unrelated, horizontal/vertical, and active/ passive dimensions form the structure of strategic alternatives. This structure can form the basis for generating the strategic alternatives that are present before a firm.

The specific strategies dealt with in this chapter are modernisation; diversification and integration; mergers, takeovers and joint ventures; turnaround, divestment, and liquidation; and combination strategies. 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 individually various advantages and disadvantages. Special attention has been paid to strategies such as mergers, takeovers, and turn around strategies, which are currently the popular strategies being adopted by many Indian companies.

The last section related to combination strategy brings together the different strategies and illustrates how they could be adopted simultaneously and sequentially.

The present comprehensive chapter on strategic alternatives lays down the structure from which strategies could be chosen. The next chapter deals with how the choice is exercised.

8.9 GLOSSARY

- Strategic Alternatives : These are developed to set direction in which human and material resources of a business will be applied to achieve the desired goal.
- Merger : It is the combination of two or more organisations into one company.
- Disinvestment : It involves sale and liquidation of portion of business.

8.10 SELF ASSESSMENT QUESTIONS

Q 1. List a few recent instances of Indian Companies that adopted diversification strategies and make observations on :

a) why these companies diversified.

____

b) the types of diversification used ?

Q 2. When is a divestment strategy necessary? What approaches could be adopted to adopt a divestment strategy?

Q 3. What are danger signals that indicate a turn around strategy should be adopted ?

Q 4. How can combination strategies be adopted ? Simultaneously ? Sequentially ?

8.11 LESSON END EXERCISE

Q1. Identify an organisation that has enjoyed great growth in the recent years. To what degree and in growth in the recent years. To what degree and in what ways do you think the firms success resulted from taking advantage of favourable conditions in the environment?

Q2. Give the recent examples of mergers that took place in Indian company and discuss its various conditions which were responsible for merger.

8.12 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

UNIT II

STRATEGIC ALLIANCE

LESSON - 9

STRUCTURE

9.1 INTRODUCTION

Alliances are two businesses sharing their technological and marketing resources. An agreement between two or more individuals or entities stating that the involved parties will act in a certain way in order to achieve a common goal. Strategic alliances usually make sense when the parties involved have complementary strengths.

Strategic alliances developed and propagated as formalized interorganizational relationships, particularly among companies in international business systems. These cooperative arrangements seek to achieve organizational objectives better through collaboration than through competition, but alliances also generate problems at several levels of analysis. A strategic alliance example : a six company business alliance was created between Motorola, Apple, Philips, Sony, AT&T and Matsushita to form General Magic corporation to create communications software.

Strategic alliances are critical to organizations for a number of key reasons:

1. Organic growth alone is insufficient for meeting most organizations' required rate of growth.
2. Speed to market is essential, and partnerships greatly improve it.
3. Complexity is increasing, and no single organization has the required total expertise to best serve the customer.
4. Partnerships can defray rising research and development costs.
5. Alliances facilitate access to global markets.

Strategic alliances are becoming an important form of business activity in many industries, particularly in view of the realization that companies are competing on a global field. Strategic alliances are not a panacea for every company and every situation. However, through strategic alliances, companies can improve their competitive positioning, gain entry to new markets, supplement critical skills, and share the risk and cost of major development projects.

9.2 OBJECTIVES:-

After completion of this lesson, you should be able :-

- to understand the matter of strategic alliance.
- to understand the nature of strategic alliance.

- to understand the needs & benefits of strategic alliance.
- to understand the types of strategic alliance.
- to enhance capability and competence.
- to enhance value creation.
- to manage risk
- to understand the stages of strategic alliance.

9.3 MEANING AND DEFINITION OF STRATEGIC ALLIANCE

An alliance is cooperative agreement or association between two or more independent enterprise, which will manage one specific project, with a determined duration, for which they will be together in order to improve their competencies. It is constituted to allow its partners to pool resources and coordinate efforts in order to achieve results that neither could obtain by acting alone. The key parameters surrounding alliances are opportunism, necessity and speed.

Alliances are long-term, trust based relationships that entail highly relationship specific investments in ventures that cannot be fully specified in advance of their execution.

Strategic alliances are agreements between companies (partners) to reach objectives of common interest. Strategic alliances are among the various options which companies can use to achieve their goals ; they are based on cooperation between companies.

Strategic alliances are agreements between companies that remain independent and are often in competition. In practice, they would be all relationship between companies, with the exception of a transactions (acquisitions, sales, loans) based on short-term contracts (while a transaction from a multi-year agreement between a supplier and a buyer could be an alliance); agreement related to activities that are not strategic for the partners.

A Strategic alliance is a contractual, temporary relationship between companies remaining independent, aimed at reducing the uncertainty around the realization of the partners Strategic objectives (for which the partners are mutually dependent) by means of coordinating or jointly executing one or several of the companies activities. Each of the partners are able to exert considerable influence upon the management or policy of the alliance. The partners are financially involved, although by definition not through participate and share the costs, profits and risks of the Strategic alliance.

A Strategic alliance is a particular mode of inter organisational relationship in which the partners make substantial investments in developing a long term collaborative efforts and common orientation. Strategic alliances are voluntarily arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services.

Strategic alliance are long-term agreements between firms that go beyond normal market transactions but fall short of merger. Firms include joint ventures, licences, long-term supply agreements and other kinds of inter-firm relationships. A Strategic alliance is a partnership between two or more firms that unite to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance to contribute and to share benefits on a continuing basis in one or more key strategic areas, e.g. technology products. Strategic alliance can be described as a process where in participants willingly modify their basic business practices with a purpose to reduce duplication and waste while facilitating improved performance.

A Strategic alliance has to contribute to the successful implementation of the strategic plan; therefore, the alliance must be strategic in nature. The relationship as to be supported by executive leadership and formed by lower management at the highest macro level.

At this stage, one might define, “a Strategic alliance as a relationship between organisations for the purposes of achieving successful implementation of a strategic plan."

In simple words, "a Strategic alliance is sometimes just referred to as "partnership" that offers businesses a chance to join forces for a mutually beneficial opportunity and sustained competitive advantage."

An alliance is a cooperative agreement or association between two or more independent enterprises, which will manage one specific project, with a determined duration, for which they will be together in order to improve their competencies. It is constituted to allow its partners to pool resources and coordinate efforts in order to achieve results that neither could obtain by acting alone. The key parameters surrounding alliances are opportunism, necessity and speed.

9.4 CHARACTERISTICS OF STRATEGIC ALLIANCE

1. Two or more organizations (business units or companies) make an agreement to achieve objectives of a common interest considered important, while remaining independent with respect to the alliance.

   The partners share both the advantages and control of the management of the alliance for its entire duration.

2. The partners contribute, using their own resources and capabilities, to the development of one or more areas of the alliance (important for them). This could be technology, marketing, production, R&D or other areas. Strategic alliances yield better results under certain conditions (Pellicelli, 2003):

   When each partner recognizes the need to have access to capabilities and competencies it cannot develop internally. When a gradual approach is preferable in accessing resources, capabilities and competencies.

Uncertainties about the future evolution of demand and technology often advise flexibility. The alliance can provide this. When it is not possible to acquire another company in order to achieve particular development goals. It is a fairly common belief that the management of an alliance must have qualities different at least in part from those of the parent company (the partners). The reason is simple. The management of a strategic alliance is profoundly different from that of a company that acts independently.

Creating strategic alliances has evolved quickly over the last few decades:

- In the 70's, the main factor was the performance of the product. Alliances aimed to acquire the best raw materials, the lowest costs, the most recent technology and improved market penetration internationally, but the mainstay was the product.
- In the 80's, the main objective became consolidation of the company's position in the sector, using alliances to build economies of scale and scope. In this period there was a true explosion of alliances. The one between Boeing and a consortium of Japanese companies to build the fuselage of the passenger transport version of the 767; the alliance between Eastman Kodak and Canon, which allowed Canon to produce a line of photocopiers sold under the Kodak brand; an agreement between Toshiba and Motorola to combine their respective technologies in order to produce microprocessors.
- In the 90's - according to Harbison and Pekar (1998) - collapsing barriers between many geographical markets and the blurring of borders between sectors brought the development of capabilities and competencies to the centre of attention. It was no longer enough to defend one's position in the market. It became necessary to anticipate one's rivals through a constant flow of innovations giving recurrent competitive advantage. Regardless of the broad variety of definitions for strategic alliance, all have certain similarities (Spekman, 1998): each has goals that are both compatible and directly related to the partner's strategic intent; each has the commitment of, and access to, the resources of its partners and; each represents an opportunity for organizational learning.

9.5 IMPORTANCE OF STRATEGIC ALLIANCE

The various points which show the importance of Strategic Alliances are as under

i) The proposed alliance contribute to the mission or vision of the organization.

ii) The proposed alliance allow the organization to achieve its objectives more effectively more efficiently. There are competitive advantages to forming this alliance. For example, this will allow the organization to mitigate risks, penetrate a new marketplace or take advantage of a new opportunity that otherwise would not likely come to fruition.

iii) This alliance is important enough to be included in the strategic plan. This alliance is important enough that it will continue to receive the support and attention of upper management, even after its formation.

iv) Take advantage of partner's local market knowledge and working relationships with key Govt. officials in host country.

v) Full gaps in technical expertise or knowledge of local market; they will learn technical knowledge from each other.

vi) Allowing each partner to concentrate on activities that best match their capabilities.

vii) Learning from partners & developing competencies that may be more widely exploited elsewhere.

viii) Adequacy and suitability of the resources & competencies of an organisation for it to survive.

ix) The aspects of the strategic alliance(s) worked well.

x) The aspects of the Stratigic Alliance(s) were the hardest to work with.

9.6 BENEFITS OF STRATEGIC ALLIANCE

There are four potential benefits that international business may realize from strategic alliance (Bernadette Soares, 2007): Ease of market entry: Advances in telecommunications, computer technology and transportation have made entry into foreign markets by international firms easier. Entering foreign markets further confers benefits such as economies of scale and scope in marketing and distribution. The cost of entering an international market may be beyond the capabilities of a single firm but, by entering into a strategic alliance with an international firm, it will achieve the benefit of rapid entry while keeping the cost down. Choosing a strategic partnership as the entry mode may overcome the remaining obstacles, which could include entrenched competition and hostile government regulations.

1. **Shared risks :-** Risk sharing is another common rationale for undertaking a cooperative arrangement when a market has just opened up, or when there is much uncertainty and instability in a particular market, sharing risks becomes particularly important. The competitive nature of business makes it difficult for business entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a firm's risks. For eg in early 1990s film manufacturers Kodak and Fuji joined with camera manufacturers Nikon, Canon and Minolta to create Camera and then for an 'Advanced Photo System'.

2. **Shared knowledge and expertise :-**Most firms are competent in some areas and lack expertise in other areas; as such, forming a strategic alliance can allow ready access to knowledge and expertise in an area that a company lacks. The information, knowledge and expertise that a firm gains can be used, not just in the joint venture project, but for other projects and purposes. The expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources. A learning organization is a growing organization. In early 1990's Motorola initiated an alliance among various partners including Raytheon Nippon, China Great Wall Martin.

3. **Synergy and competitive advantage :-** Achieving synergy and a competitive advantage may be another reason why firms enter into a strategic alliance. As compared to entering a market alone, forming a strategic alliance becomes a way to decrease the risk of market entry, international expansion, research and development etc. Competition becomes more effective when partners leverage off each other's strengths, bringing synergy into the process

that would be hard to achieve if attempting to enter a new market or industry alone. In retail, entering a new market is an expensive and time consuming process. Forming strategic alliances with an established company with a good reputation can help to create favourable brand image and efficient distribution networks. Even established reputable companies need to introduce new brands to market. Most times smaller companies can achieve speed to market quicker than bigger, more established companies. Leveraging off the alliance will help to capture the shelf space which is vital for the success of any brand. Product performance Position in the sector Capabilities and competencies Produce using the most recent technologies. Construct position in the sector. Access to new opportunities through a constant flow of innovation. Marketing beyond national borders. Consolidate position in the sector. Anticipate rivals to maximize the creation of value Sales based on product performance. Economies of scale and Scope. Reduce total cost for the product or client segment. For eg. Pepsico is the world's second largest soft drink manufactures.

9.7 TYPES OF STRATEGIC ALLIANCE

There are various types of strategic alliances, which are listed below:

1. **Joint Ventures :-**A joint venture is an agreement by two or more parties to form a single entity to undertake a certain project. Each of the businesses has an equity stake in the individual business and share revenues, expenses and profits. Joint ventures between small firms are very rare, primarily because of the required commitment and costs involved. For eg. Co. A and Co.B (Parent Companies) can form a joint venture by creating Co.C (Child Company)

2. **Outsourcing :-**The 1980s was the decade where outsourcing really rose to prominence, and this trend continued throughout the 1990s to today, although to a slightly lesser extent.

3. **Affiliate Marketing** :-Affiliate Marketing has exploded over recent years,

with the most successful online retailers using it to great effect. The nature of the internet means that referrals can be accurately tracked right through the order process. Amazon was the pioneer of affiliate marketing, and now has tens of thousands of websites promoting its products on a performance-based basis.

4. **Technology Licensing** :-This is a contractual arrangement whereby trade marks, intellectual property and trade secrets are licensed to an external firm. It is used mainly as a low cost way to enter foreign markets. The main downside of licensing is the loss of control over the technology - as soon as it enters other hands the possibility of exploitation arises.

5. **Product Licensing** :-This is similar to technology licensing except that the license provided is only to manufacture and sell a certain product. Usually each licensee will be given an exclusive geographic area to which they can sell to. It is a lower-risk way of expanding the reach of your product compared to building your manufacturing base and distribution reach.

6. **Franchising :-**Franchising is an excellent way of quickly rolling out a successful concept nationwide. Franchisees pay a set-up fee and agree to ongoing payments so the process is financially risk-free for the company. However, downsides do exist, particularly with the loss of control over how franchisees run their franchise.

7. **R&D** :-Strategic alliances based around R&D tend to fall into the joint venture category, where two or more businesses decide to embark on a research venture through forming a new entity.

8. **Distributors :-**If you have a product one of the best ways to market it is to recruit distributors, where each one has its own geographical area or type of product. This ensures that each distributor's success can be easily measured against other distributors.

9. **Distribution Relationships** :-This is perhaps the most common form of alliance. Strategic alliances are usually formed because the businesses involved

want more customers. The result is that cross-promotion agreements are established.

9.8 STAGES OF STRATEGIC ALLIANCE

A typical strategic alliance formation process involves these steps:

- **Strategy Development :-**Strategy development involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy.
- **Partner Assessment :-**Partner assessment involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.
- **Contract Negotiation :-** Contract negotiations involves determining whether all parties have realistic objectives, forming high caliber negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.
- **Alliance Operation :-** Alliance operation involves addressing senior management's commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.
- **Alliance Termination :-** Alliance termination involves winding down the alliance, for instance when its objectives have been met or cannot be met, or when a partner adjusts priorities or re-allocated resources elsewhere. The advantages of strategic alliance includes 1) allowing each partner to

concentrate on activities that best match their capabilities, 2) learning from partners & developing competencies that may be more widely exploited elsewhere, 3) adequacy and suitability of the resources & competencies of an organization for it to survive.

9.9 SUMMARY

Strategic alliances are no longer a strategic option but a necessity in many markets and industries. Dynamic markets for products and technologies, coupled with the increasing costs of doing business, have resulted in a significant increase in the use of alliances.

Strategic alliances are increasingly becoming an important part of overall corporate strategy, as a way to grow product and service offerings, develop new markets and leverage technology and R&D.

Strategic alliances are an indispensable tool in today's competitive business environment. No longer can companies afford ad hoc approaches to alliance formation and management, any more than they can rely on a small number of talented alliance managers.

Many global companies have multiple alliances, some global, requiring coordination with numerous partners. Companies are also finding benefits to partnership with competitors. How are these companies managing this competition? What are they doing to develop a working relationship yet still protect them? The must be created by creating customer value through partnerships, managing alliances with competitors, managing global alliances.

New insights on alliance management tools and strategies, focusing on: leveraging differences with partners to create value, dealing with the internal challenges of making your partnerships succeed, managing the day-to-day challenges of alliances with competitors.

Risk management is a company wide concern and strategic alliances have their share of risks. Insights on managing risks in alliances including: managing reputation and relationship risks; risk assessment and legal issues in alliances;

intellectual property protection; dealing with breaches of alliance contracts; termination triggers; re-structuring versus termination; when and how to exit an alliance with minima risk.

Strategic alliances are long-term agreements between firms that go beyond normal market transactions but fall short of merger. Forms include joint ventures, licenses, long-term supply agreements, and other kinds of inter-firm relationships. Strategic alliances developed and propagated as formalized interorganizational relationships, particularly among companies in international business systems. These cooperative arrangements seek to achieve organizational objectives better through collaboration than through competition, but alliances also generate problems at several levels of analysis.

9.10. GLOSSARY

• Strategic Alliance : An agreement between two or more parties to pursue a set of agreed objectives.

• Joint Venture : Joint venture is an agreement by three or more parties to form a single party to undertake a certain project

9.11 SELF ASSESSMENT QUESTIONS :

Q1. What are the various types of strategic alliance?

____

____

Q2. What are the various stages of strategic alliance?

____

____

9.12 LESSON END EXERCISE

Q1. Choose strategic developments for an organisation that you are familiar with and compare the resource configuration implications. What advice would you give the management based on your analysis?

Q2. Examine which strategic alliance is more beneficial for the company.

9.13 SUGGESTED READINGS:

- Business Policy & Strategic Management. Text & cases by Frencis Cherunilan Himalaya Publishing House.
- Business Policy & Strategic Management by Azhar Kazmi.

UNIT II

STRATEGIC CHOICE PROCESS

LESSON - 10

STRUCTURE

10.1 INTRODUCTION

This lesson deals with the final step in the strategy formulation phase of strategic management. This Section describes the several strategic alternatives that are present before an organisation. Now strategic choice is to be made from among these alternatives. The environmental appraisal and organisational appraisal help to point out the feasible strategies that could be adopted. However, there are several factors that affect the ultimate strategic choice that is made. We have divided these factors into two classes : *objective and subjective factors.* Both these types of factors have been taken for explanation. Then, there are certain strategies which are contingent upon situations : these are described under the heading of *contingency strategies.*

10.2 OBJECTIVES

After reading this lesson, one can analyse the following objectives :-

i) discuss BCG matrix and GE nine cell matrix.

ii) discuss the subjective factors involved in strategic choice by making an analysis of different policies adopted by an enterprise.

iii) evaluate upon the process of different strategic alternatives by focussing on different alternatives.

10.3 STRATEGIC CHOICE PROCESS

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 organisation achieve its objectives in the best possible manner, and finally, implementing the chosen alternative. For making 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 otherwise would be a very difficult task.

Strategic choice could be defined as "the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise's objectives. The decision involves focussing 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.

10.3.1 Focussing on Alternatives

The aim of focussing on a few alternatives 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 if only a few alternative are cosnidered, the decision maker may ignore others which he should have considered. For resolving this dilemma, a decision maker has to focus on a reasonable number of alternatives managers generally use GAP analysis for this purpose. It is still difficult to tell what that 'reasonable' number would be.

In deciding on what would be a reasonable number of alternatives, it is advisable to start with the business definition. The three dimensions 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. Exhibit 10.1 illustrates one way how this could be done for a company which is in the oral care business. Using a business definition, a company could generate strategic alternatives by working forward from the present to the future position it wishes to be in. For instance, a company catering to the cosmetic segment could cover the flouride segment as well. Other alternatives could be to use alternative packaging (e.g. collapsible tube) or different additives (e.g. clove oil or *neem*). In this way, even within the context of an industry or business, several strategic alternatives can be considered.

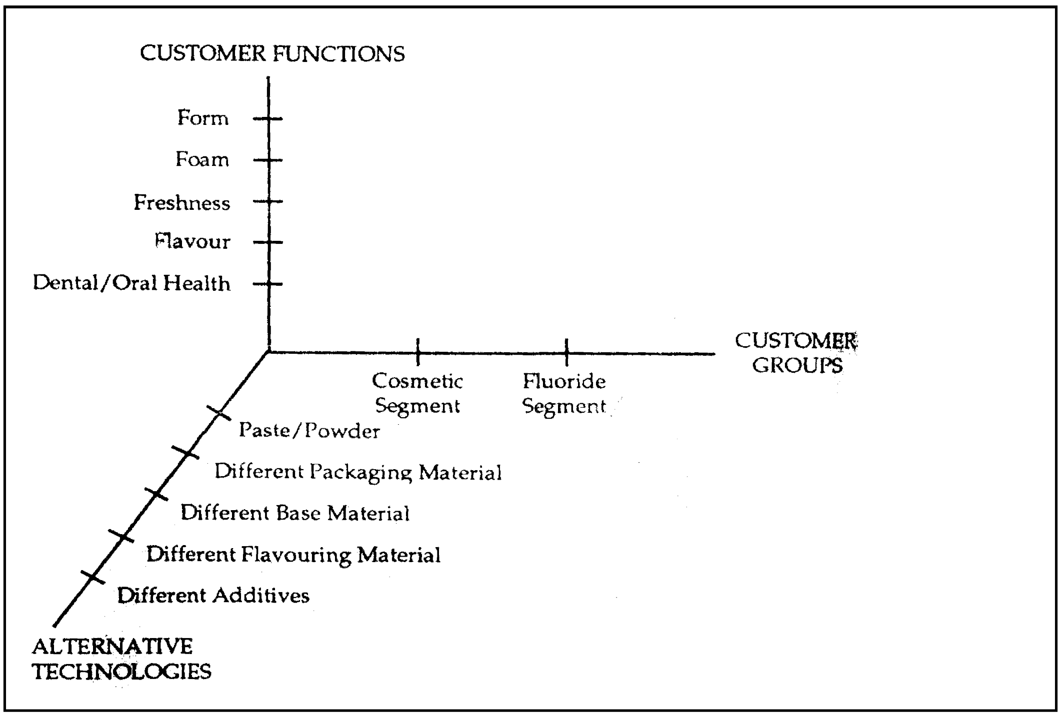


Exhibit 10.1 Possible business definition of an oral care company

Focussing on alternatives could also be done by visualising the future state and working backwards. This is done through *gap analysis.* A company sets objectives for a future period of time, say 3 to 5 years, and then works backward to find out where it can reach through the present level of efforts. By analysing the difference between the projected and desired performance, a gap could be found.

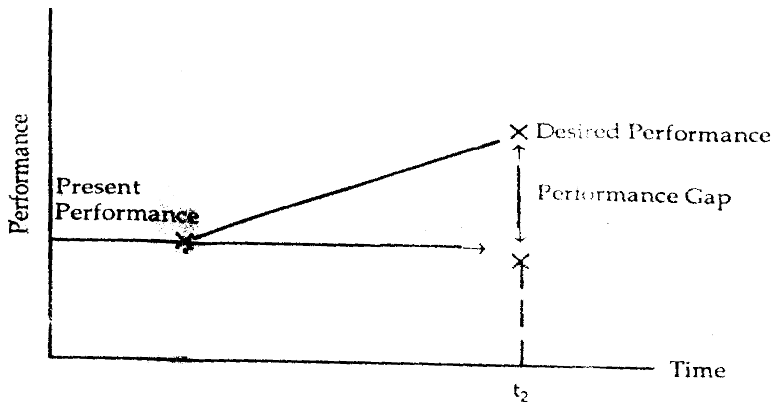


Exhibit 10.2 Gap analysis for focussing on strategic alternatives

Exhibit 10.2 shows how gap analysis works. 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 a feasible alternative. If the gap is large, due to expected environmental opportunities, expansion strategies are more likely. If it is large due to past and expected bad performance, retrenchment strategies may be more suitable.

10.3.2 Considering the Selection Factors

Narrowing down the strategic choice to a few feasible alteranatives is facilitated by considering the business definition and through gap analysis. 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.* They determine the criteria on the basis of which the evaluation of strategic alternatives can take place.

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 judgement, consensus and non-numerical data. They could also be termed as *intuitive or descriptive* factors. For the present, it is important to note that the alternatives that are generated in the first step have to be subjected to analysis on the basis of these selection factors.

10.3.3 Evaluation of Strategic Alternatives

Selection factors are the criteria on the basis of which a final choice of strategy has to be made. Narrowing the choice leads to a few alternatives, each one of which has to be evaluated for its capability to help the organisation achieve its objectives. Evaluation of strategic alternatives basically involves bringing together the analysis done on the basis of the objective and subjective factors. Successive iterative steps of analysing the different alternative on the basis of selection factors lie at the heart of such an evaluation. There is no set procedure and strategists may use any approach which suits the circumstances. What is important to observe is that neither the objective nor the subjective factors can alone help in evaluation. Both the factors have to be considered together. How this is done of considerable interest to management researchers and academicians. We had referred to strategic decision making and the different approaches to strategic decision making earlier. These issues are important in any exercise where evaluation of strategic alternatives is to be done. Evaluation is done on the basis of objective factors ie on hard facts and objective factors ie on personal judgement.

10.3.4 Making the Strategic Choice

Evaluation of strategic choice should lead to a clear assessment of which alternative is the most suitable under the existing conditions. The final step is, therefore, of making the strategic choice. One or more strategies have to be chosen for implementation. A blueprint has to be made that will describe the strategies and the conditions under which they would operate. This blueprint is *the strategic plan* which is discussed in the last section of this chapter. Besides the chosen strategies, some contingency strategies would also have to be devised. Contingency strategies are described in the later Section.

The different analytical techniques used for considering the objective factors are the subject matter of the following two sections. We have selected *corporate portfolio analysis, industry analysis, competitor analysis* and *SWOT analysis* for discussion as these cover all the major issues related to strategic choice.

10.4 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, there arose a tendency to discredit the techniques when it was realised that the assumptions did not always hold good. Currently, however, it is accepted that these techniques are useful, not as being 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. It is primarily used for competitive analysis and corporate strategic planning in multi-product and multi-business firms. They may also be used in less-diversified firms, if these consist of a main business and other minor complementary interests. The main advantage in adopting a portfolio approach in a multi-product, multi-business firm is that resources could be channelised at the corporate level to those businesses that possess the greatest potential. For instance, a diversified company may decide to divert resources from its cash-rich businesses to more prospective ones that hold promise of a faster growth so that the company achieves its corporate level objectives in an optimal manner.

There are a 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.* But there are several other techniques that should be understood in order to have a comprehensive view of how objective factors can help strategists in exercising strategic choice. We start here with the concept of *experience curve.*

10.4.1 Experience Curve

Experience curve, *per se,* is not a portfolio analysis technique but is an important concept used for applying a portfolio approach. The concept is akin to a learning curve which explains the efficiency increase gained by workers through repititive productive work. Experience curve is based on the commonly observed phenomenon that units costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those for smaller companies, thereby gaining a competitive costs advantage. Experience curve results from a variety of factos such as learning effects, economies of scale, product redesign, and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplaitng entry in an industry. It is also used to build market share and discourage competition. In the contemporary Indian two-wheeler market, the experience curve phenomenon seems to be working in favour of Bajaj Auto, which for the past decade has been selling, on an average, 5 lakh scooters a year and retains more than 60 per cent of the market. Its only serious competitor is LML Vespa Ltd, which has a far lesser share of the market. The primary strategic advantage that Bajaj Auto has is in terms of costs. Other competitors like Gujarat Narmada and Kinetic Honda, which are comparatively newcomers, find it extremely difficult to compete due to the cost differentials that currently exist. The likely strategic choice for underdog competitors could be a market niche approach or segmentation based on demography or geography.

10.4.2 Product Life Cycle

Another important concept in strategic choice is that of *product life cycle (PLC).* Like the experience curve, it is not actually a portfolio technique but is a useful concept for guiding strategic choice. Almost all marketing textbooks deal with PLC in detail. Essentially, PLC is an S-shaped curve which exhibits the relationship of sales with respect to time for a product that passes through the four successive stages of : *introduction* (slow sales growth), *growth* (rapid market acceptance), *maturity* (slow down in growth rate) and *decline* (sharp downward drift). If businesses are substituted for product, the concept of PLC could work just as well. The main advantage of PLC is that it can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choice could be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like *selective harvesting, retrenchment, etc.* may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

10.4.3 BCG Matrix

The *Boston Consulting Group (BCG) matrix,* such as one shown in Exhibit 2.33, provides a graphic representation for an organisation to examine different businesses 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. The low and high market shares are separated by a vertical line set at 1.0. This means that a company would have a relative market share of less than 1.0 if it does not have the largest share. A relative market share of more than 1.0 would occur for companies that are the largest sellers in their various indsutries. (In practice, the ratio of 1.0 is difficult to achieve and it is more realistic to place the vertical line at 0.75 or at the market share of the 'average firm' in the industry). Still, 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 an 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 of these cells represents a particular type of business. These different types of businesses, with some contemporary examples from the Indian corporate world, are described below.

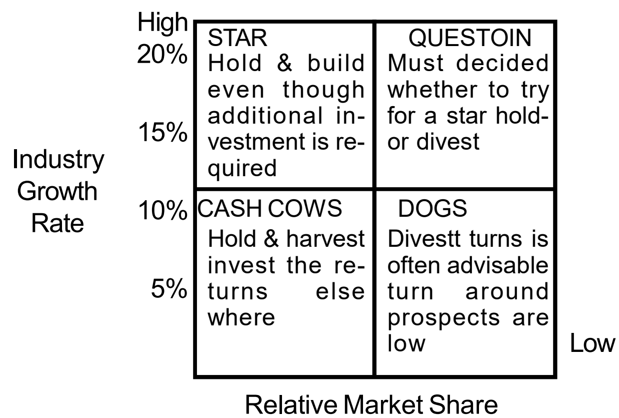


Exhibit 10.3 A typical BCG matrix

Stars **:-**Stars 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'. For instance, petrochemicals, electronics and telecommunications, fast foods, ceramic tiles, etc. are some of the industries which have a very high growth rate. To a large extent, government priorities seek to determine the 'star' status of any industry in India.

Cash cows :-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 experience curve. The cash generation exceeds the reinvestment that could profitably be made into 'cash cows'. These businesses could mainly adopt stability strategies. Where the long-term prospects are exceptionally bright, limited expansion could be adopted. As 'cash cow' industries lose their attractiveness and tend towards decline, a phased retrenchment strategy may be feasible. The cash generated by 'cash cows' is reinvested in 'stars' and 'question marks'. Companies which are well-entrenched in established markets enjoy the advantages of 'cash cows'. Scooters for Bajaj Auto, toothpaste for Colgate, decorative paints for Asian Paints, moulded luggage for Blowplast, *India Today* for Living Media are some of the 'cash cows' in the contemporary Indian markets.

Question marks :-Businesses with high industry growth but low market share for a company are 'question marks' or 'problem children'. They require large amounts of cash to maintain or gain market share. Question marks are usually new products or services which have a good commercial potential.

The logic of experience curve dictates that the company obtaining an early lead can expect cost advantages and market leadership and can successfully create entry barriers. No single set of strategies could be recommended. If the company feels that it can obtain a dominant market share, it may select expansion strategies, otherwise retrenchment may be a more realistic alternative. 'Question 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 'question marks'. Holiday resorts, light commercial vehicles, home improvement products are a few such examples. It is to be noted, however, that the list of 'question marks' keeps changing frequently with changes in government policy and other environmental factors.

Dogs :-Those businesses which are related to slow-growth industries and where a company has a low relative market share are termed as 'dogs'. They neither generate nor require large amounts of cash. In terms of PLC, the 'dogs' are usually products in the late maturity or declining stage. The experience curve for the company shows that it faces cost disadvantages owing to a low market share. The only way for the company could be to 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. But government policies may prevent retrenchment and the ‘dogs’ may be artificially sustained, which explains the presence of many products in the Indian markets which would fade away if left on their own. Cotton textiles, jute, shipping, leasing, photocopiers are some of the products and services that have become ‘dogs’ for quite a few companies.

As seen from the above description of the BCG matrix, it is clear that its major advantage is the facility it offers for a visual examination of a portfolio of businesses of a company. However, there are some limitations too which arise from the assumptions on which the BCG matrix is based. For instance, the growth rate of an industry is taken as an indicator of its attractiveness and market share for profitability. Both these assumptions might not be always true.

Further, there are difficulties in practically measuring the respective market shares or deciding who the market leaders are. Lastly, most critics consider the BCG approach as too simplistic. With these limitations in view, many other approaches and techniques of corporate portfolio analysis have been proposed. We touch upon these in the following sub-sections.

10.4.4 GE Nine-cell Matrix

Another corporate portfolio analysis technique is based on the pioneering effort of General Electric (GE) Company of the United States supported by the consulting firm of McKinsey & Company. Exhibit 4.4 shows a typical GE nine-cell matrix. 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 margins, 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 *calibre of management.* As can be seen from the list of the factors, good use can be made of the 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 pie charts (or circles) denote the proportional size of the industry and the dark segments represent the company's market share.

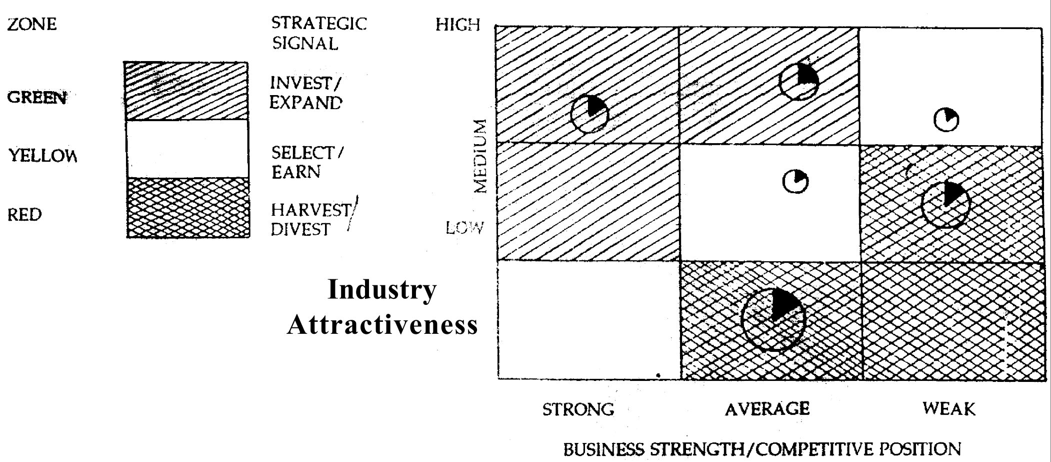
The nine cells of the GE matrix are grouped on the basis of low to high industry attractiveness, and weak to strong business strength. Three zones, of three cells each, are made, denoting different combinations represented by green, yellow, and red colours. For this reason, the GE matrix is also known as the *stoplight strategy matrix.* The different combinations can be seen from Exhibit 10.4. Based on the three zones, different strategic alternatives could be prescribed. For the green zone, the signal is 'go ahead', to grow and 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. For the red zone, the signal is 'stop', indicating retrenchment strategies of divestment and liquidation or rebuilding approach for adopting turnaround strategies.

The GE nine-cell matrix offers some distinct advantages. Compared to the BCG matrix, it offers intermediate classification of medium and average ratings. 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 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 business strategy.

10.4.5 Hofer's Product-market Evolution Matrix

Hofer and Schendel propose a 15-cell matrix that considers the stage of development of the product or market and the competitive position of different

These cells tell about the distribution of the Co's business.



Business A - Winner
Business B - Potential loser
Business C - Established winner
Business D - Cash cow
Business E - Loser/Dog

Exhibit 10:4 : General Electric nine-cell matrix

businesses in a company's corporate portfolio. As in the GE nine-cell matrix, circles are plotted to represent the size of the industry while the segments denote the business market share. Exhibit 10.4 shows a typical product/market evolution matrix.

Five businesses have been shown with their respective market share with regard to the industry size. The circles in matrix represent size of industries & pie denotes market share. Business A represents a product/market that has a high potential and deserves expansion strategies through large investments. Business B has a strong competitive position but has a product that is entering the shake out stage and, therefore, needs a cautious expansion strategy. Business C is probably

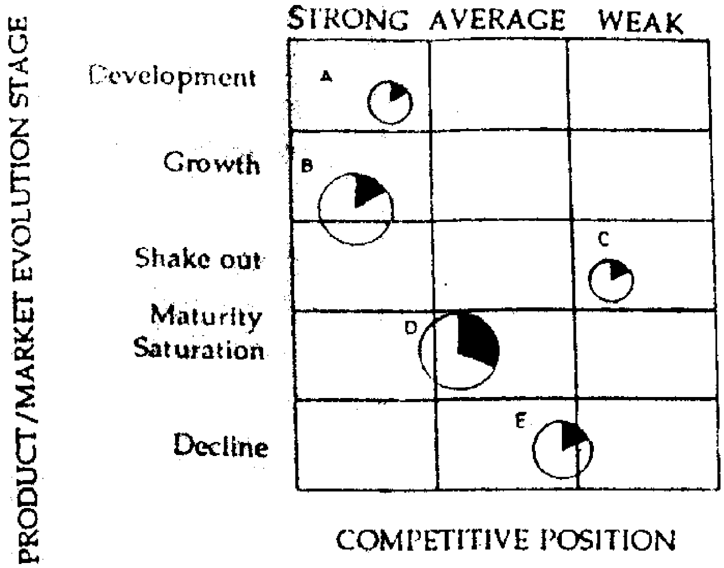


Exhibit 10.5 Hofer's Product / Market Evolution Matrix

a 'dog' while D represents a business which can be used for cash generation that could be diverted to A and B. Business E is a potential loser and may be considered for divestment. In this manner, the product/market evolution matrix portrays a company's corporate portfolio with a high level of accuracy and completeness.

10.4.6 Directional Policy Matrix

The *directional policy matrix (DPM)* developed by Shell Chemicals, U.K., uses the two parameters of "business sector prospects" and "company's competitive abilities". A number of factors such as market growth, market quality, market supply, etc. are used to rate the business sector prospects as unattractive, average, or attractive. A company's competitive abilities are similarly judged as weak, average, or strong on the basis of several factors. The 3 × 3 matrix when plotted as shown in Exhibit 10.6 forms the basis for recommending baseline strategies. One advantage of the DPM is that one of its extension, "risk matrix" provides an alternative way to analyse environmental risk. In a risk matrix, environmental risk is taken as the third dimension and is divided into four categories from low risk to very high risk. Each risk position is determined on the basis of environmental threats and the probability of their occurrence.

10.4.7 Strategic Position and Action Evaluation

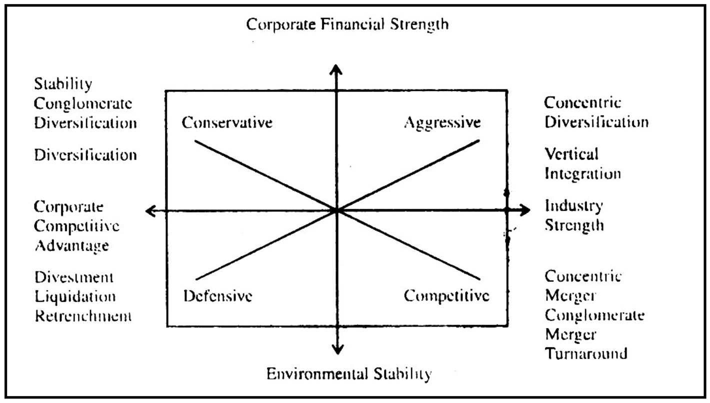
An approach that considers the company's strategic position in tandem with the strategic position of the industry is *strategic position and action evaluation* (SPACE). The *company's strategic position* is determined on the basis of financial strength (ROI, leverage, liquidity, etc.) and competitive advantage (market share, product quality, etc.) The *industry's strategic position* is based on industry strength (growth and profit quality, etc.) and environmental

Company's competitive abilities	Business sector prospects: Unattractive	Average	Attractive
Weak	Divestment	Imitation/ Phased withdrawal	Phased withdrawal/ cash generation
Average	Phased withdrawal/ merger	Maintenance of position/ market penetration	Expansion/product differentiation
Strong	Diversification/ cash generation	Growth/market segmentation	Market leadership innovation

Sources : Adapted from D.E. Hussey, "Portfolio Analysis : Practical Experience with the Directional Policy Matrix," *Long Range Planning,* Aug. 1978, p.3 and A.J.Rowe, R.O.Mason, and K.Dickel: *Strategic Management and Business Policy—A Methodological Approach* (Reading, Mass : Addison—Wesley, 1982) p. 154

Exhibit 10.6 The directional policy matrix

stability (technological changes, competitive pressures, etc.). When these two dimensions are combined, a typical SPACE diagram would be like the one shown in Exhibit 10.7. Four strategic postures—*aggressive, defensive, conservative*, and *competitive*—are recommended based on the simple rating system for the four dimensions as shown in the exhibit.



Source: Adapted from A.J. Rowe, R.O. Mason, and K. Dickel: *Strategic Management and Business Policy—Methodological Approach* (Reading, Mass.: Addison-Wesley, 1982) p. 164.

Exhibit 10.7 Space diagram and recommended strategies

10.4.8 Overall Assessment of Corporate Portfolio Analysis

Corporate portfolio analysis can help companies that are running diverse businesses to develop feasible strategic alternatives and to allocate resources among them. Other benefits include a better understanding of businesses leading to better strategic decisions and availability of an interesting vocabulary and graphic aids for communication.

Like all analytical techniques, portfolio analysis has its drawbacks. Problems arise in measuring parameters like the actual growth rate of business. There are also organisational and motivational problems arising due to the adoption of recommendations emerging out of portfolio analysis.

No organised evidence is available regarding the use and application of portfolio analysis techniques by Indian organisations. Research studies on corporate planning in Indian companies, though dealing with several issues, fail to take cognizance of the use of portfolio models.

However, these models do provide a powerful analytical tool and could be appropriately adapted to suit the Indian context. For instance, companies could take into account the governmental priorities and rate different businesses in their portfolio along the priority dimension (say, high, medium, or low). Whenever the businesses rate high in terms of governmental priorities, they may be considered as high potential businesses and vice-versa. The priority dimension may be used along with the other dimensions of product/market evolution or competitive position. What is being suggested, however, lies in the realm of conjecture and empirical evidence is needed first to establish the suitability of the portfolio models in the Indian context.

Portfolio analysis, and industry, competitor, and SWOT analyses, discussed in the following section, form the basis for dealing with the objective factors.

10.5 INDUSTRY, COMPETITION AND SWOT ANALYSIS

Every organisations is part of an industry. Almost all organisations 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 organisation operates while competitors via for the same set of customers by offering more or less identical products. It is quite obvious that any strategic choice made by an organisation cannot be made unless the industry and competition have been analysed. Apart from the external forces that are present in industry and competitor analyses, it is useful to look inward and perform a SWOT analysis.

10.5.1 Industry Analysis

The purpose of industry analysis, in the context of strategic choice, 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. It follows that, for instance, if the industry is not, or no longer, sufficiently attractive (i.e. it does not offer long-term growth opportunities), then the strategic alternatives that lie within the indsutry should not be considered. It also means that alternatives may have to be sought outside the industry calling for diversification moves.

Michael E. Porter has made 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 has been proposed consisting of five competitive forces—*entry, threat of substitution, bargaining power of* *buyers, bargaining power of suppliers, and rivalry among current competitors*— that determine the intensity of industry competition and profitability. Exhibit 10.8 depicts Porter's five forces model of completition.

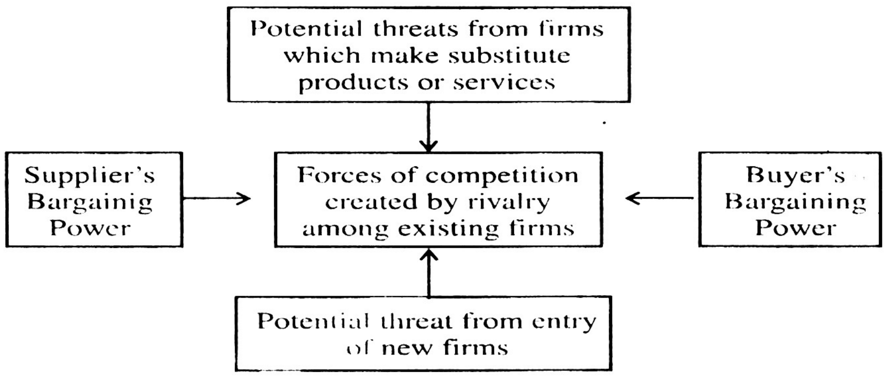


Exhibit 10.8 Porter's five forces model of competition

Using the five forces model of industry competition, a firm can analyse 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. For instance, looking at the current industrial scene in the Indian four-wheeler market, it can be said that there are just three major car manufacturers: Maruti Udyog Ltd, Premier Auto, and Hindustan Motors. Each company employs its own strategic style to compete in the market. Substitutes are rare but other forms of four wheelers like jeeps, convertible vans and light commercial vehicles do offer a threat though these cannot be competitively priced. Though the nature of competition has marginally changed from that in the past, it is still a seller's market and buyers have little bargaining power. On the other hand, suppliers wield enormous power as sources of components, parts, sub-assemblies, and accessories. Potential new entrants are there but severely limited due to the government policy. Given this scenario, the individual car companies can have a good idea of what their major strengths and weaknesses, and opportunities and threats are, their position within the industry, and the areas where strategic changes may yield maximum profits.

10.5.2 Competition Analysis

According to Porter, the purpose of conducting a competitor analysis is to :

- determine each competitor's probable reaction to the industry and environmental changes;
- anticipate the response of each competitor to the likely strategic moves by the other firm; and
- develop a profile of the nature and success of the possible strategic changes each competitor might undertake.

A competitor response profile can be built on the basis of four components of competitor analysis. These four components are : *future goals of competitor,* its current strategy, and the key *assumptions* that the competitor makes about itself and about the industry, and its *capabilities* in terms of strengths and weaknesses. Based on a thorough analysis of these components, a *response profile* can be prepared for each competitor that can help predict their likely strategic moves which can be either of an offensive or defenive type. This information is a vital input for the purpose of strategy formulation by any organisation.

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 liberalisation measures taken by the government after 1984. Supply has exceeded demand in industries and companies have overhauled their marketing strategies to be able to compete well in the market. The case of two-wheelers is an illustration of the changing scenario of competitiveness. Waiting lists for scooters was a common phenomenon a few years ago but now the scooter market is highly competitive. It is in such a scenario that competitor analysis becomes relevant. There is very less information available regarding the means adopted by companies to keep track of their competitors. But many executives and industrialists admit that they do rely on their marketing intelligence system to collect information regarding the probable strategic moves by their competitors. Besides this, companies tap various formal as well as informal sources for the purpose.

Competitor analysis is important because competitive forces shape the strategy adopted and because the strategies of rival firms shape competitive forces. It is useful for a firm if it takes the result of competitor analysis into account while exercising a strategic choice.

10.5.3 SWOT Analysis

In the previous section, we had explained the SWOT analysis. In fact, environmental as well as corporate appraisal deals with the opportunities, threats, strengths, and weaknesses relevant for an organisation. The two profiles (ETOP and SAP) should now be brough together and analysed so that feasible strategic alternatives can emerge.

ETOP Sector Impact		SAP Impact Factor	
Social	↑		
Political	→	Finance	↓
Economic	↑	Marketing	→
Regulatory	↑	Operations	↑
Market	↑	Personnel	→
Supplier	↑	General Management	↑
Technological	↑		

Exhibit 10.9 Consolidated SWOT profiles

SWOT analysis can be applied in order to generate feasible strategic alternatives. Based on information contained, it can be said that expansion strategies seem to be more likely. The socio-economic factors are supportive while market opportunities both in the domestic and export markets are significant. Based on a fortuitous match between the technological and supplier environment on the one hand, and operations-related internal factors on the other, the firm is most likely to be a high quality producer. This strength can stand the firm in good stead in its local marketing and exports efforts. General management can take proactive steps in order to sustain marketing efforts. Good personnel may prove to be of value in various activities that the firm undertakes. Finance is the only problem area and cannot be neglected at any cost. It is quite possible that major investments have been made in plant, equipment, and facilities and the pay-off may be expected in the long run. In such a case, the financial problems can be assumed to be of transparent nature. Should this be true, the firm can hope to overcome its negative financial features provided it adopts prudent financial policies in the near future. Expansion strategies, therefore, seem to offer a feasible approach to strategy formulation. Of course, expansion itself could take place through various means. For instance, internal expanison could be possible if the firm is in a position to garner additional financial resources. If this is difficult, then external expansion may be the way out. Depending on whether other units are available for acquisition, the firm could contemplate a takeover. But this would again require immediate resources. Expansion strategies could be preceeded by a short period of stability also if the financial position can improve in the meantime.

The analysis attempted in the paragraph above can be continued till the strategists are able to shortlist feasible strategic alternatives. Of course, the line of thought adopted by others may be different from that followed by us. But it can be safely assumed that since the SWOT profiles are the same, different analysts are likely to reach more or less the same set of conclusions. Much would depend on other factors, for instance, the willingness of the management to take risks. But factors like these will be discussed in the next section. A good and meaningful SWOT analysis is likely to bring out a few feasible strategic alternatives. These could be subjected to further analysis based on subjective factors that are discussed in the following section.

10.6 SUBJECTIVE FACTORS IN STRATEGIC CHOICE

It is widely accepted that strategic decision-making is a complex affair. No one set of factors can be sufficient for exercising a strategic choice. How strategists actually make a choice among several alternative strategies has been a subject of considerable interest to researchers in management in general, and business policy, in particular. We dealt with the different approaches to strategic decision-making in Section 3.2 and the patterns of strategic behaviour in Section 3.3. Here, we are specifically concerned about the subjective factors in strategic choice. Subjective factors are essentially intuitive and descriptive in nature. Not many 'cut and dried' analytical models can be used. But this does not mean that subjective factors are irrational or non-analytical. Rather, they attempt to consider many of the issues that cannot—and probably should not—be dealt with the application of analytical models.

Six types of subjective factors are discussed below :

1. Considerations for governmental policies
2. Perception of critical success factors (CSFs) and distinctive competencies
3. Commitment to past strategic actions
4. Strategist's decision styles and attitude to risk
5. Internal political considerations
6. Timing and competitor considerations

10.6.1 Considerations for Governmental Policies

A significant feature of the Indian economy is that it is centrally planned and regulated. State intervention in business is very evident. Strategists within organisations are aware of the crucial role that the government plays in setting down policies and priorities. In fact, in several cases, government policies are the deciding factors : a shift in policies can have a significant impact on the future prospects of companies. Strategic alternatives considered by companies have to be seen in the context of governmental policies. Expansion, retrenchment, or liquidation strategies can only be feasible if the governmental policies do not come in the way of their adoption. In this way, policies act as a major subjective factor in screening alternatives. (We consider policies as a subjective factor since the perception that strategists have about them is more important from the long-term viewpoint).

Multinational companies in India such as Hindustan Lever Ltd and ITC Ltd acknowledge that the strategic choices made by them have been dictated by "national industrial and economic policies formulated by Government." Change in the government, either at the central or state levels, is of much significance to industrialists as they are concerned about the shift in policies and priorities, and the likely impact they would have on business. Annual reports by chairmen of different companies invariably devote a lot of attention to the government's policies and their impact on different industries and businesses. In this manner, it is seen that considerations to govenmental policies and priorities is one of the most important subjective factors that strategists take into account while exercising a strategic choice.

10.6.2 Perception of CSFs and Distinctive Competencies

Critical success factors and distinctive competencies are important issues in environmental and organisational appraisal. How they are perceived by strategists make them important subjective factors in strategic choice. While considering several strategic alternatives, strategists could be guided by the distinctive competencies that the organisation possesses, and the CSFs that ensure success in an industry. The important thing is to focus on the extent of match that exists between the competencies and the CSFs. The industries, which the strategic alternatives would lead to, have their own CSFs. If its distinctive competence can lead the organisation to build its strategy around the CSFs, then success is more likely. For instance, if the CSFs in a particular industry are : low-cost production, ensured raw materials supply, and the quality of after-sales service, then an organisation can evaluate itself on these bases and conclude whether it possesses significant strengths in these areas or not. If it does, the alternative of entering that industry is open, otherwise it should consider other alternatives. In this way, strategic choice can be guided by the perception that strategists have with regard to the match that exists between the CSFs and distinctive competencies.

10.6.3 Commitment to Past Strategic Actions

It is rare that an organisation completely breaks away from its past strategies and embarks upon a totally new course of action. Experience shows that they move in an incremental fashion. Called upon to exercise a strategic choice, strategists are more likely to start from where the organisation is, and what way had been adopted by it to reach where it was. In this way, the strategic choice is more likely to be for those alternatives which arise out of past strategic actions.

There is another practical reason why past strategic actions affect strategic choice. Strategic actions involve not only the formulation of particular strategies, but also, commitment in terms of resources and personnel. Having made a serious commitment, it is difficult to move to areas where existing resources and personnel become redundant. Therefore, strategists tend to eliminate the strategic alternatives that lead the organisation too far away from their existing positions. Only under pressing circumstances and imminent threat from the environment does an organisation move, or is forced to move, away from its existing position. This gives rise to another subjective factor in strategic choice, i.e. decision styles and attitude to risk.

Strategist's Decision Style and Attitude to Risk

The decision (or management) style adopted by strategists, particularly the chief executive (CE), and their attitude to risk is a determining subjective factor in strategic choice. While discussing the roles that different strategists play we had referred to the impact that CEs and other strategists have on different aspects of strategic management. It is of much interest to note that given the same set of environmental factors, and identical organisational factors, two organisations may follow different strategic paths. One may act in an aggressive manner and adopt a proactive stance with regard to strategy formulation, while the other may act defensively and react to changes. The crucial variable responsible for the difference between the two approaches is the decision style and attitude to risk of the respective strategists.

There are several examples to show how individuals have had a far-reaching impact on strategic choice. Currently, there are industrialists like Vijay Mallya of the UB Group, Ruia brothers of the Essar Group, and many others (who are not in the limelight) who have adopted an aggressive posture and formulated expansion strategies. There are others who have acted conservatively and have not done well. A typical example is of the erstwhile successful business group of the Sarabhais. But risk aversion is not necessarily detrimental to strategic interests. The Bajaj group is generally considered to be a cautious and conservative business group. In Bajaj Auto, the CE Rahul Bajaj, has consistently followed a stability strategy and tried to expand within the existing business. There are several strategic alternatives that the company could have considered but has chosen to "stick-to-the-knitting". It could be concluded that the decision style and attitude to risk are contingent upon the requirements of a particular business and the environment in which it operates. In this way, they act as significant subjective factors in strategic choice.

10.6.4 Internal Political Considerations

By internal political considerations is meant the strategists, interrelationship, and power structure and balance. When strategy formulation is viewed as a political process, strategists are viewed as a coalition of interests. A dominant chief executive (CE) is able to affect strategic choice decisively. Where the CE is perceived as weak, or invites participation, interest groups or cliques emerge which affect the strategic choice process and try to make the process work in their favour. It should be noted, however, that politics and the use of power are not necessarily bad. "Political behaviour in organization is perfectly natural and legitimate.... Politics and power are neither good nor bad. They are neutral." The main issues for the CE is to see that they do not adversely affect the process of negotiations and support conditions that are necessary for the coalition of interests to work. Internal political considerations are crucial for strategic choice as such a choice determines where the resources of organisations will be allocated.

It is difficult to illustrate how internal political considerations play a role in strategic choice as power struggles are rarely publicised. But instances of a dominant strategist guiding strategic choice or of tussles within a family group affecting strategies are available. Prominent CEs like Ashok Ganguly of Hindustan Lever, C.H. Choksey of Asian Paints, V. Krishnamurthy of B H E L and several others have played a decisive role in exercising strategic choice in their respective organisations. The differences among members of family groups such as the Birlas, Modis, Shriram, etc. (apart from those relating to company and asset-sharing) have arisen because of conflicting personalities and power play. Another point to note is that, in the context of the public sector, bureaucrats in the administrative ministries also play a political role in strategy formulation. Likewise, in multinational subsidiaries, the parent company may exercise a political influence on strategic choice keeping in view its own objectives and strategies. All in all, internal political considerations are an important subjective factor in strategic choice.

10.6.5 Timing and Competitor Considerations

The time element and competitor considerations is another set of important subjective factors that influence strategic choice.

Timing answers the following questions : when to exercise a strategic choice, when a particular strategic choice is to be made and, for what time period (short-run or long-run) is a strategic choice to be made? A strategic choice has to be exercised when the strategists are sufficiently satisfied that all possible alternatives have been considered and the environmental analysis and diagnosis indicates that no other feasible alternatives are likely to emerge in the near future. A particular strategic choice, say of related diversification, could be made when no other alternative is as attrtactive and the requried resources are available or could be procured. Finally, it is to be seen whether the strategic choice, for instance, stability strategy, is for the short or long-run. Short-run strategic choice should be seen as a stop-gap arrangement before the organisation moves on to a more permanent, long-run strategy.

Competitor actions (and reactions) are also to be considered in strategic choice. If it is expected that a particular strategy would elicit an aggressive response, then it should only be chosen if the company is in a position to counteract. The timing of competitor action is also significant.

The leasing industry offers a good illustration of timing and competitor considerations in strategic choice. Comparatively a new industry in India, it has attracted so many industrialists and businessmen, and banking and financial institutions that their provision of service exceeds the demand. The industry is highly competitive. Given this scenario, many successful companies have had to diversify their opertaions. For example, Apple Leasing and Industries Ltd has diversified from leasing to computers and computer education. But it has firmly kept its major stake in leasing as, according to law, it can borrow up to 10 times its net worth and pay little tax because of the high depreciation rates allowed. Obviously, the timing is not ripe for major strategic shifts. An alternative is to have a subsidiary to look after hire-purchase business (currently 8 per cent of the total) and leave 51 per cent to leasing and the balance 41 per cent to computer-related activities. Computer business could also be retrenched internally but that would leave the company with lesser profits, and less investor-attractiveness so necessary to maintain the sources of finances. Again, internal retrenchment strategies are not timely. Then there is the question of formidable competition in leasing as well as computer-related activities. The result is that it has started consolidation of activities and is planning to enter the publication of computer-related books.

Besides the six factors discussed above, there might be several others that qualify as subjective factors (e.g. management philosophy, corporate ethics, social responsibility, etc.) and should be taken into consideration.

The subjective and objective factors, described in the previous section, both have a collective impact on strategic choice. How a strategist goes about assimilating information from a subjective and objective analysis is a matter of personal choice. The main thrust of strategic choice is to evolve a suitable mechanism for screening all possible strategic alternatives, narrowing the choice down to a few feasible alternatives, and then to choose an optimal strategy. But still an optimal strategy might not be the best. Changing circumstances may render the strategic choice partly irrelevant. It is necessary, therefore, to frame contingency strategies. These are discussed in the brief section that follows.

10.7 CONTINGENCY STRATEGIES

Contingency strategies are a result of the contingency plan. Strategic choice is made on the basis of certain conditions, assumptions, and premises. When there is a change of condition, shift in assumptions, and premises do not turn out to be wholly valid, then the strategy chosen becomes partly irrelevant. If the changes are drastic, the chosen strategies may have to be abandoned. If they are not unsetting, the strategies may have to be modified. Often, the shift in assumpitons is sudden, leaving very little time for the strategists to reorient strategies. Contingency strategies are formulated in advance to deal with uncertainties that are a natural part of the business. These strategies prepares the organisation for anything that could happen in future.

Most changes occur in the company's environment. Certain components of the environment, such as the social environment, alter gradually and such changes can be anticipated well in advance. Then there are other types of environment, for instance, the market or regulatory environment, where changes could be sudden and leave little time for the strategists to readjust to the situation.

The environment differs for different types of industries. Certain industries face a turbulent environment while others face a relatively placid environment. Businesses that exist in industries which face a turbulent environment feel a greater need for contingency strategies than those which exist in a relatively tranquil environment.

There are many industries in India at present which operate in an environment characterised by fast-moving developments. Indian companies which follow a formal, structured approach to corporate planning take care to formulate contingency strategies in order to cope with environmental changes and the uncertainties associated with environmental forecasting.

Strategists at L & T ''develop three scenario or models—pessimistic, most likely, and optimistic—based on different assumptions in relation to key variables.'' Another company which needed reorientation of its strategies in the light of changes in government policy is Indal. The company, which till recently was not doing well, earlier tried for a merger with Mahindra & Mahindra unsuccessfully. In March, 1988 the government allowed decontrol in pricing and distribution of aluminium, which is the main business of the company. This policy change caused the company to drop its plan to invest in other areas and instead focus on its aluminium business. Accordingly, expansion and diversification strategies have been formulated to capitalise on the new opportunities now available.

There are a few approaches to help companies develop and implement contingency strategies. One such approach is based on a model of contingency planning process. The model consists of three steps : *identifying the contingent events; establishing the trigger points;* and *developing strategies and tactics.* Essentially, the requirements of the model are to list events that may occur in future that are critical to a company's strategy formulation process. Trigger points in the form of indicators are established that signal the impending occurrence of these events after which strategies or tactics are employed to deal with the changed situation. Contingency strategies have received a fair amount of attention from policy researchers as they are of immense value to strategists who have to deal with a transparency phenomenon like the business environment.

The final step, before a strategy is implemented, is the formulation of a strategic plan.

10.8 STRATEGIC PLAN

Strategic plan is a document that establishes the direction of a Co. or work unit. Having traversed the different elements of strategy formulation, it is time now to pause and look back before we proceed to the next phase of strategy implementation.

A strategic plan (also *corporate, group, or perspective plan),* is a document which provides information regarding the different elements of strategic management and the manner in which an organisation and its strategists propose to put the strategies into action.

Based on the structure of this section, certain components of the strategic plan could be suggested. A comprehensive strategic plan document could contain the following information :

1. A clear statement of business definition, mission, purpose, and objectives.
2. Results of environmental appraisal, major opportunities and threats, and critical success factors.
3. Results of corporate appraisal, major strengths and weaknesses, and distinctive competencies.
4. Strategic choice made and the assumptions under which the strategies

would be relevant. Contingent strategies to be used under different conditions.

5. Strategic budget for the purpose of resource allocation for implementing strategies and the schedule for implementation.

6. Measures to be used to evaluate performance and assess the success of strategy implementation.

Typically, a strategic plan document could run into several pages and be treated as a formal report. Another possibility is that a brief document of 3 to 5 pages could briefly cover the points mentioned above. Much would depend on the nature and size of the company and the management policies regarding the preparation of the strategic plan document. It must be remembered, however, that when approved and accepted, a strategic plan document has to be communicated down the line to middle-level managers who will be responsible for its implementation. Most large-sized companies in India formulate strategic plans. Medium-sized and small-scale companies also perform the exercise though not necessarily in a formal and structured manner. A special feature of strategic plans is that many companies consciously formulate their plans keeping in view the time framework adopted for national-level planning. Thus, companies normally have a five-year planning period which is synchronised with that of the national Five Year Plans. In fact, core public enterprises have to link their corporate plans with national Five Year Plans.

Many public sector enterprises such as SAIL, BHEL, HMT and others have formulated corporate plans of varying duration. SAIL has drawn up an ambitious 15-year corporate plan till 2000 A.D. while corporate planning at BHEL has taken shape in the form of the first corporate plan which started in 1974.

Exhibit 10.10 presents the contents of the current strategic plan, initiated in 1982, by BHEL.

A 24-page slick document titled 'Growth perspectives in the 1980s' with a communication addressed to the BHEL employees by the then chief executive K.L. Puri, was published in April 1982. The contents of the document, given below, provide a good illustration of what a corporate plan may deal with.

1. BHEL objectives
2. Business opportunities and threats—Macro—environment and sector-wise (thermal, hydro, transmission, industry, and transportation) analysis
3. Directions for business development (all sectors plus exports)
4. Resource mobilisation (human, financial, and technological)
5. Research and development
6. Achieving the targets
7. Present activity profile of BHEL.

Source **:** Adapted from "Growth perspectives in the 1980s", (BHEL, 1982), p. 2.

Exhibit 10.10 BHEL's growth perspectives

Like public sector enterprises, private sector companies too formulate strategic plans. Multinational subsidiaries often have to prepare plan documents to be submitted to their parent companies for approval. Often, the MNC subsidiaries draw their strategic plans on the basis of guidelines provided by their parent institutions. Professional private sector companies may have executive committees consisting of senior level managers who formulate strategic plans. Family groups often draft group strategic plans to provide strategic directions to the different companies in the group.

Exhibit 10.11 provides a good example of a group strategic plan by a professionally managed business group. The Tata group is again in the process of formulating its next strategic plan for the 1990s.

Ratan Tata, Chairman, Tata group of industries initiated the first-ever group strategic plan in 1983, which was prepared with a view to providing strategic direction to the individual companies in the group. But being a truly professional group, the Chairman did not insist on, and the individual companies did not strictly follow, the group strategic plan. Subsequent developments did show that the plan made some extraordinary correct predictions and it should have been implemented fully. Given below are some of the major features of the 1983 group strategic plan for the Tata group.

1. Projected macro-environmental trends dealt with the growth rate of the economy, the share of the services sector, availability of funds for the corporate sector, the demographic structure and availability of skills till 1990.
2. Strategic implications of the macro trends on the small-scale sector, government attitude to licensing and foreign collaborations, the joint sector, and likely corporate strategies, were considered. (The plan succeeded in predicting that mergers and acquisitions would be the predominant strategy used in the late 1980s).
3. Strategic direction was provided in terms of suggestions that technology-driven leadership, focus on selected product-market segments, joint sector projects as avenues for growth and synergy would be the primary considerations.
4. Four broad business goals of product-market leadership, entry into emerging and growth businesses, technology upgradation, and attaining group synergy were laid out.
5. Eight business groups were identified and the heads of groups were named.
6. Business-wise objectives were spelt out in clear and unambiguous terms.

Source : Adapted from "Ratan Tata plans new strategy for the 1990s" and "Highlights of the 1983 plan" in *Financial Express*, July 10, 1989.

Exhibit 10.11 Strategic plan for the Tata Group

The formulation of a strategic plan document provides a means not only to formalise the effort that goes in strategic planning but also for communicating to insiders and outsiders what the company stands for, and what it plans to do in a given future time period. A strategic plan is not always publicised. Rather, companies prefer to treat is as confidential, primarily for protecting their competitive interests. But the main features of the plan are often spelt out for communication to outsiders and for public relations purposes.

10.9 SUMMARY

The basic theme of this chapter is strategic choice. Strategists set objectives for their firms. These objectives can be achieved through different means, which are alternative strategies. The problem before strategists is to choose from among these alternatives those that will be the best for achieving their objectives. Essentially, the choice process is based on strategic decision making which is a highly complex affair. In order to deal with the complexity, the factors that matter in the process of choice have to be divided into the objective and subjective types of factors.

Objective factors, which are based on facts and figures, could be dealt with by the help of analytical models. Since there are many such models, we have described them under two separate headings. First, we have the corporate portfolio analysis techniques. Starting with the concepts of experience curve and product life cycle, we have proceeded to describe BCG, GE nine-cell, Hofer's product-market evolution, directional policy, and strategic position and action evaluation matrices. Each of these matrices has its advantages and disadvantages and each could be applied under certain conditions. Under the next heading, we have discussed industry, competitor, and SWOT analyses, which are helpful in exercising a strategic choice at the business-level formulation of strategies.

Six subjective factors have been described further. In the Indian context, consideration for government policies and priorities seems to be the most critical selection factor. Strategists' perception related to the CSFs and the firm's distinctive competencies, their commitment to past strategic actions, their decision styles and attitude to risk are the other major subjective factors. Apart from these, internal political considerations and timing and competitor reactions also matter in strategic choice.

10.10 GLOSSARY

- Dogs : Business that have a very small share of a market that is not expected to grow.

- Corporate Portfolio Analysis : It means concerted effort to optimise an organisation's resource allocation to develop bridge between finance and strategy.

- Strategic Plan : It is a document that establishes the direction of a company which provides information regarding stratetic management.

10.11 SELF-ASSESSMENT QUESTIONS

Q 1. Describe the manner in which the process of strategic choice works ?

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____

Q 2. Critically comment on the use of corporate portfolio analysis for examining the objective factors involved in exercising a strategic choice?

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____

Q 3. Explain the following terms used in the BCG matrix :

(a) Stars (b) Question Marks

(c) Cash Cows (d) Dogs

____

____

Q 4. Differentiate between the objective and subjective strategy selection plan for a medium-sized company ?

____

____

10.12 LESSON END EXERCISE

Q1. When hit by a sudden crisis, what kind of strategic options were present before Apple Co.? Do you think the company did everything possible to put out fires quickly?

Q2. Politics and powerplay within an organisation may help strategic choice? Do you agree with this statement? Why & Why not?

10.13 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

Strategy Implementation Issues, Project Implementation, Procedural Implementation, Resource Allocation

UNIT-III

LESSON - 11

STRUCTURE

11.1 INTRODUCTION

Strategic implementation is a process that puts plans and strategies into action to reach desired goals. The tasks of strategic management are far from complete even after strategies have been formulated and a concrete strategic plan has been prepared. It is the job of strategists to put the plan into action. We start with pointing out the interrelationship between the formulation and implementation of strategies in the form of forward and backward linkages. Issues in strategy implementation are described next, followed by the first step of project implementation. Procedural implementation deals with the different aspects of the regulatory framework that Indian companies have to consider. The last section consists of the various issues involved in resource allocation.

11.2 OBJECTIVES : After studying this lesson, you will be able to :

(i) establish an inter-relationship between strategy formulation and implementation.

(ii) discuss the procedural implementation aspects related with strategy.

(iii) make an assessment of the approaches and difficulties relating resource allocation

11.3 INTERRELATIONSHIP BETWEEN FORMULATION AND IMPLEMENTATION

Before we move to an examination of the different issues involved in implementing strategies, it is important to consider the interrelationship between the formulation and implementation of strategies.

It is to be noted that the division of strategic management into different phases is only for the purpose of orderly study. In real life, the formulation and implementation processes are inter-wined. Two types of linkages exist between these two phases of strategic management. The forward linkages deal with the impact of the formulation on implementation while the backward linkages are concerned with the impact in the opposite direction.

11.3.1. Forward Linkages

The different elements in strategy formulation starting with objective setting through environmental and organisational appraisal, strategic alternatives and choice to the strategic plan determine the course that an organisation adopts for itself. With the formulation of new strategies, or reformulation of existing strategies many changes have to be effected within the organisation. For instance, the organisational structure has to undergo a change in the light of the requirements of the modified or new strategy. The style of leadership has to be adapted to the needs of the modified or new strategies. In this way, the formulation of strategies has forward linkages with their implementation.

11.3.2 Backward Linkages

Just as implementation is determined by the formulation of strategies, the formulation process is also affected by factors related with implementation. Recall that in the previous chapter, while dealing with strategic choice, we observed that past strategic actions also determine the choice of strategy. Organisations tend to adopt those strategies which can be implemented with the help of the present structure of resources combined with some additional efforts. Such incremental changes, over a period of time take the organisation from where it is to where it wishes to be.

It is to be noted that while strategy formulation is primarily an entrepreneurial activity, based on strategic decision-making, the implementation of strategy is mainly an administrative task based on strategic as well as operational decision-making. The next section focuses on the various issues involved in the implementation of strategies.

11.4 ISSUES IN STRATEGY IMPLEMENTATION

The different issues involved in strategy implementation cover practically everything that is included in the discipline of management studies. A strategist, therefore, has to bring to his or her task a wide range of knowledge, skills, attitudes, and abilities. The implementation tasks put to test the strategists' abilities to allocate resources, design structures, formulate functional policies, and take into account the leadership styles required, besides dealing with various other issues.

1. **Strategic Intent:** The strategic plan devised by the organisation proposes the manner in which the strategies could be put into action. Strategies, by themselves, do not lead to action. They are in a sense, a statement of intent: implementation tasks are meant to realise the intent. Strategies, therefore, have to be activated through implementation.

2. **Formulation of plans:** Strategies should lead to plans. For instance, if stability strategies have been formulated, they may lead to the formulation of various plans. One such plan could be a *modernisation plan.* If expansion strategies have been adopted, various types of *expansion plans* will have to be formulated. An expansion plan could be designed to set up an additional plant to manufacture the same products. Similarly, diversification strategies could lead to *new product development plans*.

3. **Development of programmes:** Plans result in different kinds of *programmes.* A programme is a broad term which include goals, policies, procedures, rules, and steps to be taken in putting a plan into action. Programmes are usually supported by funds allocated for plan implementation. An example of a programme is a research and development programme for the development of a new product.

4. **Formulation of projects:** Programmes lead to the formulation of *projects.* A project is a highly specific programme for which the time schedule and costs are predetermined. It requires allocation of funds based on capital budgeting by organisations. Thus, research and development programmes may consist of several projects, each of which is intended to achieve a specific and limited objective, requires separate allocation of funds, and is to be completed within a set time schedule.

5. Building Infrastructure: Projects create the needed infrastructure for the day-to-day operations in an organisation. They may be used for setting up new or additional plants, modernising the existing facilities, installation of new systems, and for several other activities that are needed for the implementation of strategies.

Exhibit 11.1 provides an illustration of a company that implements its strategies through the help of plans, programmes, and projects.

Hyderabad Allwyn Ltd is an Andhra Pradesh Government enterprise well-known for its different engineering-based products.

During the early eighties, Allwyn realised that it faced a competitive environment where technological changes were frequent. To ensure its survival and profitability, it decided to adopt a three-pronged strategy of modernisation, expansion, and diversification. The strategies were to be implemented in phases. Phase I was implemented during the Sixth Plan period while Phase II was expected to be completed during the Seventh Plan period.

The strategies led to the formulation of several programmes and projects. Modernisation programmes were put into action through different projects related to product improvement and technological upgradation of manufacturing processes and facilities for the existing products such as refrigerators, bus bodies, office equipments, etc.

Phase II of strategy implementation was based on programmes consisting of five major projects. One project was for modernisation-cum-diversification of facilities for the existing products. Expansion project was related to increasing the installed capacities for refrigerators and compressors. Diversification programmes have been implemented through foreign collaboration for the manufacture of watches and sewing machines for industrial use. Later the company also divested its light commercial vehicle subsidiary due to unprofitable operations.

Source : Adapted from "Allwyn Ltd : Strategies begin to pay off" in Business India, Dec. 14-27, 1987, pp. 57-60.

Exhibit 11.1 Strategy implementation tasks at Allwyn

Implementation of strategies is not limited to formulation of plans, programmes, and projects.

Exhibit 11.1 does not mention specifically but provides an idea that projects would require resources. Having provided the resources, it would be essential to see that a proper organisational structure is designed, systems are installed, functional policies are devised, and various behavioural inputs are provided so that plans may work.

For the purpose of discussion and orderly presentation, we deal with the different issues in implementation in sequence indicated below. But it should be noted that the sequence does not mean that each of the following activities are necessarily performed one after another. Many activities can be performed simultaneously, certain other activities may be repeated over time; and there are activities which are performed only once.

We deal with the following issues in strategy implementation in this section :

1. Project implementation;
2. Procedural implementation;
3. Resource allocation;
4. Structural implementation;
5. Functional implementation;
6. Behavioural implementation;

11.5 PROJECT IMPLEMENTATION:

Strategies lead to plans, programmes and projects. Knowledge related to project formulation and implementation is covered under the discipline of project management. Project Management Institute of the U.S. defines a project as "a one short, time-limited, goal-directed, major undertaking, requiring the commitment of varied skill and resources. The goals for a project are derived from the plane and programmes, which are based on the strategies adopted. A project passes through various phases before a set of tasks can be accomplished.

Exhibit 11.2 provides an idea of what a project feasibility report may contain.

Project reports are prepared for internal as well as external purposes. Internally, the report's may be presented to the top management committees or Board of Directors for approval and sanction. Externally, the reports are submitted to financial institutions which evaluate the project proposals for the purpose of granting financial assistance.

Currently, the central financial institutions (IDBI, ICICI, IFCI, etc.) seek the following information for the purpose of financial assistance.

1. General information such as name, form of organisation, location, nature of project (new, expansion, modernisation, diversification), etc.
2. Information regarding project promoters.
3. Particulars of the industrial concern seeking financial assistance.
4. Particulars of the project (details regarding capacity, process, technical arrangements, management, location, fixed assets, raw materials, utilities, schedule of implementation, etc.).
5. Cost of the project.
6. Means of financing.
7. Marketing and selling arrangements.
8. Profitability and cash flow.
9. Economic considerations.
10. Government consents.

Source : Adapted from "Application for financial assistance" in P. Chandra: *Projects Preparation, Appraisal, Budgeting andImplementation*. (3rd edn), (New Delhi: Tata McGraw-Hill, 1989), pp. 531-36.

Exhibit 11.2 The contents of a typical feasibility report

11.5.1 Phase of Project :

A project passes through different phases, not necessary in the order listed below:—

1. *Conception phase :*-This phase is an extension of the strategy formulation phase of strategic management. Ideas generated during the process of strategic alternatives and choice consideration form the core of the future projects that may be undertaken by the organisation. The project ideas that are conceived have to be allocated priorities on the basis of which they will be chosen for further development.
2. *Definition phase :*-After a set of projects have been identified and arranged according to the priority, they have to be subjected to a preliminary project analysis which examines the marketing, technical, financial, and economic aspects. This analysis is done to find out whether it would stand the scrutiny of the financial institutions, banks and investors. After this screening, the viable projects are taken up and feasibility studies conducted. Feasibility studies are done for in-depth, detailed project analysis and result in an adequately formulated project. The results are documented in the form of a project or feasibility report.

   After the project definition phase, the project is cleared for implementation. But before being implemented, the project has to be further planned.
3. *Planning and organising phase :*-Detailed planning related to different aspects of the projects such as infrastructure, engineering designs, schedules and budgets, finance, etc. has to be completed. A project structure has also to be created which would deal with the organisation and manpower, systems, and procedures, etc. which would enable the project manager to implement the project.
4. *Implementation phase :*-The detailed engineering, orders placement for equipment and material, awarding contracts, civil and other types of construction, etc. have to be undertaken during the implementation phase leading to the testing, trial, and commissioning of the plant.
5. *Clean-up phase* :-The final phase in project implementation deals with disbanding the project infrastructure and handing over the plant to the operating personnel.

It is to be noted that the above phases in project are more relevant to new plants that are set up to implement expansion and diversification strategies. But for other minor projects like rellocation of facilities, modernisation and upgradation of technology, etc. a similar, though less detailed process, may be followed.

While dealing with project implementation, we did not refer to the formalities that have to be completed by the organisation before a strategy can be implemented in the form of a project. Indian organisations operate within a regulatory framework where many procedural formalities have to be completed. The next section is devoted to an overview of the procedural aspects of strategy implementation.

11.6 PROCEDURAL IMPLEMENTATION

Strategy implementation required executing the strategy, based on rules and procedures formulated by the govt. Any organisation which is planning to implement strategies must be aware of the regulatory framework within which the plans, programmes, and projects have to be approved by the government (central and state). Following the procedures laid down for implementation constitutes an important component of strategy implementation in the Indian context.

The details regarding policies and procedures are available in *Guidelines for Industries, Part I, Policy and Procedures* (New Delhi: India Investment Centre). Here we shall briefly review some of the major elements of the government regulatory framework that affect strategy formulation and implementation within organisations. The framework is expected to undergo drastic changes as a result of the announcement of the new industrial policy. The regulatory elements to be reviewed are as follows :

1. Licensing procedure
2. Foreign collaboration procedure
3. FERA requirements
4. MRTP requirements
5. Capital issue control requirements
6. Import and export requirements
7. Incentives and facilities benefits

11.6.1 Licensing Procedure

The system of planning (or planned development) rests on three policy documents consisting of Industrial Policy Resolution, 1956; Industries (Development and Regulation) Act, 1951; and Industrial Licensing Policy, 1973. Besides these, there are the Industrial Policy statements of 1978, 1980, 1982, and the most recent statement of 1991. The Policy Resolutions classify the industries into three categories. The first category industries are those that are directly under the government. The second category consist of industries which are promoted by the government and the private sector supplements the efforts. The third category industries are left for the private sector. The Industries (Development and Regulation) Act, 1951 provides for a licensing system for the development and regulation of scheduled industries—those industries listed in the First Schedule of the Act. Section 30 of the IRDA Act deals with the Registration and Licensing of Industrial Undertaking Rules. Under this Act, a licence is necessary for establishing a new unit, manufacturing a 'new article' (any item related to a scheduled industry other than those specified in the licence), substantial expansion of capacity in existing business and changing location.

Recent liberalisation measures have been aimed at providing broad-banding facilities to enable an adjustment of the product mix, extension of delicensing to MRTP/FERA companies subject to certain restrictions, re-endorsement of capacity, specifying minimum economic capacities, raising the limit of foreign exchange, allowing modernisation resulting in capacity expansion, and many other objectives with a view to create a more realistic regulatory framework.

The licensing procedure requires the applicant to approach the Secretarial for Industrial Approvals (SIA), which is a common secretariat for receiving and processing all types of applications related to industrial projects. Composite applications (licensing plus other applications) are dealt by the Project Appraisal Board. The application is considered by a number of government agencies and ministries before a Letter of Intent is issued, which stipulates certain conditions. After the conditions are fulfilled, the Letter of Intent is converted into an industrial licence. The organisations which are granted licence have to submit periodical returns after the commencement of production. After the implementation of the new Industrial Policy this procedure is expected to be considerably diluted as licensing is proposed to be abolished for all, except 18 industries.

11.6.2 Foreign Collaboration Procedure

Many strategic alternatives (for instance, expansion/diversification into high-technology industries) call for foreign collaboration and investment. The government policy, in general, allows foreign investment and collaboration on a selective basis in priority areas, export-oriented or high-technology industries, and permitting existing foreign investment in non-priority areas up to 40% of the equity holding. This limit has been raised to 51% in 34 high-priority industries.

All proposals to set up projects with foreign collaboration require prior government approval. The regulatory framework deals with the need for foreign technology, royalty payments, terms and conditions for collaboration agreement, and foreign investment.

The procedural aspects of foreign collaboration include preliminary evaluation by the promoter, obtaining industrial licence (if necessary), or registration with the Directorate General of Technical Development, obtaining clearance under the MRTP Act, applying for foreign collaboration to Foreign Investment Board, applying for import of capital goods (if required), finalisation of agreement, and clearance from the Reserve Bank of India.

11.6.3 FERA Requirements

The Foreign Exchange Regulation Act (FERA), 1973 relates to the control of foreign controlled companies in India. Foreign companies, i.e. companies in which non-resident interest is more than 40% of equity holding, have to obtain permission of the Reserve Bank of India (RBI) regarding different activities like investment, issue of shares, acquiring an Indian unit, remittances of technical know-how fees, royalties, etc. under the collaboration agreement, and dividends, etc. The FERA requirements are expected to be amended in the light of the new Industrial Policy with a view to attract more investment and a higher level of technology transfer.

11.6.4 MRTP Requirements

The Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 seeks to prevent monopolistic and restrictive trade practices, and the concentration of economic power. The major implication of the MRTP Act with regard to strategy implementation arises from its power to prevent the concentration of economic power.

The MRTP Act, requires that any substantial expansion which increases the assets or productive capacity or supply for distribution by not less than 25 per cent requires the approval of the central government. The MRTP Act applies to four types of undertakings : an undertaking having gross assets of Rs 100 crore and above: interconnected undertakings which together have assets of Rs 100 crore or above; a dominant undertaking (one which produces, supplies, or controls one-third of any goods in the country) having assets of Rs 1 crore and above; and interconnected dominant undertakings.

The MRTP Act provisions significantly affect stability strategies (a company may expand at a constant rate of less than 25 per cent without attracting the provisions), expansion strategies (if substantial expansion occurs then the Act comes into operation), diversification strategies (the MRTP Act is relevant if it is related; for unrelated diversification, the Act apparently does not apply). Besides these implications, the MRTP Act also affects mergers, amalgamations, and takeovers involving a large business house or a dominant undertaking. According to the recent policy proposal, the MRTP assets limit is to be removed completely and no prior approval may be required for MRTP companies.

11.6.5 Capital Issue Control Requirements

The issue of capital by companies is regulated through the Capital Issues Control Act, 1956 and the Securities Contracts Regulation Act, 1956 for the purpose of ensuring that investments are made in priority area, and for the promotion of capital markets and protection of shareholders.

For the purpose of strategy implementation, these Acts are relevant so far as the provision of financial resources is concerned. Apart from this these Acts also affect mergers and amalgamations as they regulate the capital reorganisation plans for mergers.

The Controller of Capital Issues (CCI) under the Department of Economic Affairs, Ministry of Finance, is the nodal agency for the administration of the Acts. All proposals for fresh issues of equity or preference capital, issue of rights shares, bonus shares, debentures, etc. and capitalisation of free reserves have to be scrutinised by the CCI. It should be noted, however, that with the setting up of the Securities and Exchange Board the functions of CCI are expected to be reduced drastically.

11.6.6 Import and Export Requirements

Strategy implementation in areas such as modernisation, expansion and diversification requires the consideration of import and export requirements. Imports are vital for capital goods and raw materials provision for new and existing projects. The high priority accorded to import substitution by the government often offers a viable alternative to companies for setting up new projects or for introducing new products or services. Export considerations by the companies usually arise in the form of statutory stipulation in lieu of foreign collaboration and investments, and imports. In certain cases, exports offer an expansion opportunity for companies which operate in markets which are highly competitive or saturated. Thus, imports and exports requirements constitute an important part of any strategy implementation scheme.

The legal framework for imports and exports in India is provided by the Import and Export (Control) Act, 1947. *The Import Trade Control Policy Book* (popularly called the Red Book) is an annual government publication which outlines the import licensing policy for individual industries and for different categories of importers (established, actual users, and registered). Through the Import Control Order and Export Control Order, the government has delegated the power to issue liences and to administer the Act to the Chief Controller of Imports and Exports. For capital goods imports, an interministerial of export-oriented industries and utilisation of installed capacity through higher production levels and productivity.

11.6.7 Benefit from incentives and facilities

The primary instrument for achieving national plan objectives is through regulation. Promotional activities, however, do play an important role. The fiscal, monetary, and budgetary policies of the government are aimed at promotion. Tariff and taxation, coupled with incentives, are aimed at stimulation of activity in the priority industrial sectors.

Discretionary control over money supply and banks and financial institutions' lending rates are used to affect industrial activity. Budget pronouncements may result in reduction of excise duties, corporate and personal taxation rates etc. which increase availability of finance for expansion activities.

The government also plays a promotional role in terms of purchasing, pricing, distribution, availability of raw materials, and provision of infrastructural facilities. A number of industries are critically dependent on government purchases. The Directorate General of Supplies and Disposals is the largest purchasing agency in the country. The system of administered pricing has a far-reaching impact on many industries such as steel, cement, fertilizers, etc. The distribution of many goods such as agricultural produce, fuel, (commonly known as essential commodities) affects industries such as sugar, *vanaspati,* edible oils, common cloth, and several others. The government also undertakes the supply of essential raw materials or scarce imported raw materials (e.g. newsprint) which affects the supplier environment in many industries. In many industries, the critical success factors include the regular availability of vital raw material in sufficient quantities. Through the provision of infrastructural facilities such as power, water, skilled manpower, banking and financial services, health services, public utilities like transportation, and industrial sites and sheds, the government seeks to ensure balanced regional development through dispersal of industries. From the point of view of strategic management, all the above measures undertaken by the government are highly relevant for business organisations. Strategic decision-making has to take these factors into account in objective-setting, strategic choice and strategy implementation.

Certain other specific measures which are undertaken by the government relate to backward area incentives, development of small-scale industries, and export promotion. Backward area incentives, announced by the Government from time to time, include the Central Investment Subsidy Scheme, Concessional Finance Scheme, Transport Subsidy Scheme, Infrastructural Development Scheme, income-tax incentives, etc. Various State governments and Union Territory administrations offer additional schemes. The schemes are administered through the central and state level ministries and departments by involving financial institutions. Expansion strategies can be implemented profitably, if the various incentives can be availed of under the different government schemes. In the special case of small-scale industries wishing to implement their strategies, various benefits can be availed of under the comprehensive assistance programmes administered through the Development Commissioner of Small-scale Industries and its various agencies situated at various places in India. Export promotion efforts by the government take the form of several incentives like permission for a higher level of foreign equity, liberal import facilities, priority in financing and transportation, etc. 100 per cent export-oriented units and units in free trade zones enjoy special incentives and facilities.

11.6.8 Overview of Procedural Implementation

In the proceeding sections, we have attempted to provide information related to the regulatory framework within which Indian organisations have to operate. It is to be observed that the role of the government is quite comprehensive and affects practically each and every aspect of an organisation's management especially activities related to strategic management. While there are differing viewpoints regarding the extent and manner in which the regulatory framework should operate an 'existentialist' view for strategists is to continually look for opportunities within the business environment as such an environment is primarily the creation of government plans, priorities, policies and actions. Strategy formulation and implementation, within organisations have to closely follow the ground rules laid by the government. We have indicated the major regulatory and promotional aspects that have to be considered by strategists.

Several organisations—usually large ones and, ironically, even public enterprises—have to maintain a close liaison with various governmental agencies in order to get approvals, sanctions, permissions, and statutory benefits. This liaison is usually exercised through formal as well as informal means. Formally, companies maintain liaison offices in New Delhi and State capitals or employ advisors and consultants who assist and guide the organisation regarding governmental matters. Informally, organisations seek to coordinate and influence governmental action through unconventional means such as political donations and lobbying.

Project and procedural implementation result in the necessary infrastructure and required permission for an organisation to proceed with other aspects of strategy implementation. The first issue that a strategist is called upon to deal with is that of resource allocation and is the subject matter of the next section.

11.7 RESOURCE ALLOCATION

A strategic plan is the representation of hopes and aspirations of strategists. Project implementation is for the creation of infrastructure to enable them to put such a plan into action. Procedural implementation provides the 'go-ahead' signal. But nothing really happens until resources are procured and allocated to tasks for accomplishment of objectives. *Resource allocation* deals with the procurement and commitment of financial, physical, and human resources to strategic tasks for the achievement of organisational objectives.

Resource allocation is both a one-time and a continuous process. When a new project is implemented, it would require resources. An on-going concern would also require periodic allocation of resources. Strategy implementation should deal with both these types of resource allocation. Several questions have to be dealt with in resource allocation: what sources can be tapped for resources? what factors affect resource allocation? what different approaches could be adopted? how does resource allocation take place? and finally, what difficulties are encountered? We deal with these questions in the following sub-sections.

11.7.1 Procurement of Resources

The different types of resources—financial, physical, and human—are derived from different sources. But finance is generally considered to be the primary source; it is used for creation and maintenance of other resources.

Basically, there are two types of finances—long-term and short-term. Long-term finance is required for creation of capital assets. Short-term finance is for working capital. Both types of finances can be procured from the internal and external sources.

Internal sources include retained earnings, depreciation provisions, taxation provisions, and other types of reserves like development rebate and investment allowance reserves. External sources consist of equity and loans (generally for long-term finance) and bank credit, hire-purchase debt, trade credit and fixed deposits (generally for short-term finances). While both internal and external sources carry benefits as well as dis-advantages, given a choice a business firm would prefer the internal sources. But much depends on management policy related to financing. The cost of capital from different sources has to be considered.

When modernisation, expansion, and diversification strategies lead to the creation of a new company or require additional investments, and when external sources of financing are tapped, certain important issues have to be considered. These are the requirements of the Controller of Capital Issues and financial institutions, and the stipulations of stock exchanges. The Controller of Capital Issues would consider the total capital cost outlays and the scheme of finance for project, debt-equity ratio, and equity-preference ratio. The financial institutions, (IFCI, ICICI, IDBI, IRCI, LIC, UTI, NSIC, which are central level institutions besides the State level SFCs and SIDCs) have their own norms and specific areas and types of financing. The primary support for working capital is provided by commercial banks.

Having procured financial resources, the strategists set out to implement the strategies in right earnest. The first task is to distribute the resources within the organisation to different SBUs, divisions, departments, functions, tasks and individuals. The next section looks at the approaches that could be adopted for resource allocation.

11.7.2 Approaches to Resource Allocation

The main instrument for resource allocation is a budget. Broadly, there could be three approaches to resource allocation. The first type is a *top-down approach* where resources are distributed through a process of segregation down to the operating levels. The corporate management, consisting of the Board of Directors, managing director, and executive committee, could decide the requirements and distribute resources accordingly. The second type is a *bottom-up approach* where resources are allocated after a process of aggregation from the operating level. The top-down approach is usually adopted in an entrepreneurial mode of strategy implementation. A third type of approach is *a mix of these two* and involves an iterative form of strategic decision-making between different levels of management. This approach (or other similar approaches) has been termed as *strategic budgeting.* Besides the strategic budget, there are several other means of resource allocation such as the BCG matrix, PLC, etc.

11.7.3 Means of Resource Allocation

Strategic budgeting Budgeting is a common technique used as a planning, coordination, and control device in management. Its use is wide spread in organisations. The topic of budgeting is covered exhaustively in texts in the area of financial management.

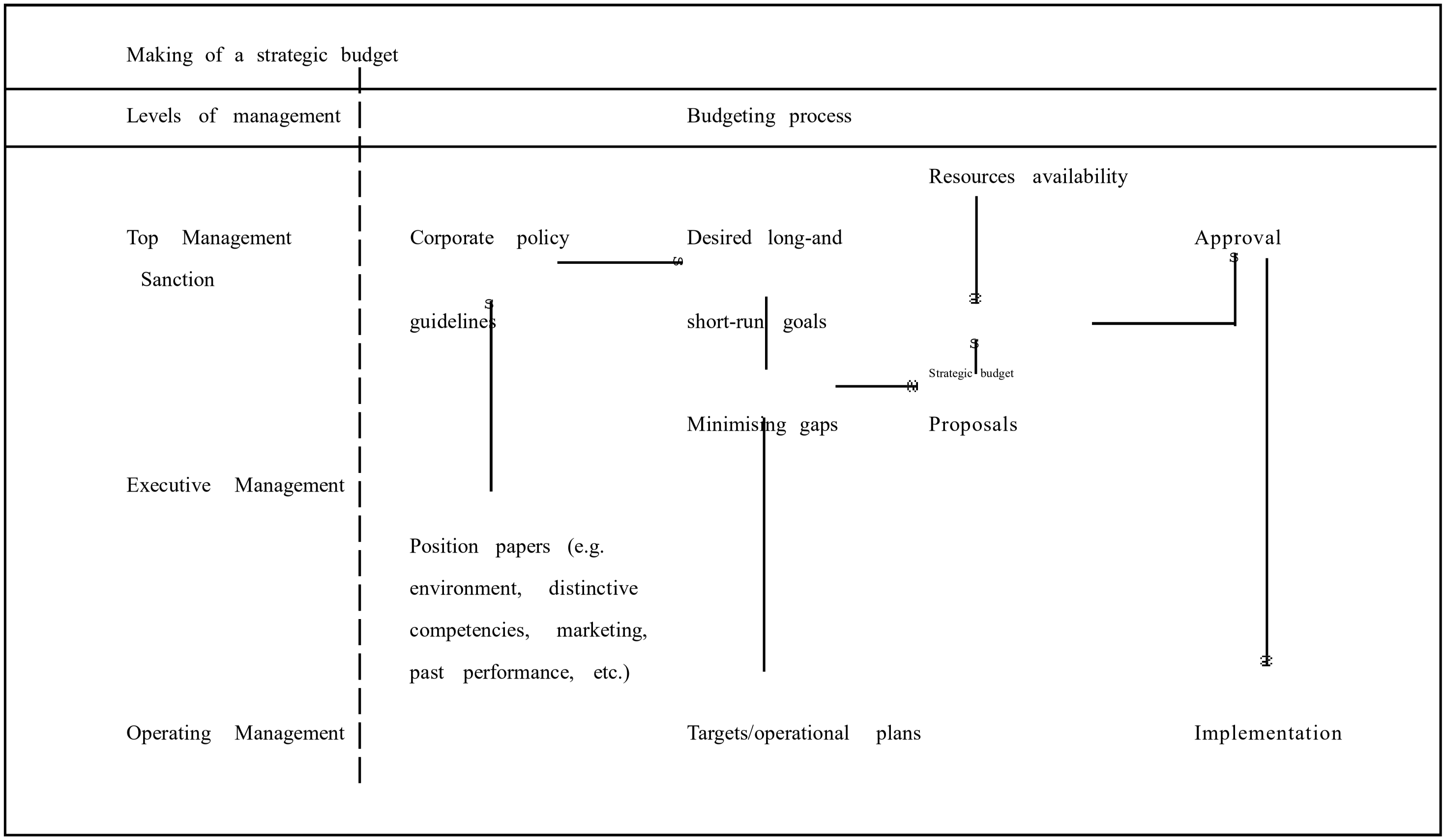


Exhibit 11.3 Making of a Strategic Budget

But apart from traditional budgeting, where stress is on accounting, a budget is increasingly being used a as a dynamic management tool. The difference lies in the way budgeting exercise is carried out in an iterative manner between different managerial levels and the assumptions made before the formulation of budgets. Exhibit 11.3 illustrates a probable way in which a strategic budget could be prepared. Position papers on different aspects such as environment, distinctive competence, marketing, past performance, etc. are prepared and presented to the top management which uses them in formulating corporate policy guidelines and stating long-and short-term goals. The operating management mean while prepares operational plans and sets targets which are coordinated with the corporate objectives through the executive management. Based on resources availability and corporate guidelines, the strategic budget is prepared by the executive-level committee and presented to the top management for approval and sanction. The strategic budget is then communicated down the line and the tasks of implementation taken up.

As can be seen from the above description, strategic budgeting is an iterative process involving a multi-level, organisation-wide effort and, therefore, needs to carry the approval of all concerned. More importantly, it takes into account strategic factors such as environmental changes and their likely impact on the implementation of strategies, and the corporate distinctive competencies and their probable effect on the objective-achieving capability of the organisation. This is the reason why it is termed as a strategic budget. Besides, this type of budgeting, there are also other means of resource allocation.

BCG-based budgeting The BCG matrix can also be used for resource allocation. In a BCG matrix, SBUs or products are identified as ‘stars’, ‘question marks’, ‘cash cows’ and ‘dogs’. Investment and cash flow decisions can be made on the basis of the type of SBU. For instance, resources can be diverted from a ‘cash cow’ to a ‘question mark’ or a ‘star. The BCG matrix, can, therefore, play a useful role in a multi-SBU - division or-department company where resources have to be allocated.

PLC-based budgeting Resource allocation could be linked to the different stages in a product’s (or SBU’s) life cycle. A product in the introduction and growth stages may attract more resources and these resources may be diverted from the high-profit yielding products that have reached the maturity stage of their life cycle.

Capital budgeting Resource allocation for new projects or products could be done on the basis of capital budgeting. Existing projects, in cases of restructuring and modernisation, could also use capital budgeting for resource allocation.

Zero-based budgeting Zero-based budgeting is an operation planning and budgeting process that requires each strategist to justify resource allocation demand not on the basis of previous years' budget but on "ground zero", which is based on a fresh calculation of costs each time a plan is to be implemented. The strategic plan is divided into operational plans, goals and activities, and resource requirements are calculated everytime a budget is prepared. ZBB can be used for effective resource allocation among competing units on the basis of strategic priorities since costs are related to benefits for each strategic task undertaken.

Parta system The *parta* system is an indigenous form of control device used for exercising management control. Though essentially, *parta* is a control tool used for the daily assessment of net cash inflow from operations, before tax and dividends, the budgeted *parta* is a pre-determined amount agreed upon between the chairperson of the company and the business unit in charge. The total *parta* system is a daily budgeting and reporting system.

Having discussed the approaches to and means of resource allocation, we now turn to the factors that affect resource allocation.

11.7.4 Factors Affecting Resource Allocation

Resource allocation deals with the commitment and distribution of resources. Since resources are almost always scarce, the process of resource allocation is quite complex. The basic question before the strategists is how to allocate scarce resources to competitive strategic tasks that lead to the accomplishment of organisational objectives. It would be easier for strategists to allocate resources if the strategic priorities are clear. But setting clear priorities practically is often a daunting task. This is so because a variety of factors affect the process of resource allocation. These factors could be: the objectives of the organisation, preference of dominant strategists, internal politics, and external influences.

1. **Objectives of the organisation :** While dealing with objectives, we stated that objective-setting is a complex process. There are a number of objectives. Some are official (or explicit) while others are operative (or implicit). Employees of any organisation tend to judge the importance given by strategists to tasks on the basis of the amount of resources allocated to them. If the chairperson of a company, while presenting the annual report, waxes eloquently on the virtues of human resources but the actual resource allocation does not reflect the importance given to these resources, then human resource development is certainly not a priority strategic task. Operative objectives tend to affect the pattern of resource allocation to the maximum extent.

2. **Preference of dominant strategists:** The dominant strategists—most often the chief executive–tend to affect the process of resource allocation. Their preferences, are reflected in the way how resources get allocated. Perceptive SBU, divisional and departmental heads know that such preferences matter and try to present their demands in line with them or attempt creating interest in the dominant strategists for their demands so that resources can be attracted easily.

3. **Internal Poltics:** Resources are often misconstrued as power. Those departmental units which are able to attract more resources are considered more powerful. Executives who are in a position to affect the process of resource allocation in their favour are perceived to be more effective. These perceptions make resource allocation a rational-political process. Internal politics within the organisation therefore, affects the process of resource allocation.

4. **External Influences :** Apart from internal politics, external influences also affect resource allocation. These influences arise due to government policy and stipulations, the demands of external shareholders, financial institutions, community, and others. For instance, conditions imposed in the letter of intent issued to a company may require additional investment in pollution control and safety equipments before its conversion to an industrial licence. The shareholders may expect a higher dividend or bonus shares and resources may have to be diverted to them. Financial institutions may impose restrictions or require companies to invest in technology upgradation. The discharging of social responsibilities such as contribution to community services may require

allocation of funds. Thus, external influences affect the process of resource allocation considerably.

If we look back to the factors described above, it is easy to recognise that in the absence of clear strategic priorities, the process of resource allocation could be distorted to a great extent. The value of an explicit corporate strategy, clearly laid down objectives, and setting down of strategic priorities lies in a balanced allocation of resources. Several authors and practitioners stress on the strengthening of links between strategies and budgeting and resource allocation. In fact, the absence of clear strategic priorities is often the reason why the process of resource allocation gets distorted. We refer below, to some of the difficulties faced in resource allocation.

11.7.5 Difficulties in Resource Allocation

The previous sub-section described the factors that affect the process of resource allocation. These factors, combined with the fact that the resource allocation process is highly complex, create several difficulties for the strategists.

1. **Scareity of resources :** The major difficulty arises due to a scarcity of resources. Financial, physical, and human resources are hard to find. Firms will usually face difficulties in procuring finance. Even if finance is available, the cost of capital is a constraint. Those firms which enjoy investor confidence and high creditworthiness possess a distinctive competence as it increases their resource-generation capability. Physical resources would consist of assets such as land, machinery, and equipment. In a developing country like India, many capital goods have to be imported. The government can provide a limited amount of foreign exchange and this places a restriction on firms wishing to procure physical resources. Human resources are seemingly in abundance but the problem arises due to the non-availability of skills that are specially required. Computer professionals, advertising personnel, and chemical engineers are currently scarce in India. This places severe restrictions on firms wishing to attract and retain personnel. In sum, the availability of scarce resources is a very real problem faced in resource allocation.

2. **Budgeting:** Within organisations, there are several difficulties encountered in resource allocation. The usual budgeting for existing SBUs, divisions, and departments places restrictions on generating resources for newer units and those with a greater

potential for growth. Over-statement of needs is another frequent problem in a bottom-up approach to resource allocation. The budgeting and corporate planning departments may have to face the ire of those executives who do not get resources according to their expectations. Such negative reactions may hamper the process of strategic planning itself. When strategic budgeting is used for resource allocation, powerful units may be divested of resources for reallocation to potential units. "Budget battles" may ensue if resource allocation affects vested interests. It must be pointed out, however, that the chief executive has a major role to play in managing the process of resource allocation. Strategic management, based on a participative mode, and communication of strategic plan to all executives creates a congenial environment where the resource allocation decisions may be taken amicably.

Having done the resource allocation, the strategist has to move now to another major aspect of strategy implementation, i.e. structural implementation.

11.8 SUMMARY

We started this section with a description of the inter-relationship that exists between the formulation and implementation of strategies. The inter-relationship has been described in terms of two types of linkages that exist: the forward and the backward linkages. From these, it should be clear that the formulation and implementation processes are interdependent.

Next, we have taken up the delineation of several issues that have to be dealt with in strategy implementation. Three of these issues are discussed in this section while structural, behaviour, and functional implementation are left to be discussed further.

Project implementation deals with the various aspects of setting up new projects or extending existing projects. This issue of implementation is relevant to strategies such as modernisation, expansion and diversification. We have described the different phases of projects.

Procedural implementation is concerned with the major elements of the government regulatory framework within which Indian companies operate. We have dealt with the licensing and foreign collaboration procedures, requirements under the

FERA and MRTP Acts, capital issues control, and import and export besides the benefits available under different government plans and schemes. An overview of procedural implementation has been provided at the end of this section.

Resource allocation, which is an important and necessary activity in strategy implementation has been discussed at the end of this section. Various aspects related to resource allocation have been taken up for discussion. First, we have pointed out the various sources of finance available in India. Next, we have dealt with the three approaches to resource allocation followed by a brief explanation of six means that could be adopted for resource allocation. We have rounded up the discussion by pointing out the factors that affect, and the difficulties faced in, resource allocation. The next major issue is that of structural implementation and is dealt within the next section.

11.9 GLOSSARY

- Strategic Implementation : A term used to describe the activities within an obligation to manage the activities allocated with the delievery of a strateic plan.

- Resource Allocation : It deals with the procurement and commitment of financial, physical and human resources to achieve organisation objectives.

11.10 SELF ASSESSMENT QUESTIONS

1. How does the formulation affect the implementation of strategies?

   ____

   ____

2. What types of strategies would require an industrial licence for implementation?

   ____

   ____

3. Point out how external influences may prove to be benefical for resource allocation?

____

____

4. Discuss the nature of inter-relationship that exists between formulation and implementation of strategies?

____

____

5. How can the availability of incentives and other facilities affect strategy implementation ?

____

____

11.11 LESSON END EXERCISE

Q1. Comment on the multidomestic strategy followed by Mc Donald's in France? According to you, the company has made the right moves so far? Why or why not?

Q2. Resource allocation is one of the important processes in an organisation". Explain. What are the bases for resource allocation in case of a MNC operating in the FMCG sector.

11.12 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

STRUCTURAL IMPLEMENTATION AND STRUCTURE FOR STRATEGIES

UNIT III

LESSON - 12

STRUCTURE

12.9 Suggested Readings

12.1 INTRODUCTION

A whole branch of knowledge which spans several disciplines is related to the study of organisations. Our intention is not to attempt a summary of the concepts and techniques related to organisational structure design and change. We aim at an exposition of the critical interrelationship that exists between strategy and structure. The focus in this section therefore, will be on how to adapt structural factors to the requirements of strategy.

We start with an understanding of what we understand by the term "structure" in the context of strategic management, followed by an exposition of different structural mechanisms. Structure is intimately related to strategy and environment and this relationship is discussed, followed by an explanation of the four stages of development that describe how an organisation matures from a simple to a complex structure.

In "structures for strategy", we describe five major types of structures: entrepreneurial, functional, divisional, SBU, and matrix, besides five other types of structures.

The section of organisational design and changes deals with the process of development of organisation structure and how changes have to be brought about so that the structure continues to satisfy the requirements of strategy.

Six organisational systems of information, control, appraisal, motivation, development, and planning are described in the last section ending with an overview of these organisational systems.

12.2 OBJECTIVES : After reading this lesson, the you can easily assess :

(i) the nature of structural mechanism.

(ii) evaluates different stages of structural development

(iii) establishes inter-relationship between oragnisational design and change.

(iv) makes an assessment of organisational systems implemented in an enterprise.

12.3 STRUCTURAL IMPLEMENTATION

We usually conceive of organisation structure as a chart consisting of boxes in which the name of position or designation of personnel (and sometimes the name of the person occupying the position) is written in a hierarchical order along with the depiction of relationship that exists between various positions. To a strategist, an organisation structure is not only a chart but much more.

12.3.1 What is Structure?

An organisation structure is the way how tasks and sub-tasks required to implement a strategy are arranged. The diagrammatical representation of structure could be an organisation chart but a chart shows only the 'skeleton'. The 'flesh and blood' that bring to life an organisation are the several mechanisms that support the structure. All these cannot be depicted on a chart. But a strategist has to grapple with the complexities of creating the structure, making it work, redesigning when required, and implementing changes that will keep the structure relevant to the needs of the strategies that have to be implemented.

12.3.2 Structural Mechanisms

For finding out what the structural mechanisms are, it is useful to consider the case of a new organisation which has decided to achieve a set of objectives through the implementation of certain strategies. In the next two paragraphs, we relate the 'story' of how structural mechanisms evolve.

The implementation of strategies would require the performance of tasks. Some of these tasks are related to the formulation and implementation of programmes and projects. We dealt with these tasks in the previous chapter on activating strategies. Having laid the foundations of an organisation, the strategists have now to devote their attention to the tasks that would have to be performed on a continuing basis for the implementation of strategies. It would be practically impossible to list all such tasks so the strategists would attempt to enumerate the major tasks. These major tasks would have to be grouped into convenient categories on the basis of commonality of the skills required to perform them. Having grouped the major tasks, each category will have to be again segregated on the basis of the ability of an individual to perform a unit of tasks. This is the process through which organisational units such as departments are created and hierarchies defined.

The total responsibility to implement strategies has to be sub-divided and distributed to different organisational units. The authority to discharge the responsibilities will also have to be delegated if the tasks have to be performed. To ensure that different organisational units do not work at cross-purpose, coordination will have to be ensured through communication. The performance will have to be appraised and controlled so that tasks are performed in a sequence and according to a schedule. Desirable behaviour to perform these tasks will have to be encouraged and undesirable behaviour curbed. For this, rewards and penalties will have to be used. Since the performance of tasks cannot be left to chance, motivation will have to be provided so that organisational effort is directed towards a common purpose. Further, individuals will have to be developed so that objective-achieving capability is created and sustained.

In the manner described above, the new organisation that has been examplified will come into being and start functioning. All the activities mentioned will now have to be performed on a continuing basis.

We can now derive the different mechanisms on the basis of the above example. These are summarised below :

1. Defining the major tasks required to implement a strategy
2. Grouping tasks on the basis of common skill requirements
3. Sub-division of responsibility and delegation of authority to perform tasks.
4. Coordination of divided responsibility
5. Design and administration of the information system
6. Design and administration of the control system
7. Design and administration of the appraisal system
8. Design and administration of the motivation system
9. Design and administration of the development system

10. Design and administration of the planning system.

The first four of these mechanisms will lead to the creation of the structure. The other six mechanisms are devised to hold and sustain the structure. Collectively, we could refer to these six mechanisms as organisational systems.

Note that structural mechanisms alone will not fulfil the requirements of strategy implementation. Two other major aspects of implementation relate to the formulation and integration of functional policies, and leadership and other related issues. Here, we focus our attention on the structural mechanisms required for the implementation of strategies. But before we move to a discussion of structures for strategy and other aspects, it is essential to understand how environment, strategy, and structure are related, and how a structure evolves.

12.3.3 Environment, Strategy and Structure

The prescription for consciously matching the organisation structure to the particular needs and requirements of strategy has arisen out of research done by Chandler. Child has further extended the thinking to include environment and effectiveness in the sequence to pinpoint the nature of choice that strategists make. He says that managerial choice occurs at the interface of environment and strategy, which then determines the structure. Though, Chandler's thesis that strategy changes require structural changes to achieve economic efficiency is logically powerful, subsequent researches have not conclusively proved the relationship that structure follows strategy. In the beginning of the last section, we referred to the forward and backward linkages that exist between the formulation and implementation of strategy. When structure follows strategy, it is an illustration of the forward linkage, a relationship that was discussed in Section 1.1 in the previous section. But often, structural considerations also affect—if not determine—strategy, which is a case of backward linkage. Theorists in business policy, therefore, are more concerned with the match that should exist between strategy and structure. In other words, a particular strategy creates special requirements that should be fulfilled by the structure. If it does not, then the structure will have to be redesigned. What shape the structure should take if a particular strategy is to be implemented successfully is difficult to answer. But here again, theory offers alternatives. One such alternative is to link structure to the stage of development that an organisation exists in at a given point of time.

12.3.4 Stages of Development

Besides Chandler (referred to above), Salter, Thain, and Scott have contributed to the thinking that any organisation, as it grows in size and diversity, moves from a simple to a complex organisational form. This concept is analogous to that of the product life cycle. Organisations too follow a life cycle consisting of the introduction, growth, maturity, and decline phases. The life cycle of organisations could be divided into four stages that are not distinct and may overlap.

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

Stage II–organisations are bigger than Stage I organisations in terms of size and have a wider scope of operations. They are characterised by functional specialisations or process orientation. The organisational form is simple functional (divided into the finance, marketing, operations, and personnel departments) or process-oriented (divided into process-based departments arranged in a particular sequence according to technology employed). Strategies adopted may range from stability to expansion.

Stage III–organisations are larger and widely scattered organisations 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 simple functional forms depending on their particular needs. Strategies adopted may be either stability or expansion.

Stage IV–organisations are most complex. They are generally large multi-plant, multi-product organisations that result from the adoption of related and unrelated diversification strategies. The organisational 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 (which may be companies, profit centres or SBUs) formulate their business-level strategies and may adopt Stage I, II or III type of structures.

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

A look around at the different organisations will show that they do seem to follow the different stages mentioned above. Most companies have started as one- or two-person units in an entrepreneurial mode. Through expansion, in time, the companies have become bigger, creating the need for sub-division of tasks, which usually takes place along functional lines. Further, expansion creates the need for setting up additional plants and if diversification strategies are adopted, then the organisational forms may ultimately become divisional.

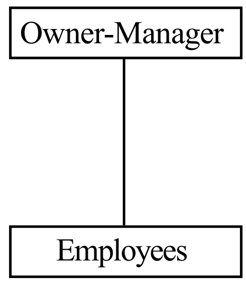
We further discuss the characteristics of different types of organisational structures as they evolve in response to strategic changes.

12.4 STRUCTURE FOR STRATEGIES

There are several types of structures that are found in organisations. Here, some major types of 'pure' structures are described, with special emphasis on their appropriateness for the different types of strategies. In practice, the actual organisational structure may be a combination of these 'pure' structures.

12.4.1 Entrepreneurial Structure

The entrepreneurial structure, shown in Exhibit 12.1, is the most elementary form of structure and is appropriate for an organisation that is owned and managed by one person. A small-scale industrial unit, a small proprietary concern 8 or a miniservice outlet may exhibit the characteristics of organisations which are based on an entrepreneurial structure. Typically, these organisations are single-business-product or-service firms that serve local markets. The owner-manager looks after all decisions, whether they are day-to-day operational matters or of a strategic nature.



The advantages that the entrepreneurial structure offers are :

- Quick decision-making, as power is centralised;
- Timely response to environmental changes; and
- Informal and simple organisation systems.

The disadvantages of the entrepreneurial structure are :

- Excessive reliance on owner-manager and proves to be demanding;
- May divert attention of owner-manager to day-to-day operational matters and ignore strategic decisions; and
- Increasingly inadequate for future requirements if volume of business expands.

Exhibit 12.1 Entrepreneurial structure

12.4.2 Functional Structure

As the volume of business expands, the entrepreneurial structure outlines its usefulness. The need arises for specialised skills and delegation of authority to managers who can look after different functional areas. A typical functional structure is shown in Exhibit 12.2. Note that specialisation of skills is both along line and staff functions.

The functional structure seeks to distribute decision-making and operational authority along functional lines.

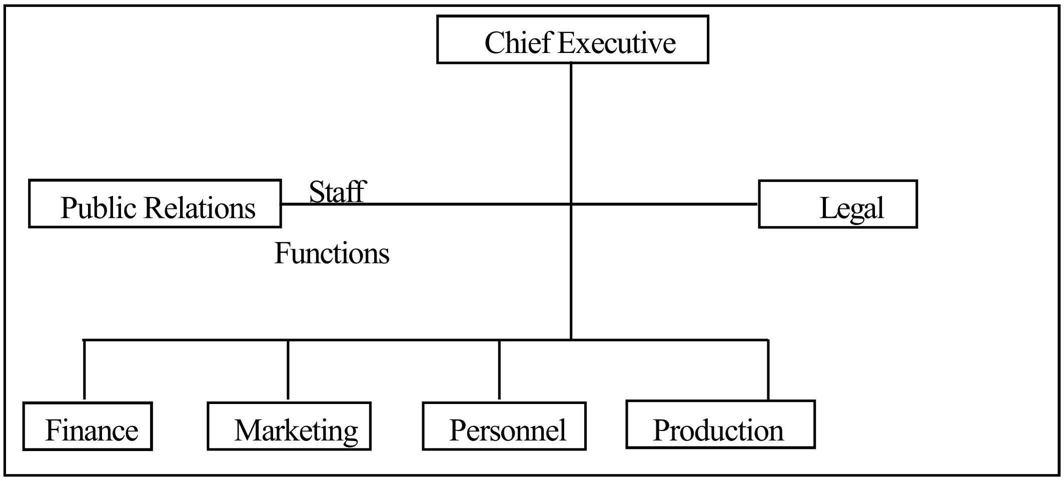


Exhibit 12.2 Functional structure

The advantages that a functional structure offers are :

- Efficient distribution of work through specialisation;
- Delegation of day-to-day operational functions; and
- Providing time for the top management to focus on strategic decisions.

The disadvantages of a functional structure are:

- Creates difficulty in coordination among different functional areas;
- Creates specialists which results in narrow specialisation, often at the cost of the overall benefit of the organisation;
- Leads to functional, line and staff conflicts.

Despite the disadvantages, the functional structure is quite common and exists in its original or a modified form as the organisation evolves from the initial to the mature stages of development.

12.4.3 Divisional Structure

The structural needs of expansion and growth are satisfied by the functional structure but only up to a limit. There comes a time in the life of organisations when growth and increasing complexity in terms of geographic expansion, market segmentation, and diversification make the functional structure inadequate. Some form of divisional structure is necessary to deal with such situations. A divisional structure is shown in Exhibit 12.3 Basically, work is divided on the basis of product lines, type of customers served, or geographic area covered and then separate divisions or groups are created and placed under the divisional level management. Within divisions, the functional structure may still operate.

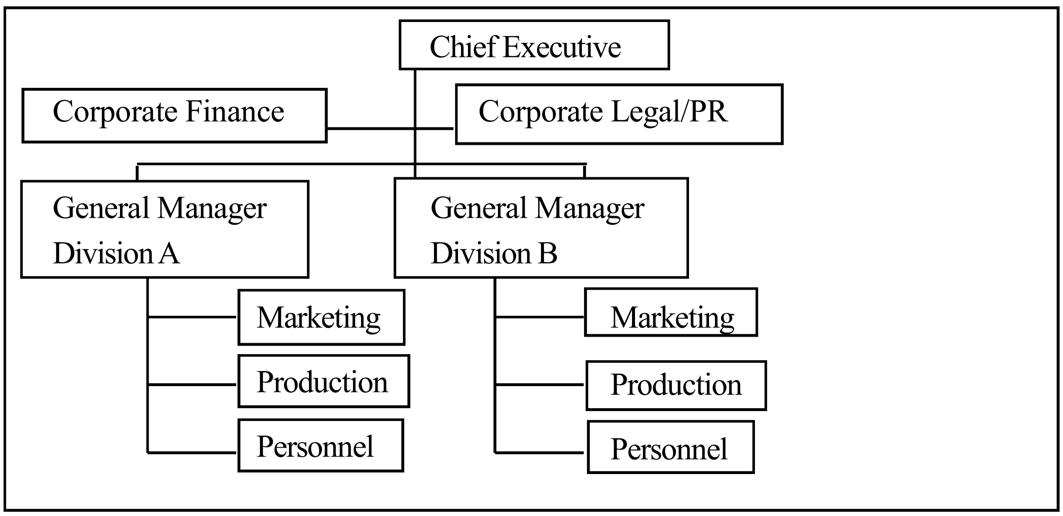


Exhibit 12.3 Divisional structure

The advantages that a divisional structure offers are :

- Enables grouping of functions required for the performance of activities related to a division;
- Generates quick response to environmental changes affecting the business of different divisions, and
- Enables the top management to focus on strategic matters.

The disadvantages of divisional structure are :

Problems in the allocation of resources and corporate overhead costs, particularly if the business and corporate objectives are ill-defined;

- Inconsistency arising from the sharing of authority between the corporate and divisional levels; and
- Policy inconsistencies between the different divisions.

12.4.4 Strategic Business Unit

Strategic business unit (SBU) has been defined by Sharplin as ‘‘any part of a business organisation which is treated separately for strategic management purposes.’’ When organisations face difficulty in managing divisional operations due to an increasing diversity, size, and number of divisions, it becomes difficult for the top management to exercise strategic control. Here, the concept of SBU is helpful in creating an SBU organisational structure.

Conceptually, SBU is ‘‘a discrete element of the business serving specific products-markets with readily identifiable competitors and for which strategic planning can be conducted.’’ Essentially, SBUs can be created by adding another level of management in a divisional structure after the divisions have been grouped under a divisional top management authority on the basis of common strategic interests. Exhibit 12.4 provides an illustration of an SBU organisational structure.

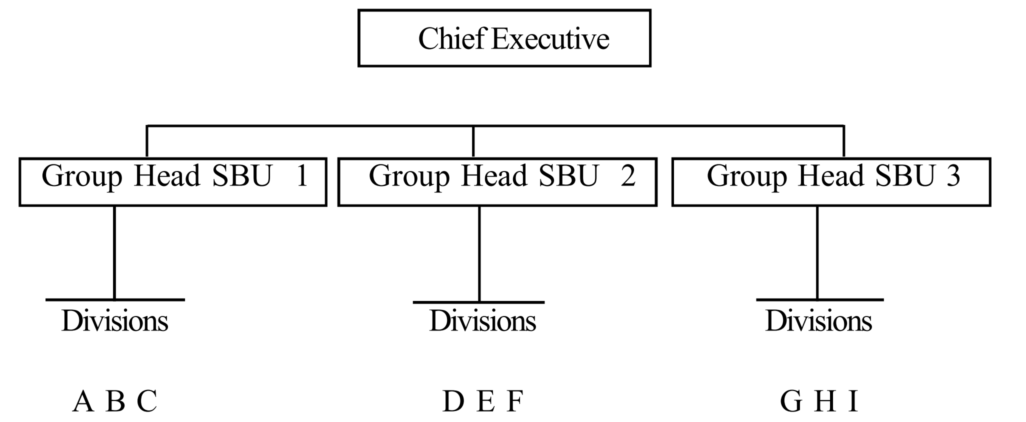


Exhibit 12.4 SBU organisational structure

The advantages that the SBU organisational structure offers are :

- Establishes coordination between divisions having common strategic interests;
- Facilitates strategic management and control of large, diverse organisatoins; and
- Fixes accountability at the level of distinct business units.

The disadvantages of the SBU organisational structure are:

- There are too many different SBUs to handle effectively in a large, diverse organisations;
- Difficulty in assigning responsibility and defining autonomy for SBU heads; and
- Addition of another layer of management between corporate and divisional management.

12.4.5 Matrix Structure

In large organisations, there is often a need work on major products or projects, each of which is strategically significant. The result is the requirement of a matrix type of organisations structure. Exhibit 12.5 illustrates a matrix structure. Essentially, such a type of structure is created by assigning functional specialists, who normally work in a department in their area of specialisation, to work on a special project or a new product or service. For the duration of the project, the specialists from different areas form a group or team and report to a team leader. Simultaneously, they may also work in their respective parent departments. Once the project is completed, the team members fully revert to their parent departments.

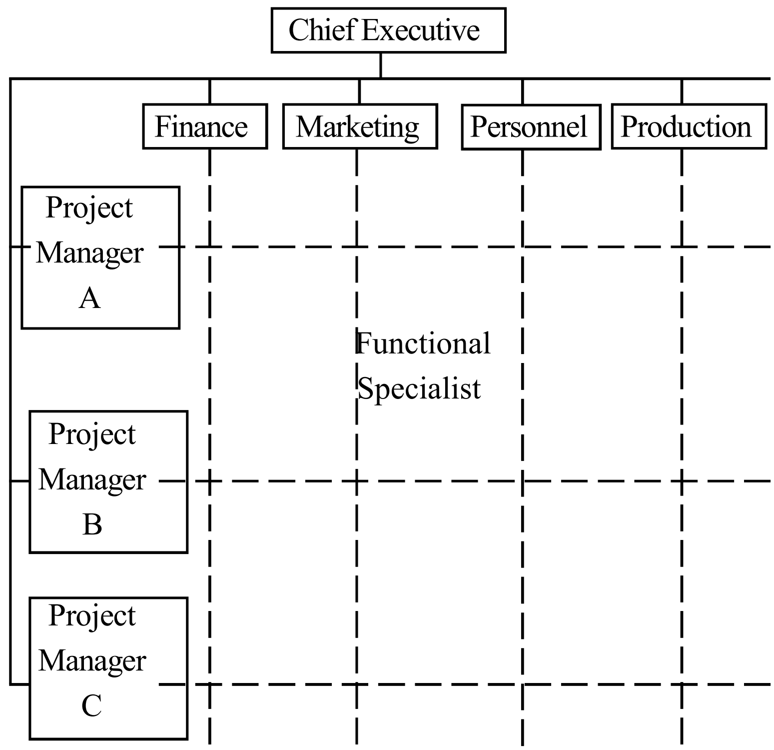


Exhibit 12.5 Matrix organisational structure

The advantages that the matrix structure offers are:

- Allows individual specialists to be assigned where their talent is the most needed;
- Fosters creativity because of pooling of diverse talents; and
- Provides good exposure to specialists in general management.

The disadvantages of matrix structure are :

- Dual accountability creates confusion and difficulty for individual team members;
- Requires a high level of vertical and horizontal coordination; and

- Shared authority may create communication problems.

12.4.6 Other Types of Structures

Besides the five major structures described above, there are several other types of structures that are used in organisations, We briefly describe five structures below.

Product-based Structures. The grouping of activities on the basis of the product or product lines is followed by organisations where there is a need to delegate to a division all functions related to that particular product or product line. Such a need arises when the strategy adopted requires exclusive attention to a product or a group of products. Expansion and diversification strategies may require a product-based structure as it facilitates the addition or deletion of product divisions. Besides, a product-based structure offers the advantages of an optimum use of specialised skills and equipments, increases coordination, and enable fixation of responsibility for profit-making and usage of resources. However, a product-based structure can only be justified where the volume of sales of the product or product line is large enough to create an optimum use of resources and skills.

Customer-based structure. In some organisations, divisions may be created on the basis of the customer groups served. The rationale for customer-based structure is that grouping of activities on the basis of customers would enable the organisation to provide exclusive attention to separate and distinct customer groups. Thus, an organisation may have individual sales divisions and institutional sales divisions to serve consumers and institutions respectively. The advantages that a customer-based structure offers are : employing marketing-orientation to serve customers better; use of specialised skills, specially in marketing; and timely response to changing customer needs. However, a customer-based structure is useful only when the sales volume from individual customer groups justifies the creation of separate divisions.

Process-based structure. In organisations where production or service is organised on the basis of process (or equipments), a process-based structure is feasible. Here, it is possible to reap the benefits of economies of scale and put specialised skills, specially technical skills, to good use. However, process-based structure has a limited use and is often best suited for the production function.

Geographic structure. Multi-plant or multi-unit organisations which have several factories and offices dispersed geographically are usually organised on the basis of geographic (or territorial) structure. This type of structure evolves in the process of expansion and diversification. When an organisation acquires another firm or wishes to set up additional factories at different sites, geographic structure is a natural choice. Such a structure offers the advantages of decentralisation to a local level, the use of locally available resources and raw materials, and nearness to markets. But geographic structure can be put to good use only if there is a high level of coordination at top level and communication between different units and with the central corporate departments.

Entrepreneurial structure. As described in one of the previous sections in this study, the evolution of organisational structure often starts with the entrepreneurial structure. At the other extreme, a state is reached when organisations become too large, diverse, and complex. As a result, they usually become slow-moving, bureaucratic, and resistant to change. The entrepreneurial structure offers the advantage of revitalising organisations by creating opportunities for innovative and talented individuals within organisations to act as entrepreneurs to apply exclusive attention to the development of new ideas, products, or services. Organisational resources may be allocated to such development efforts and if they prove to be promising, a new venture department may be created which can see to further development. In time, the new products or services can be incorporated within the overall organisation structure in the form of divisions or could be spun-off as separate companies to be managed by entrepreneurs. The advantages of entrepreneurial structure are obvious: innovation and creativity within organisations is fostered, new products or services are developed optimally, and work becomes satisfying and motivating for highly-qualified individuals. However, the entrepreneurial structure benefits only in cases where it is possible to manage and coordinate several small groups and the organisation is in a position to risk time and resources when projects are not successful.

12.5 SUMMARY

This section has been devoted to an understanding of five major and five other types of structures that can be used for designing organisation structures. These structures are however, just building blocks and it is up to the strategists within organisations to decide which way to use them. During the implementation of strategy, a strategist may often be faced with issues like the choice of structural components and the manner in which these components could be brought together to design an overall structure that satisfies the requirements of existing or proposed strategies.

12.6 GLOSSARY

- Matrix Structure : It is a company structure in which reporting relationships are set up as grid or matrix rather than in the traditional hierachy.

- Divisional Structure : In this structure, work is divided on the basis of product lines, types of customers served or geographic area.

12.7 SELF ASSESSMENT QUESTIONS

Q.1. Evaluate and discuss the different stages of structural development ?

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Q.2. What do you meant by organisational design and change ?

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Q.3. Establish the basic structure for strategies ?

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Q.4. "Different organisational form result from different types of growth". Explain.

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12.8 LESSON END EXERCISE

Q1. Can a leader create a unique organisational culture for change and take an organisation to commanding heights – fighting competition all the time?

Q2. Comment, why do large companies follow the divisional structure of organisation?

12.9 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

UNIT III

LESSON - 13

ORGANISATIONAL DESIGN AND CHANGE; ORGANISATIONAL SYSTEM

STRUCTURE

13.1 INTRODUCTION-

This lesson has deals with an extremely important aspect of strategy implementation, i.e. structural implementation. Starting with defining structure in the context of strategic management and then explaining how the structural mechanisms work.

13.2 OBJECTIVES :

After reading this lesson, you can easily assess :

(i) about the Organistion Design

(ii) knowledge about Organisation Structure

(iii) overview of Organisation System

13.3 ORGANISATIONAL DESIGN AND CHANGE

It is an extremely difficult proposition to decide which type of structure would satisfy the requirements of a particular strategy. In general, strategists have to ask themselves: ''What is required to implement the strategic plan and how best can it be done?'' This entails what we indicated in the first section of this study : organisation structure has to be based on those functions and activities that are critical from the viewpoint of strategy.

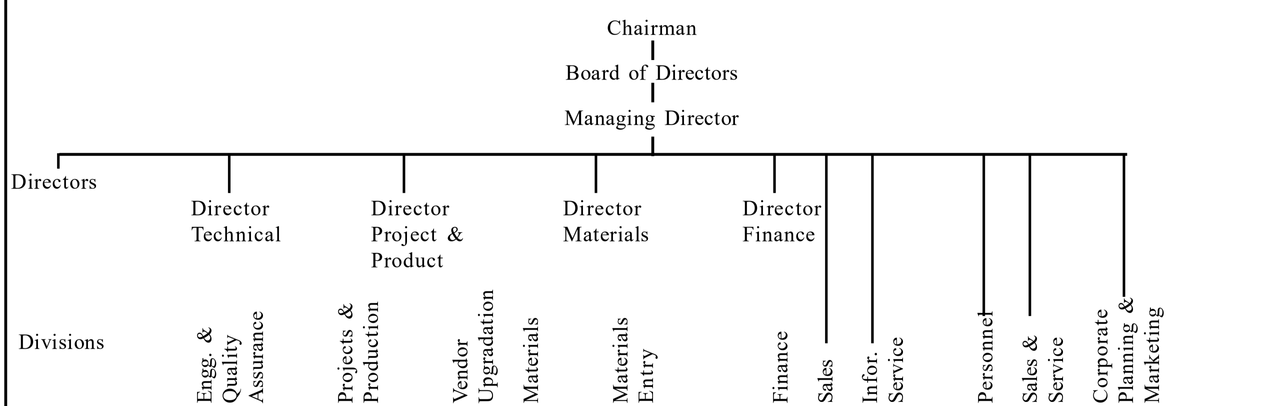
We first take up the discussion of design of organisational structure and then move on to the issue of structural change.

13.3.1 Organisational Design

There is no clearcut answer to the question: ''Which structure is best suited to a particular strategy?''. Frequently, structures evolve as the organisation moves from one stage of growth to the next. The external and the internal environments affect the structural design in different ways. For instance, an organisation which faces a stable environment may use a functional structure since there is less need for interdepartmental coordination and communication, and innovation. On the other hand, a volatile environment demands a rapid-response capability, flexibility and quick decision-making. Such demands can be better met by the creation of a divisional or a matrix type of structure. The internal environment may also affect the structure in a similar fashion. A bureaucratic, slow-moving organisation may work

The accompanying chart shows how the structure has been designed at Maruti Udyog Ltd (MUL). Seemingly unconventional, the structure is in line with current strategic requirements of MUL. Though MUL is a public sector company, it operates in a market that increasingly becoming competitive. Given its mission of becoming an internationally competitive firm in the automobile sector, high emphasis is placed on indigenisation, quality control, and cost control.

Organisation chart of Maruti Udyog Ltd



The structure at MUL consists of two parallel structures. First, there is a simple line and staff type of responsibility-role hierarchy. This consists of four directorates, nine divisions (shown in chart) and fifty one departments. The second part of structure is based on a salary hierarchy from level 1 to 19 in successively increasing grades. Both these parameters of the organisation structure, though delinked from each other, describe the different positions within MUL.

Source: Based on "Maruti Udyog Limited" in BSKS Chopra: *Cases in Corporate Planning* (Pune: Times Research Foundaion, 1989) pp. 139–165.

Exhibit 13.1 Organisation structure at Maruti Udyog Ltd better with a functional structure while a dynamic and innovative organisation may have to use a divisional structure. In sum, it could be said that there is no one absolutely correct way to organise and the organisational design has to be based on the particular needs of the organisation at a given time. Exhibit 13.1 illustrates a way how structure has been organised in a major car manufacturing company in India.

The needs of the organisation can be derived from the mission and objectives. These needs are those key activities which have to be performed to achieve objectives and realise the mission. Organisation design, therefore, starts with the identification of such key activities. The sequence of steps followed in organisation design could be described as below.

1. Identification of key activities necessary to be performed for the achievement of objectives and realisation of mission through the formulated strategy.
2. Grouping of activities that are similar in nature and need a common set of skills to be performed.
3. Choice of structure that could accommodate the different groups of activities.
4. Creation of departments, divisions, etc. to which the group of activities could be assigned.
5. Establishing interrelationship between different departments for the purpose of coordination and communication.

These five steps lead to the development of an organisation design but the process of organisation is not complete. There are various other issues to be tackled to see that the organisation is an effective medium for the implementation of strategy. The major issues are of the span of management, basic departmentation, line and staff relationships, and the use of committees and group decision-making.

The span of management refers to the ways in which activities can be grouped. The different structures described in the previous section, consist of various departments, each of which deals with a distinct group of activities. These structures form the core of *basic departmentation.*

Line and staff relationship describes the way in which authority is dispersed within the organisation structure. Where a higher level manager exercises direct supervision over a subordinate, authority is delegated in a direct line or steps. Staff positions are advisory in nature. Within the staff departments, however, authority may again be delegated on the basis of line relationship.

The use of committees and group decision-making is often done as an organisational device though it is not *per se* a part of the organisational structure. Still committees are considered an inseparable part of structure. When they are constituted formally on a permanent basis, the committees work on the basis of specifically delegated authority and responsibility.

The above description of the five essential steps and four related issues in organisational design are, in fact, a theoretical basis for the creation of structure. It is up to the strategists to use this theoretical foundation to design an organisation structure that would suit the requirements of a particular strategy. The skills of strategists are put to test when they design an appropriate organisational structure. Again, a more rigorous test is faced when the existing structure has to be changed to suit the requirements of a modified or new strategy.

13.3.2 Organisational Change

Right at the outset, it must be pointed out that organisational change takes place along two broad dimensions: the structural changes and the accompanying behavioural changes. The first type of change is related to modifications in structural relationship and may entail the creation or disbandment of departments or managerial positions. The second type of change relates to the concomitant behavioural modifications that are essential to absorb the impact of organisational changes.

An example will serve to illustrate the nature of structural and behavioural changes. An organisation which follows a stability strategy has a simple functional structure in existence. This firm now plans to diversify into a related area and this strategic shift has to be reflected in organisational changes. The choice of structure leads to a divisional form of structure where a new division with a few departments is created

Modi Rubber Ltd (MRL) has its corporate headquarters at Modipuram in Uttar Preadesh. It is a leading tyre manufacturer of the country and, being in the high-growth industry with relatively high-grade technology, the top management has always been open to changes and adaptation.

Exhibit 3.10 (a) Organisational structure of MRL during 1982-83

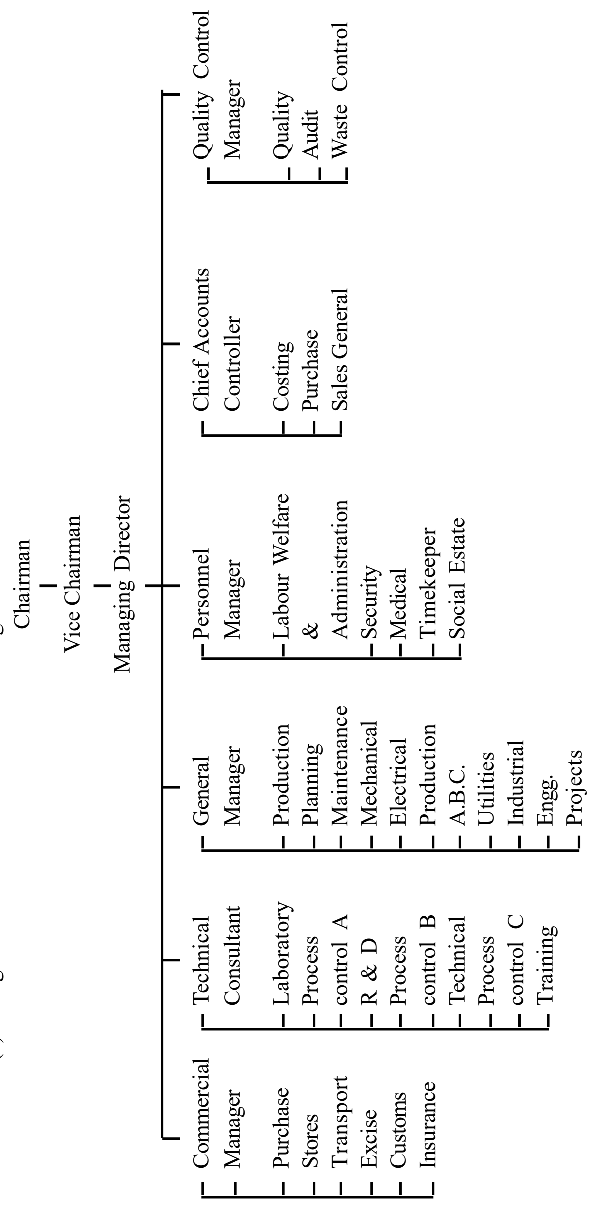
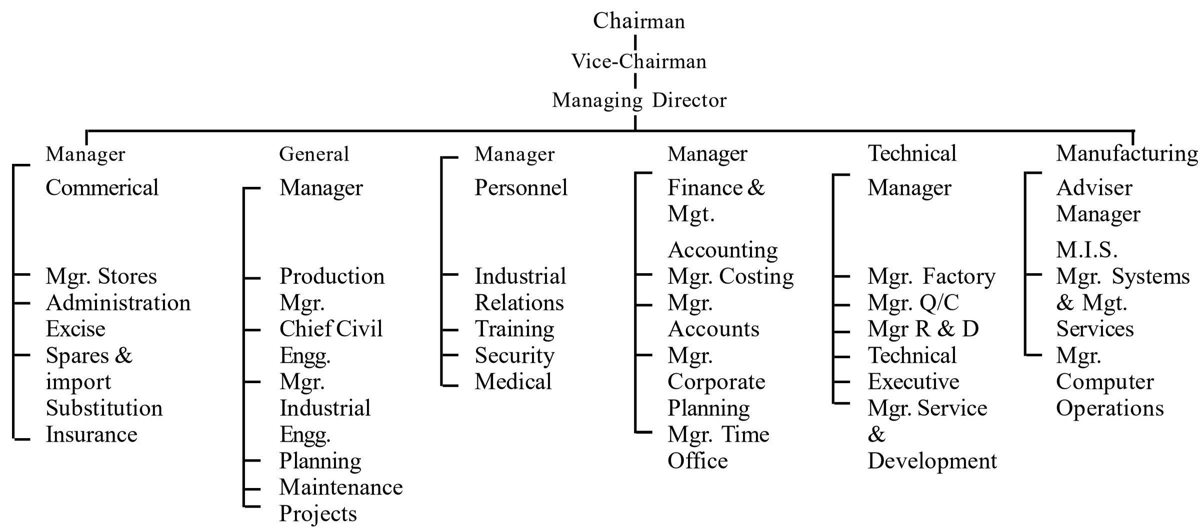


Exhibit 13.2 Structural Changes at Modi Rubber Limited

Exhibit 13.2 provides a glimpse of the structural changes that have been made by a family-owned company in the type industry.



The structural changes that have taken place during the four-year period from 1982 to 1986 at MRL reflect efforts at rationalisation of functions. For instance, the training function has been shifted to the personnel department where the scope of labour welfae and administration functions have been enlarged and the function itself has been renamed as Industrial Relations. Quality control has been allocated to the Technical Manager and a new department of M.I.S. has been created to deal with systems and mangement services. In this manner, the company has tried to adjust its structure with the emerging needs of its environment.

Source : Unpublished MBA dissertation titled *"A comparative analysis of changes in organisational structure in the public and private sector companies"* by E.A. Hazarika supervised by Dr. Azhar Kazmi (Department of Business Administration, AMU, Aligarh, 1988).

Exhibit 13.3 (b) Organisational structure of MRL during 1985-86

to support the related product lines. Some of the functions like personnel and finance are retained at the corporate level as centralised departments. This is the structural change that is envisaged. But organisational changes go beyond mere structural modifications and encompass the issues of how people would react to the changed situation, how the new relationships would be managed, and in what manner would the cohesiveness of the organisation be maintained. These are issues and will be taken up for discussion in a subsequent study dealing with behavioural implementation. Here, we focus only on the structural dimension of organisational change.

13.4 ORGANISATIONAL SYSTEMS

The organisational structure provides the mechanisms for the distribution of authority and responsibility within the organisation. The net result is a framework of organisational units such as departments and divisions that consist of several positions of authority. Another way to look at orgnisational structure it to view is as a means of subdividing the total authority and responsibility among different organisational units and positions. Since the organisation has to perform a set of tasks designed to achieve its objectives, a need arises to evolve system that would bind the different units and positions so that the performance of activities takes place in coordinated manner. These systems could be collectively referred to as organisational systems.

In this section, we describe six types of organisational systems laying special emphasis on the role that each of these systems play in strategy implementation.

13.4.1 Information System

Structure subdivides the total responsibility while the information system serves to coordinate the divided responsbility. If strategy is to be effectively implemented, organisational arrangements are necessary that provide the information to managers to peform their tasks and relate their work to others. The information system, therefore, serves two important purposes; it enables the managers to know what they need to know 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 organisational arrangement designed to aid managers in performing their activities. Other synonymous terms such as “total system” or “integrated system” are also indicative of the fact that the information system is basically devised to link the different activities being performed in an organisation and to ensure that it works in a coordinated manner. In terms of management levels, MIS has generally been thought of as being more feasible for the middle and operating management rather than the top management. This is so because the middle management is typically involved more in routine and repetitive tasks as compared to that of management which operates in a longer strategic framework, thus reducing the need for real-time access to information. However, advances in technology underlying MIS may create a situation where the information system design can serve the needs of the top management as well.

The technological advancement in the processing and usage of information has been made by increasing the application of computers as an aid in management. Another term "computerised information system" (CIS) is often used to denote the organisational arrangement that is based on the usage of computers to provide information to managers. It is also proposed that with an appropriate design, CIS that is consonant with strategy, structure and style of an organisation's administrative system will contribute to more effective management.

In the design and administration of the information system, strategists have to concern themselves with the need to have appropriate organisational arrangement that will support the implementation of a particular strategy. Often, the question is of having a primarily informal or a formal system for information. Organisations, in an initial growth phase, having an entrepreneurial or simple functional structure may do with a relatively simpler type of information system. As the complexity and diversity of operations increases, the need for a more formal information system arises.

Exhibit 13.4 presents the key dimensions of CIS as relevant to the different types of generic strategies. The key dimensions are three, viz. policy stance (strict, flexible); hardware configuration (mainframe, microcomputers); and the system (transaction processing system, decision support system). Stability strategies require an efficiency orientation that leads to increased efficiency without appreciable increase in the volume of activity. In such a situation, an information system that requires a certain level of rigidity for efficient performance of clearly defined responsibilities, based on access to 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 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. In between the two extreme dimensions lie several possible alternatives that could guide the design and administration of information system for different types of strategies.

Generic strategies	Stability — Retrenchment — Growth
	Rigid policy — — — Flexible policy stance stance
Key dimensions	Mainframe — — — Microcomputers computers
	Transaction Decision processing — —- — support systems systems

Source : Adapted from J.C. Camillus and A.L. Lederer "Corporate strategy and the design of computerised information systems" in *Sloan Management Review,* Spring 1985, pp. 35-42.

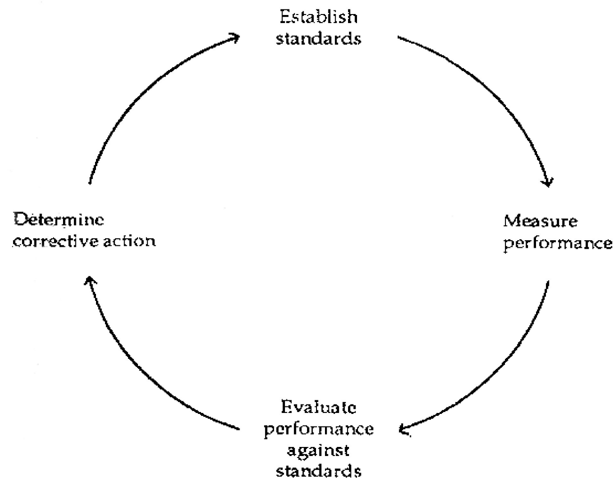
Exhibit 13.4 Generic strategies and key dimensions of computerised information system

Strategists have to be aware of the implications of strategic changes on the requirements of the information system as this system provides the foundation for the design and administration of the other organisational systems. The next such system being discussed is the control system.

13.4.2 Control System

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

The control cycle



Basically, control operates in a cyclical manner as shown in Exhibit 3.12. It is viewed as a four-step process consisting of: (i) establishing standards; (ii) measuring actual performance; (iii) evaluating actual performance against standards; and (iv) determining corrective action to bring performance in line with the predetermined plan. Standards are in the form of budgeted performance. Measurement of performance is done through an appraisal system discussed in the next sub-section. The actual performance is evaluated with reference to the standards and positive or 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 result of sub-division of responsibility and creation of structure is dispersal of the total strategic tasks among different organisational units. Since the activities of each of these units are to be coordinated, controls are necessary. Controls are, in fact, devices to enforce strategic behaviour so that the organisation, as an entity, moves towards the pre-determined goals. All types of organisations—successful or inefficient—need controls.

Another important issue of the type of controls to be used. Controls may be classified as formal (or direct) and informal (or indirect or social) controls. Formal controls are prescribed in nature and are based on quantitative, objective data. For instance, financial controls are based on accounting data and are used to quanity performance in fiscal terms. Informal controls are emergent in nature and are based on quantitative, subjective data. For example, adherence to ethical standards can only be ensured through informal means.

Besides the types of controls, strategists have to consider the issue of integrating the formal and informal controls. Since both types of controls are important, they have to be used by strategists in tandem. But it is important to decide the primacy to be given to either of them. In general, the lower the level of management where the control is to be exercised, the greater is the need for formal controls. Conversely, the higher the level of control, the lesser is the need for formal controls. These propositions are understandable because greater structural proximity progressively obviates the need for formal controls. The top management can more effectively control the behaviour and performance of managers who are in direct, personal touch. For employees below, who have to be indirectly controlled, greater reliance is placed on formal controls. The integration of formal and informal controls does not resolve the problem of changing the control mix as strategy changes. Here, strategists have to understand that strategies which require short-term efficiency of operations (e.g. stability strategies) would be more effective with a higher proportion of formal controls. Likewise, strategies which lay stress on long-term efficiency of operations and require speedy implementation (e.g. expansion strategies) will have to use relatively more informal controls.

Next, we see the most important component of the control system, i.e. appraisal.

13.4.3 Appraisal System

The achievement of organisational 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 organisational objectives. Managerial appraisal is an important element in the total control system that has been discussed in the preceeding sub-section.

Several issues regarding the appraisal system have to be considered by the strategists as appraisal serves an auditing function regarding individual managers, groups, and divisions. Appraisal also provides inputs to the personnel functions such as salary determination, rewards and incentive 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 or profit as no single measure can encompass the total contribution of an individual (or group) either to immediate and long-term results or to the effort of others. Further, it is not only important to evaluate performance in achieving objectives but also to evaluate performance as managers. Regarding the type of factors, it is essential to have a judicious mix of quantitative or objective factors and qualitative or subjective factors so that the results of appraisal are reliable and valid.

There are several appraisal methods available like rating forms, ranking appraisal, behavioural methods etc. 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 real need may be for a broad-based appraisal method that takes into account subjective factors and measures long-range performance.

The third major issue before strategists is the procedure of appraisal. Here, questions like who makes the appraisal, when and how the results would be used have to be answered. In an entrepreneurial structure, the owner-manager is responsible for appraisal but as structure becomes more complex, the responsibility for appraisal has to be shared by other managers. While delegating the responsbility for appraisal, it has to be seen that the appraiser is in close contact with the person whose performance is being evaluated. Regarding the timing of appraisal, the organisational policy may be to have a periodical appraisal which may be yearly or biannual. But when the performance of a project group has to be evaluated, it should be done at the end of the natural period of completion. The use of the results of appraisal have to be guided by the true function of measurement, which is "to increase the perceptions of the problems limiting achievement" . Only a system of appraisal that provides the strategists and understanding of the problems before 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.

13.4.4 Motivation System

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

Any organisation is a conglomeration of human beings. The individual objectives of organisational members may not be consistent with the objectives of the organisation. A system of motivation attempts to neutralise this dichotomy.

Motivation is a complex behavioural phenomenon and it has been studied 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.

Incentives are the means by which individuals can be encouraged to perform better. Generally, the incentives are divided into two groups: the monetary and the non-monetary incentives. Monetary incentives are provided in the form of money. Salary, bonus, profit-sharing plans, etc. are common monetary incentives. Non-monetary incentives are in the form of rewards, recognition, designation, perquisites, etc. Both the type of incentives are important and are used by all types of organisations. However, there are limitations within which these incentives can be used. For instance, salary and other monetary payments are limited due to ceiling on managerial remuneration.

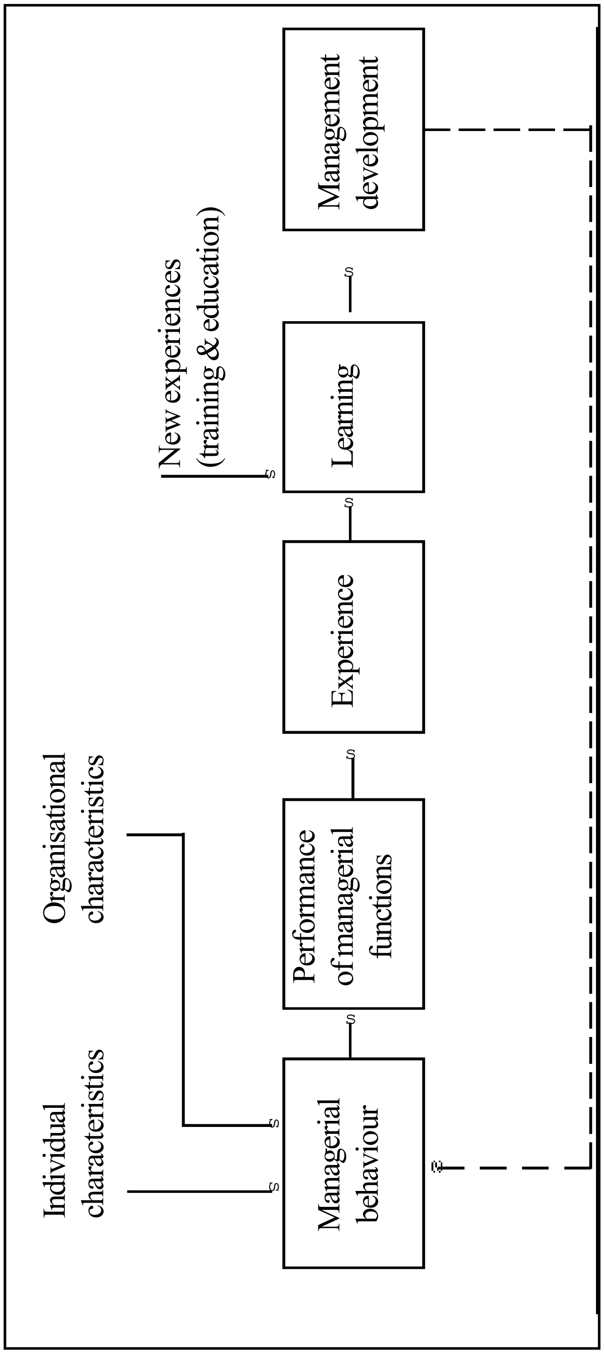
Strategists have to deal with the contentious issues related to the design and administration of motivation system as it is an important organisational arrangemeent to induce strategically desired behaviour. There are no set rules to decide the quantum and nature of incentives and much depends on an organisation's ability and willingness to provide money, its culture, the industry in which it exists, the general living and economic conditions, and statutory obligations. Within organisations, the conditions are of maintaining a parity among managers who perform similar work or carry nearly equal responsibility and to differentiate between unequal grades of employees.

Strategic and structural changes are likely to have an impact on the design and administration of the motivation system. In entrepreneurial organisations, the motivation system could operate in an informal manner as the size of organisation is small and there is a direct contact between the owner-manager and employees. As organisations become increasingly complex, the need for creating formal systems for motivation arises. Organisations in the expansion mode may require lesser monetary incentives as growth itself brings opportunities of better prospects for employees and ensures motivation. Conversely, stable organisations would need a mix of monetary and non-monetary incentives. The limit of monetary incentives may be reached in extremely large and complex organisations 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 multi-faceted. It offers enough scope for strategists, chief executives, and managers for improvisation. In nature, it is related to another complex managerial phenomenon, i.e. leadership and is contingent upon the situation prevailing in any given organisation.

13.4.5 Development System

Management development is considered to be a “process of gradual, systematic improvement in the knowledge, skills, attitudes, and performance of those individuals in an organisation who carry management responsibilities." Schematically, the process of development could be viewed as shown in Exhibit 13.5.



Source: adapted from A. Kazmi: Management Development Rationale and Purpose, *Indian Journal of Training & Development, Jan-Mar. 1986,*

Exhibit 13.5 The process of management development

Managerial behaviour is the product of individual characteristics and organisational environment. The environment of organisation is shaped by interacting systems of information, control, appraisal, and motivation. Managerial behaviour is, therefore, the result of the processes that operate within the organisational systems. Management development is the outcome of experience and learning that takes place due to the performacne 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 of strategic tasks required for the implementation of strategy. Changes in strategy, or adoption of a new strategy, results in a modified set of strategic tasks. The 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, the development system may consist of :

- Recruitment of personnel, if not available within the organisation, to handle the emerging strategic tasks;
- Education and training of managers through internal and external training programmes to impart knowledge, skills, and attitudes to managers for the performance of strategic tasks;
- Career planning and development of managers to prepare them to perform future strategic tasks;
- Organisation development in the form of planned intervention to ensure a smooth transition from one strategic phase to the next and minimise resistance to change.

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

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

13.4.6 Planning System

Some additional comments are made on the role of planning system in implementation and changes that might have to be undertaken in the light of a new or modified strategy.

The role of the planning system, *per se,* 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 organisation to organisation. In some organisations, the formulation of strategy is a centralised activity and plans are provided in a packaged form for implementation. Under decentralised planning, on the other hand the participation of managers is of a high 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. The other view is that the tasks of formulation and implementation of strategy are distinct and, therefore, should be performed separately. From this viewpoint, the function of formulation is a staff function while the implementation of strategy is a line function. Both these views prevail and affect organisational policies related to the role of the planning system. Hence, one finds organisations where planning committees act in a centralised structure, either as task groups or staff departments, and mainly perform the functions of formulating the strategies and overseeing their implementation. There are also organisations where formulation and implementation are decentralised to the level of divisions or SBUs and the overall corporate strategy performs a directive role for the different divisions or the concerned SBUs.

Strategists are concerned with the mechanisms of the planning system 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 centralised manner in entrepreneurial and functionally structured organisations. In divisional organisations, the planning system could be decentralised 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.

Before we end this section, let us have an overview of the six organisational systems that we have discussed in this section.

13.5 OVERVIEW OF ORGANISATIONAL SYSTEMS

As we took up the discussion of the six organisational systems one by one, it was clear that each of these systems plays a vital role in the implementation of strategy. Further, changes in strategy create new requirements that have to be satisfied through modifications in the existing organisational systems. Exhibit 13.6 attempts to bring together, what has been discussed, in the form of a matrix showing the predominant organisational system characteristics required for implementing various strategies through the adoption of different types of structures. It should be noted, however, that either end of the systemmatic continuum does not preclude the possibility of using the characteristics at the other end. The systemic characteristics are indicative rather than definitive and are intended to provide strategists an idea of the relative priority to be accorded to either of the two ends of the continuum. For instance, the control system for implementation of stability strategies should preferably be formal but the use of certain informal controls is not entirely ruled out. Further, in divisional or SBU structures, the implementation of the expansion strategy should prefereably be through informal controls operating between the corporate and SBU levels, but within SBUs formal controls may still operate.

Similarly, the prescribed development system for the

Strategic continuum	Stability — — — — — — — —	Expansion
Structural alternatives	Entrepreneurial/— — — — — — Functional SBU	Divisional
Information	Efficiency- Decisional orientation	orientation
Control	Formal-direct	Informal-indirect
Appraisal	Efficiency-based; quantitative/objective	Broad-based; qualitative/subjective
Motivation	Monetary—informal	Non-monetary-formal
Development	Internal—focussed; programmed, promotion of personnel from within side use of OD techniques	External—focussed; Need-based; recruitment from out-
Planning	Directive	Participative

Exhibit 13.6 Predominant system characteristics vis-a-vis strategic continuum and structural alternatives

implementation of stability strategy is internally focussed, systematic and programmed and is based primarily on the promotion of personnel from within. The implementation of expansion strategies could be more feasible with a development system that is externally focussed as it involves the generation of new skills that may not be available within the organisation. Further, the development system is to be need-based and may require exposure of personnel to specialised training programmes offered by external agencies. Career planning and development will have to take into account recruitment from outside sources. Organisation development may prove to be useful as strategic changes may be extreme and require planned interventions to manage organisational change. But all these prescriptions do not preclude the possbility of using these characteristics, though in a small way, to design and administer a development system to be used for the implementation of stability strategies.

It is an extremely difficult proposition to find a real organisation which has followed all the prescriptions of changes in organisational systems in line with strategic changes. This is owing to the fact that organistional changes are often not planned systematically, or, if such changes do take place, they occur in the manner of organic adaptation in response to the requirements of the new strategy. In practice, therefore, organisational changes occur in bits and pieces rather than as a systematic whole. Another reason for this slow reaction to strategic change is the organisational inertia arising out of the commitment to strategies followed earlier that prevents a clean break from the past. Despite these real difficulties, one occasionally comes across an organisation which apparently seems to have made attempts to implement planned organisational system changes in response to the requirements of a new strategy. Exhibit 13.7 provides an illustration of one such organisation.

The UB Group is a newly structured group of 64 companies, most of which have traditionally been in the liquor and brewery business set up by the well-known industrialist, the late Vittal Mallya who was the father of the present Group Chairman, Vijay Mallya. The management style of both father and son is a study in contrast. While Vittal Mallya's style could be characterised as conservative, Vijay Mallya's style is flamboyant and extrovertish.

The predominant strategy followed earlier was that of stability, consolidation, and slow expansion. The current strategy is of fast-paced growth and expansion through diversification, mainly from the liquor and brewery business to the petrochemicals sector.

The structural changes show a distinct shift from a centralised to a divisionalised structure presently consisting of eleven business groups or divisions. The UB Group is unique in the sense that it allows for a limited entrepreneurial structure to coexist with its main structure.

The organisational system characteristics at the UB Group could be indicated below.

1. *Information system.* Change from a restrictive style of decision-making to a participative style supported by better communication through a decentralised structure.
2. *Control system.* Change from a system of monthly performance reports to a more result-oriented review and control mechanism which updates operating results of each line of business through monthly operating reviews by presidents/ group VPs.
3. *Appraisal system.* Change from a traditional appraisal to a performance-based appraisal system aimed at creating an atmosphere which supports professionalism.
4. *Motivation system.* Change to an informal and accomodating style of management from a restrictive, traditional style, compensation packages for managers based on 'assigned job values' system and not on designation. Beyond a certain rank, there is only a minimum for a salary grade and no maximum. There are no fixed increments.
5. *Development system.* For senior manager, a planned system of deputation from corporate planning to line function exists. External recruitment is done if positions cannot be filled through promotion from within.
6. *Planning system.* Change from an entrepreneurial style of planning and decision making to a participative mode. The planning function is performed by a corporate executive committee comprising the Group Chairman, all Presidents and Group VPs, which meets frequently and, besides a review of implementation, evaluates new proposals and recommends strategic action. A full-fledged corporate planning and coordination group supports the planning system.

Source : Based on "UB Group—Vijay Mallya: from high spirits to hi tech", in *Business India,* Apr. 3-16, 1989, pp. 60-72 and "Room at the top" in *Business World,* Nov. 22-Dec. 5, 1989, p. 60

Exhibit 13.7 Organisational system changes at the UB Group

13.6 SUMMARY

This section has dealt with an extremely important aspect of strategy implementation, i.e. structural implementation. We started with defining structure in the context of strategic management and then explained how the structural mechanisms work. This has been done through the example of a new organisation that has decided to implement a strategy to achieve its objectives. The relationship of structure and strategy has long been debated upon. Our view is that any strategy creates its own special requirements that should be satisfied by the structure. Stages of development theories is another issue that has attracted the attention of several authors attempting to explain how an organisation matures from simplicity to complexity in terms of structure.

There are several alternatives of structural designs that could be used to create an organisational structure. Five major types and five other types of structures have been described in this section. For each type of strucutre, we have pointed out the important advantages and disadvantages that show how and under what circumstances each of these structures could be used.

There is no unanimity with regard to the type of structure that satisfies the requirements of a particular strategy. The section on organisation design and change offers some insights as to how the special needs of an organisation could be asessed to decide what type of structure would be the most suitable.

Organisational systems like information, control, appraisal, motivation, development, and planning form the core of any structure. They are the flesh and blood for a skeleton that is the structure. The The design and administration of organisational systems is a challenging task for strategists as it is the way how these systems are managed which determines the success of their implementation. While describing each system special effort has been made to highlight the manner in which these systems have to be changed to suit the requirements of a new or modified strategy. The study ended with an overview of organisational systems where a comprehensive assessment of system characteristics was done to explain how these change in response to strategy and structural changes.

The next step of implementation is that of policy implementation and is the subject of the next topic.

13.7 GLOSSARY

- Organisational Design : It is a step-by-step methodology which identifies disfunctional aspects of work flow, procedure, structures & rhythems.

- Span Management : It refers to a way in which activities can be grouped.

13.8 SELF ASSESSMENT QUESTIONS :

1. What is a strategists view of oragnisational structure.

   ____

   ____

2. Highlight the role of the planning system in strategy evaluation.

   ____

   ____

3. Outline the issues that strategists have to consider in the design and administration of an appraisal system.

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   ____

4. What are the implications for structure if oragnisational growth is viewed in terms of stages of development?

   ____

   ____

5. Discuss the importance of strategic changes for the following organisational systems :

   a) Information ; b) Control;

   c) Appraisal ; d) Motivation;

   e) Development ; and f) Planning.

13.9 LESSON END EXERCISE

Q1. Highlight the organisational design and structure of Reliance company. Also discuss its strategic changes in various organisational systems.

Q2. "Strategy evaluation allows an organisation to take a proactivestance towards shaping its own future"? Discuss.

13.9 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

UNIT III

LESSON - 14

FUNCTIONAL PLANS AND POLICIES - MARKETING, OPERATIONS, PERSONNEL, FINANCIAL

STRUCTURE

14.1 INTRODUCTION

This lesson deals with formulation and implementation of functional plans and policies. The emphasis is on the formulation and implementation of functional plans and policies, and the changes to be made in them according, to the strategic changes.

The study starts with an explanation of the nature, need and the process of development of functional plans and policies.

For each functional area, first the major sub-areas are identified and then follows a discussion of each of these sub-functional areas regarding the content of plans and policies, important factors, and their importance in the process of strategy implementation.

The study ends with a section on the integration of functional plans and policies. Five major considerations for strategists are identified and discussed so that effective integration can take place.

14.2 OBJECTIVES:

After reading this lesson, you can easily understand that—

(i) functional plans and policies are needed to be properly developed in the organisation.

(ii) evaluate upon the nature of functional plans and policies implemented by an enterprise.

(iii) make an assessment of different marketing plans & policies.

14.3 FUNCTIONAL PLANS AND POLICIES

For effective implementation, strategists have to provide directions to functional managers regarding the plans and policies to be adopted. Infact, the effectiveness of strategic management depends critically on the manner in which strategies are implementation. In this section, we see the nature of functional plans and policies, why they are needed, and how they are developed.

14.3.1 Nature of Functional Plans and Policies

In terms of the levels of strategy formulation functional strategies operate below the SBU or business-level strategies. Within functional strategies there might be several sub-functional areas. Thus, a company might have a textile division among its several SBU or business areas. Within the textile division, there might be functional areas such as marketing, production, research and development, etc. Further, the functional area of marketing may have sub-functions such as product development, advertising and sales promotion, market research, etc.

Functional strategies or more appropriately, functional plans and policies—as they actually are plans or tactics to implement business strategies—are made within the guidelines set at higher levels. Plans are made to select a course of action while policies are required to act as guidelines to action. Functional plans and policies, therefore, are operational plans and tactics to make a strategy work.

Functional managers need guidance from the business strategy in order to make decisions. Operational plans tell the functional managers what has to be done while policies state how the plans are to be implemented.

14.3.2 Need for Functional Plans and Policies

Glueck suggests five reasons why functional plans and policies are needed. Functional plans and policies are developed to ensure that:

1. The strategic decisions are implemented by all the parts of an organisation;
2. There is a basis available for controlling activities in the different functional areas of business ;
3. The time spent by functional managers in decision-making is reduced as plans lay down clearly what is to be done and policies provide the discretionary framework within which decisions need to be taken;
4. Similar situations occurring in different functional areas are handled in a consistent manner by the functional managers; and
5. Coordination across the different functions takes place where necessary.

14.3.3 Development of Functional Plans and Policies

The development of functional plans and policies is aimed at making the strategies—formulated at the top management level—practically feasible at the functional level. Strategies need to be segregated into viable functional plans and policies that are compatible with each other. In this way, strategies can be implemented by the functional managers.

The process of development of functional plans and policies may range from the formal to informal. Larger and more complex organisations may have several hundred policies related to every major aspect. Many of these policies could have been formulated through the formal process and laid down in company manuals and documents. Smaller organisations with simpler business may operate with a few policies most of which could be informal and understood rather than written down.

The process of development of functional plans and policies—whether formal or informal—is similar to that for strategy formulation. Environmental factors relevant to each function area have an impact on the choice of plans and policies.

Organisational plans and policies affect the choice of functional plans and policies. Finally, the actual process of choice is influenced by objective as well as subjective factors. Functional plans and policies affect, and are affected by, the resource allocation decisions.

At last, we take up a discussion of the important aspects of each functional area for which plans and policies may be needed. The discussion will be guided by the functional capability factors that were identified. Before going ahead, readers may find it useful to briefly review that section. In the end of this chapter, integration of plans will be discussed so that it is clear that plans have also to be brought together for the sake of consistency and compatibility.

But before we move to the next section, two points have to be noted. First, functional areas have been traditionally segregated into finance, marketing, production and personnel, and so we follow this pattern in subsequent discussions. But not all organisations divide functional areas traditionally; they do it on the basis of what they actually need. For instance, service organisations have a different set of functional areas. Secondly, the discussion of functional plans and policies that follows is only indicative and not exhaustive. This is understandable because functional managers in each area would formulate plans and policies in greater detail than we can possibly do here. Therefore, for each functional area, only the major issues and decision have been highlighted. Secondly, the discussion of functional plans and policies that follows is only indicative and not exhaustive. This is understandable because functional managers in each area would formulate plans and policies in greater detail than we can possibly do here. Therefore, for each functional area, only the major issues and decision have been highlighted.

14.4 FINANCIAL PLANS AND POLICIES

The financial plans and policies of an organisation are related to the availability, usage, and management of funds. Strategists need to formulate plans and policies in these areas so that strategies are implemented. We discuss below each of these plans and policies and point out the significant decisions that have to be taken .

14.4.1 Sources of Funds

Plans and policies related to the sources of funds deal with financing or capital mix decisions. The major factors regarding which plans and polcies have to be made are : capital structure, procurement of capital and working capital borrowings, reserves and surplus as sources of funds, and relationship with lenders, banks and financial institutions. Plans and policies related to the sources of funds are important since they determine how financial resources will be made available for the implementation of strategies.

Organisations have a range of alternatives regarding the sources of funds. While one company may rely on external borrowings, another may follow a policy of internal financing. For instance, Ingersoll-Rand Ltd has adopted a conservative policy for its strategies of expansion and growth. Nearly 70 per cent of its post-tax profits have been ploughed back, thus reducing dependence on borrowed funds and helping it in keeping interest cost low. Another company, Sudarshan Chemicals, relied entirely on internal accruals in the past to finance its expansion and diversification plans. Now, when it plans to invest Rs. 20 crore on upgradation of technology for its main business of pigment manufacturing, the capital-mix is based on internal accruals as well as term loans.

14.4.2 Usage of Funds

Plans and policies for the usage of funds deal with investment or asset-mix decisions. The important factors regarding which plans and policies are to be made are: capital investment, fixed asset acquisition, current assets, loans and advances, dividend decisions and relationship with shareholders. Usage of funds is important since it relates to the efficiency and effectiveness of resource utilisation in the process of strategy implementation.

Implementation of projects in pursuance of expansion strategies typically results in increase in capital work in progress and current assets. If plans and policies are not clear, the usage of funds is inefficient, leading to less than an optimum utilisation of resources. An example Modi Cement, which followed a deliberate policy of generous capital investment in setting up its plant based on the latest technology. As compared to its competitor Jaypee Rewa's plant, which cost Rs 120 crore, Modi's plant had an investment of Rs 153 crore. The result was high interest liability and depreciation, causing a serious dent in profitability in the initial years. Other factors of usage of funds are also considered by companies to attract and retain shareholders' interest. Payout policies for dividends and bonus distribution play an important role in the usage of funds. Facit Asia, the well-known typewriter company, follows a generous payout policy and has a 25-years' unbroken dividend record, besides several rights and bonus issues of shares. Lakshmi Machine Works has also adopted a consistent policy of rewarding its shareholders with dividends and bonuses. In this manner, companies use financial plans and policies to implement their strategies.

14.4.3 Management of Funds

The management of funds is an important area of financial plans and policies. It basically deals with decisions related to the systemic aspects of financial management. The major factors regarding which plans and policies related to the management of funds have to be made are: the systems of finance, accounting, and budgeting; management control system; cash, credit, and risk management; cost control and reduction; and tax planning and advantages.

The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilisation of funds—objectives which are central to any strategic action. Organisations that implement strategies of stability, growth or retrenchment cannot escape the rigours of a proper management of funds. In fact, good management of funds often creates the difference between a strategically successful and unsuccessful company. For instance, Gujarat Ambuja Cements, currently the most profitable cement company in the country, has achieved tremendous financial success primarily on the basis of its policies of cost control. This company has been particularly successful in maintaining a low cost for power, which is a major input in cement manufacturing. Similarly, Tata Chemicals maintains a competitive edge, due to its policy of conservation of resources through internal power generation, over its competitors like DCW, GHCL and Gujarat Alkalies. Another company, Asahi India Glass follows a policy of managing its cash flows strategically through conservation in the form of depreciation, which it does through the written-down value method. Finolex Cables has implemented its competitive growth strategies by following a policy of better management of project costs, which were less than half of what its competitor spent, and recovering these project costs much before its competitors could even break even. In this way, through a judicious management of funds, companies can implement their strategies in a better manner.

Financial Policy area	Management priorities	Shareholders' priorities	Probable area of conflict
1. Sources of funds	— Retained earnings — Long-term debt — New common stock	— Debt — Retained earning —New common stock	— Extent of use of these resources in financing growth
2. Usage of funds (investment proposals)	— Internal rate of return on the basis of past performance	— External as well as internal investment opportunity rates including competing business organi-sations of comparable risk	— Cut-off rate of acceptable investment opportunities and amounts committed to perpetuate existing investments
3. *Management* of funds	— Measuring financial performance on the basis of anticipated changes in specific cash flows in the foreseeable future– amount, certainty and timing	— Anticipated changes in share values as measured by trends in earnings per share and dividends	— Ranking of investment alternatives; depreciation policy, stock option, acquisition, mergers, etc.
	— Acceptable risk on the basis of preserving the individual corporate entity and management goals.	— Acceptable risk on the basis of a portfolio of investment over several companies	— Diversification of products and markets; debt-equity proportions

Source : Adapted from D.B. Ekpenyong : "Strategic financial planning for emergencies" in *The Chartered Accountant, Mar. 1989, p. 799.*

Exhibit 14.1 : Differing priorities of management and shareholders and the probable areas of conflict.

Financial plans and policies, however, present a dilemma before management. The priorities of management may often conflict with those of shareholders. This probable area of conflict arising out of differing priorities can be observed from Exhibit 14.1 It is the responsibility of the strategists to minimize the conflict of interest between the management and the shareholders. The contents of Exhibit 3.16 are also an illustration of the trade-offs that strategists have to make in the formulation and implementation of functional plans and policies.

14.5 MARKETING PLANS AND POLICIES

Plans and policies related to marketing have to be formulated and implemented on the basis of *the 4 Ps of the marketing mix, i.e. product, pricing, place* (distribution), and *promotion.* The major issues and decisions relate to these marketing mix factors. Questions such as : what types of products to offer? to offer at what prices? through which distribution channel? and, by the use of which promotional tool? have to be answered. We discuss each of the marketing mix factors below. Exhibit 14.2 presents a comprehensive illustration which shows how a company tries to implement its strategies through marketing plans and policies in each of the marketing mix areas.

Atlas Cycles, traditionally for over three decades, had relied on a marketing policy built around the product attributes of durability and reliability. But during the 1980s, its leadership position was seriously threatened by competitors, mainly Hero Cycles, which offered their products with new features and lower prices. Since 1985, Atlas Cycles has had to rethink its marketing plans and policies as it has decided to adopt a growth strategy.

The major aspects of marketing plans and policies are described below :

Product. Based on stringent quality control, newer models such as Atlas Goldline, Atlas Goldline Super, Funfleet (in the sports cycles category), and Atlas Concorde Pro-10 have been introduced. Several new features, such as front wheel reflector, better handle, new chain cover, and mascot on front mudguard were added to create Atlas Goldline. Atlas Concorde Pro-10 is a high-tech model with an imported 10-gear system and a new set of seats, handle grips, reflectors, etc.

Pricing. Atlas Cycles markets its products on the basis of a premium pricing policy, i.e. its models are priced higher than those of its competitors. All the marketing policies revolve around the question: how to maintain competitiveness, market share, and leadership position with higher-priced products?

Distribution Dealers in the bicycle industry—like those in several other industries—have a major influence on the brand choice. Distribution policies at Atlas Cycles are centred on the approach of maintaining a close relationship with dealers and convincing them of the high quality of products that justifies a premium pricing policy.

Promotion The advertising policy at Atlas Cycles is built on two central tasks : to adopt a proactive approach to highlight the genuine “quality” leadership of Atlas products; and to find ways to project the market leadership of the company through contemporary and technologically superior products.

In this manner, Atlas Cycles attempts to implement its strategies of modernisation and competitive stability in a market which is increasingly becoming more quality and status conscious.

Exhibit 14.2 Marketing plans and policies at Atlas Cycles

Source : Adapted from "Moving in tandem", by A. Brahmachary in A & M, Oct. 1989, pp. 64–68.

14.5.1 Product

Product denotes the goods and services that an organisation offers to its target markets. Plans and policies related to the product and market need to be formulated and implemented on the basis of characteristics such as quality, features, choice of models, brand name, packaging, etc. Strategies dictate the manner in which product and market characteristics would be defined. Thus, competitive strategies may be implemented by stressing on high quality, better and more features. The growth strategy of Bajaj Auto has the quality of its vehicles as a prominent factor. The product policy of Reliance is to offer high fashion fabrics of new varieties and design. Not only consumer goods companies but industrial products manufactures may also have to consider the product characteristics, as mentioned above, to set marketing plans and policies. Thermax offers a service franchise scheme to implement its marketing policy for boilers. This policy is based on the thinking that if service is assured in a competitive market, sales will follow. In this manner, product and service characteristics help a company in implementing its strategy just like a strategy guides the formulation and implementation of product plans and policies.

14.5.2 Pricing

Price denotes the money that customers pay in exchange for goods and services. It is important to the seller because it represents the returns of efforts. To a buyer, price is the value that is assigned to the satisfaction of needs and wants. Several price characteristics such as discount, mode of payment, allowances, payment period, credit terms, etc. affect pricing plans and policies. The use of high or low prices for their products is extensively used by companies as a competitive tool. For instance, HCL has based its marketing policy on low-priced copiers and competes with its rivals, mainly Modi Xerox, by claiming a better price-performance relationship of its products. This is done through a promotional policy of comparative advertising. Prices are often used as a determinant of market segmentation, which in turn becomes the basis for creating different models of the same product. The market for soaps, for instance, is divided into premium and popular segments representing the high-priced and low-priced soaps. A segmentation of this type has implications for all the factors in marketing mix, apart from pricing, and helps in implementing marketing policies such as market penetration or partial retrenchment from markets.

14.5.3 Place

Place (or distribution) is the process by which goods or services are made available to the customers. Distribution plans and policies address themselves to issues such as the channels to be used; transportation, logistics, and inventory storage management; coverage of markets; etc.

The use of distribution plans and policies in the marketing function as well as strategy implementation is important. The success of market-oriented strategies, specially in competitive environment, rests on the efficiency and effectiveness of the distribution system. Several companies realise this importance and make efforts to use their distribution systems strategically. For instance, Food Specialities Ltd. (FSL) has a conscious policy of regarding the retailer as an important link in the distribution system. It offers better margins, facilities and support to its retailers. In contrast, Glaxo—its competitor in the baby foods market—failed to react favourably to retailers' demand for better margins during the 1970s as a result of which its popular brand Farex lost out to Nestle's (now FSL) brand Cerelac, a competitive disadvantage that still exists.

14.5.4 Promotion

Promotion deals with marketing communication intended to convey the company and product or service image to prospective buyers. The promotional mix consists of four activities : *advertising, personal selling, sales promotion, and publicity.*

Promotional plans and policies have to consider the basic question of what promotional mix to adopt so that promotional activities can be used to implement strategies.

The increasing competitiveness in several industries in India has prompted companies to adopt promotion as a strategic tool. The availability of the medium of television has encouraged small companies making products like Vicco creams, Lijjat Papad, Pan Parag, Promise toothpaste, Nirma and several others to adopt a promotional policy of using TV adverstising extensively. The nature of product/ industry also determines the type of promotional tool used. The promotional policy of Lohia Machines for LML Vespa Scooters currently rests on using safety as a unique selling proposition as scooters are considered as vehicles mainly for the middle class men. Eureka Forbes has adopted a deliberate sales promotion policy of door-to-door selling and demonstrations at exhibitions for its home improvement products.

Before we move to the next area of functional implementation, it should be noted that the plans and policies in sub-functions do not operate in isolation; they interact with each other. For instance, product decisions in marketing cannot be taken without considering its pricing, distribution, and promotion aspects. Neither can pricing decisions be taken without considering the other factors in the marketing mix.

14.5.5 People

People invluce the persons who are directly or indirectly involved in manufacturing of products or delivery of services. People can make or break the organisation. Lates innovations, modifications, new product development etc. all are done by the people including employees, managers, researchers of the company. Thus, many companies now-a-day are involded into specially getting their staff trained in various interpersonal staffs

14.5.6. Process

Process is an essential element within the entire marketing mix. The process consists of all activities in which the people involved play an important role creating an managing effective processes are the essence of every organisation. The processes of organisation should be easy and userfriendly as to attain more and more profits for eg. process for applying loan in bank, process of booking air tickets, etc.

14.5.7 Physical Evidence

Physical Evidence is the outcome of interaction between an employee and a customer. for e.g. physical environment at Restaurant, Hotel and Airport. They invest heavily in their interior design and decoration to offer unique experience to their customers.

14.6 OPERATIONS PLANS AND POLICIES

The plans and policies for operations are related to the production system, operational planning and control, and research and development (R & D). Exhibit 14.3 shows how strategies may influence operations plans and policies. The strategy adopted affects the nature of product / service, the markets to be served, and the manner in which the markets are to be served. All these collectively influence the operations system structure and objectives which are used to determine the operations plans and policies. Thus, a strategy of expansion through related diversification, for instance, will affect what products are offered to which market and how these markets are served. The operations system structure, which is concerned with the manufacturing/ service and supply/delivery system, and operations system objectives, which are related to customer service and resource utilisation, both determine what operations, plans and policies are set.

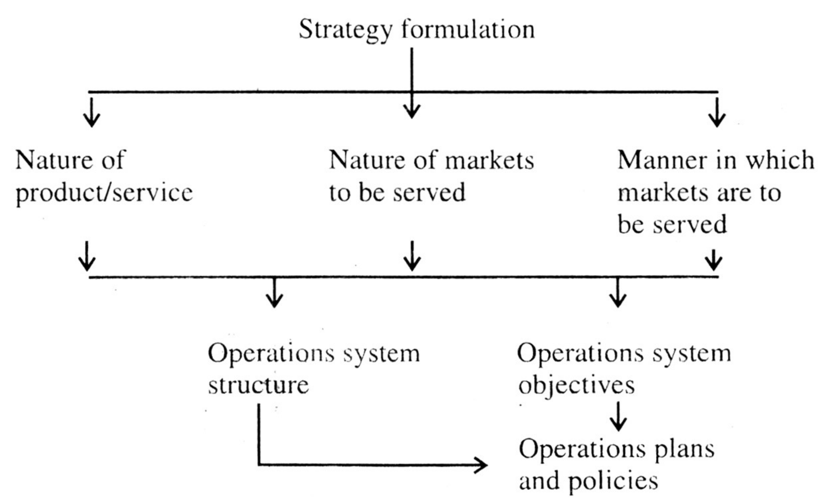

Exhibit 14.3 Impact of strategy on operations plans and policies

Source : Based on ideas provided in R. Wild: *Essentials of Production and Operations Management* (2nd edn.), (London: Holt, Richart and Winston, 1985), pp. 26-30.

We now turn to a discussion of the three components of operations plans and policies, viz the production system, operations planning and control, and Research and Development.

14.6.1 Production System

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

Strategy implementation would have to take into account the production system factors as they involve decisions which are long-term in nature and influence not only the operations capability of an organisation but also its ability to implement strategies and achieve objectives. Excel Industries, a pioneerng company in the area of industrial and agro chemicals, adopts a policy of successive vertical integration for import substitution. It starts with the end product and then integrates backward to make raw materials for it. Endosulphan insecticide, for instance, is a major company product and is produced by the use of raw materials such as phosphorus and butenediol, 50 per cent of which are made by the company itself. Another example is of Lakshmi Machine Works, where operations policy related to the product range is aimed at the successive enlargement of its textile machinery range. This is done through a policy of mastering the process of production by absorption of technology, indigenisation, and adaptation to customer needs. In other words, productivity measures could be used to compare a firms' performance with that of other. General motor's labour hour rate per vehicle have been estimated to be around 32.1 as against Toyota's 29.40. So it is concluded that Toyota is making money on the basis of efficient production system.

14.6.2 Operations Planning and Control

Plans and policies related to operations planning and control are concerned with aggregate production planning; materials supply; inventory, cost, and quality management;

and maintenance of plant and equipment. Here, the aim of strategy implementation is to see how efficiently resources are utilised and in what manner the day-to-day operations can be managed in the light of long-term objectives.

Operations planning and control provides an example of an organisational activity that is aimed at translating the objectives into reality. For instance, Instrumentation Ltd is a public sector company engaged in the business of process control and automation and is currently following a strategy of expansion and diversification. Operations planning and control at this company is based on the policy of ancillarisation. There are about 259 ancillary units that supply sub-assemblies and components. The company's centralised production is at Kota in Rajasthan and its operations plans are based on the plans of its ancillary units. The centralised production provides all the basic inputs to ancillaries and performs the functions of testing, standardising, and fabricating the equipment. Another public sector company, Maruti Udyog Ltd (MUL), uses indigenisation as part of its strategy of expansion and growth. The component supply is a major part of indigenisation efforts as 75 per cent of the value of a car is bought from vendors and the component supply to MUL is a Rs. 450 crore industry presently. In pursuing its policy, MUL has recently set up a vendor upgradation division to provide technology support, advice on new facilities and systems, and low-cost automation and process control ideas to its vendors.

Some companies use quality as a strategic tool. The operations policies at KSB Pumps Ltd lay a great emphasis on quality aspects. In implementing its strategy of stable growth, KSB Pumps has built a solid reputation for its quality products. Structurally, it has a separate department of quality assurance having two groups of quality inspection and quality engineering. Thus, quality is a consideration not only at the inspection stage but is built into the design itself.

14.6.3 Research and Development

Plans and policies for R&D deal with product development, personnel and facilities, level of technology used, technology transfer and absorption, technological collaboration and support, etc. R & D occupies an important position in operations management in the Indian context as companies have access to multiple sources of technology, including the foreign sources in developed countries.

For strategy implementation, Research and Development is used as a foundation for implementing strategies such as product development and diversification. R&D is also used as a competitive strategic tool. For instance, paint-making has traditionally been considered a middle-level technology, low capital business in India but Jenson & Nicholson (India) Ltd has laid a great emphasis on its R&D policies. This has enabled the company to adopt competitive strategies even though the paints industry, on the whole, is not very profitable. With a high level of R&D investment, this company has ensured a competitive edge, better quality products and lower production costs. Another example is of Gujarat Communication and Electronics Ltd, which is a public sector undertaking in the business of professional electronics. Its R&D policies are aimed at borrowing technical know-how from several sources, like foreign companies, national laboratories, besides internal R&D and exploiting it for production and development in the areas of printed circuit boards, integrated circuits, and electronic circuitry.

In this section, we have observed how the production system, operations planning and control and R&D play a role in strategy implementation. In the next section, we take up the issue of human resources and their role in strategy implementation.

14.7 PERSONNEL PLANS AND POLICIES

Personnel plans and policies relate to the personnel system, organisational and employee characteristics, and industrial relations. We discuss below each of these plans and policies areas. Exhibit 14.4 presents an illustration to demonstrate how a real-life organisation tries to implement a strategy of turnaround through its personnel plans and policies.

Bhilai Steel Plant of Steel Authority of India Ltd (SAIL) had been incurring losses since several years before V. Krishnamurthy took over as Chairman in 1985. Krishnamurthy, who has left SAIL since, implemented a strategy of turnaround based on improvements in operational efficiency and production, and labour rationalisation.

The personnel policies, associated with the turnaround, have the following salient features.

1. Policies related to the personnel system :
   - (a) Freeze on additional recruitment; reduction of manpower without retrenchment; and implementation of a voluntary retirement scheme.
   - (b) Ban on overtime payment.
   - (c) Executives made transferable to any SAIL plant; movement of employees within, and among, sections of the Bhilai Steel Plant.
   - (d) Promotions based also on merit rather than seniority alone.
   - (e) Compensation enhancement with the help of a wide-ranging incentive scheme.
2. Policies related to organisational and employee characteristics :
   - (a) Raising consciousness about quality and elimination of wastage among the work force.
   - (b) Change in the organisational culture of complacency to that of professionalism.
   - (c) Better promotional opportunities for meritorious employees.
   - (d) Imparting personnel mobility—both horizontally and vertically—to enable the development of a trained work force.
3. Policies related to industrial relations :
   - (a) Greater involvement of employees in decision-making.
   - (b) Inviting participation through better and more communication.
   - (c) Firm handling of recalcitrant trade unions.

Exhibit 14.4 Personnel plans and policies at Bhilai Steel Plant

Sources : Adapted from "Businessman of the year 1987–V. Krishnamurthy" in *Business India*, 28 Dec.-10 Jan. 1988, pp. 53-61. "Will SAIL's perestroika work?" in *Business World,* Mar. 1–14, 1989 pp. 42–46; and "Bhilai Steel Plant—a culture change" in *Business India*, 24 Jul.—6 Aug. 1989, pp. 77–79.

14.7.1 Personnel System

Plans and policies related to the personnel system deal with factors like manpower planning, selection, development, compensation, communication, and appraisal. The importance of such plans and policies lies in the role that personnel systems play in providing and maintaining human resources.

While implementing strategies, companies often rely on personnel systems. Guest Keen Williams (GKW) is a large engineering company which was not doing well in the past. Now it is in the process of a turnaround. One major component of its turnaround strategy has been rationalisation of the labour force to improve its financial position and productivity. This has been done through the implementation of a voluntary retirement scheme and entering into a productivity–linked wage agreement with the trade unions. Often, competitive success or failure could also depend on the manner in which personnel systems are designed and used. National Radio and Electronics Company (NELCO) is a Tata group company operating in the area of industrial and business systems, and office and consumer electronics products. It has not been a very successful company owing to marketing-related weaknesses. Personnel policies related to computer manpower have been a major cause for the company's inability to retain employees. This inability arose because of a compensation policy that equated computer professionals with those in other divisions, although the employment market offers much more to computer-trained people as compared to others. Thus, it can be seen that a strategic weakness could be ascribed to a lacunae in the personnel policy related to compensation. Naturally, the removal of a weakness or, alternatively, the creation of a strength could be done through the means of functional policies. Lakhanpal National Ltd, a maker of dry cells, has emerged as a formidable competitor in a highly competitive market. Apart from its strength in technology and marketing, the company has adopted the Japanese principles in designing and operating its personnel systems. For instance, it has an open communication policy and the top management share the details of production, sales, and marketing with workers every month. The results is high motivation and quality consciousness.

14.7.2 Organisational and Employee Characteristics

Organisational and employee characteristics include factors such as the corporate image, quality of managers, staff and workers, perception about and image of the organisation as an employer, availability of development opportunities for employees, working conditions, etc. Plans and policies related to these factors have to be formulated if strategies have to be implemented property. The real value of the organisational and employee characteristics lies in the creation of an appropriate environment for strategy implementation. Personnel systems, discussed above and other behavioural inputs may be used to create such an ambience.

S.K. Bhattacharya in his pioneering study "*Achieving managerial excellence*" relates the success of Industrial Credit and Investment Corporation of India (ICICI) to the vision of its ex-Chairman H.T. Parekh. The style of Parekh's leadership had several facets, one of which was to have a truly open-door policy based on open communication and sharing of information. This resulted in a genuinely consensual mode of decision-making and a supportive environment by the means of which this development banking organisation could implement its strategies. Certain companies can build up strategic competence through an effective use of organisational and employee characteristics factors which they can then use for competing in the markets. Jindal Strips Ltd is a successful medium-sized steel making company. Its skills in R&D and the development of indigenous technology have been its major strengths. The company derives its strength from its personnel policy of building and sustaining a strong team of engineers who are experts in developing the steel-making technology at a much lower cost as compared to that for its competitors. Even a successful public sector company like HMT Ltd did not have a proper promotion policy till a few years ago. When HMT was restructured into four business groups, an absence of rotation of the personnel resulted in lopsided promotional opportunities for employees. However, later the policy was reformulated to enable intergroup transfers supported by a need-based HRD programme for the development of better team spirit and communication.

14.7.3 Industrial Relations

Plans and policies related to industrial relations deal with issues such as union-management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale, etc. Industrial relations assume a special significance in an environment where there are several factors such as a pro-labour attitude of government, plethora of legislations, rules and regulations related to unions and workers, multiplicity of unions, political interference, etc. Within this framework, companies have several options with regard to the plans and policies related to industrial relations.

Tata Iron and Steel Company Ltd. (TISCO) claims to have never had a major industrial relations problems for the last six decades. The prevalence of a congenial industrial relations environment is mainly attributed to the personnel plans and policies of the company. For instance, there is a genuine consultative participation of workers in management. Besides, there is a clear "no retrenchment" policy and any dislocation of workers due to upgradation of technology and modernisation is dealt with by retraining the workers.

Recent years have seen a drastic change in the management's attitude towards workers and their unions. Employers have started adopting a tough attitude and, consequently, industrial relations policies have become strict. Hindustan Lever, when it faced problems in the competitive detergent markets, had to adopt a rigid stand and decided to lock out its Bombay unit rather than concede to the union's demands for increased wages. Instead, the company insisted on having a policy of linking wages to productivity and redeployment of workers within the factory as it wanted.

This section has covered the three broad areas for which personnel plans and policies could be set. In the preceding sections we have outlined the major functional plans and policies. These, however, do not exhaustively cover all the aspects of plan and policy implementation. Several organisations—depending on their needs—could have other functional areas also. For instance, public relations, legal affairs, projects, management information systems, exports, etc. are other functions which could be significant in a business and, therefore, could be grouped in the form of a separate division or department in the organisational structure. Further, non-manufacturing organisations, like service organisations, could have an entirely different set of functional areas. Hotels, for instance, could have departments like food and beverages, banquet, housekeeping, kitchen services, reception, etc. Keeping in view the functional segregation of activities, plans and policies would have to be set for the different functional areas. Moreover, these plans and policies will have to be changed or modified to suit the requirements of the strategy that is implemented by the organisation.

Before the functional plans and policies are implemented, there is a need for their integration. The last section in this study deals with the integration of functional plans and policies.

14.8 FINANCIAL INTEGRATION OF FUNCTIONAL PLANS AND POLICIES

Functional tasks are derived from the key activities that have to be performed for the implementation of a strategy. The functional areas in any organisation are, therefore, based on the segregation of the key activities. But, what has been segregated will have to be brought together since all activities are performed to achieve the overall objectives of any organisation. Integration of functional plans and policies provides the means for such an aggregation. Strategists have to arrange for mechanisms that will ensure such an integration to take place. These mechanisms can take the form of committees consisting of the top management and the functional heads, which can be entrusted with the responsibility of not only integrating the functional plans and policies but also review plan and policy implementation and suggest modifications in the light of strategic changes. There are no specific methods or techniques to cause integration to take place. But strategists can be guided by certain considerations. These considerations are described in the following sub-section. Exhibit 14.5 presents a comprehensive account of the functional policies following by a major tyre company in India. The aim of the illustration in Exhibit 14.5 is to provide data about the different functional policies of an organisation at one place. The discerning reader can observe how the integration of functional policies is attempted and, more importantly, where such an effort is missing.

The Madras-based MRF Ltd. is leading tyre company in the country. Only a decade ago, MRF was a relatively unknown name but in recent years it has made tremendous progress and has emerged as a top class tyre manufacturer. The current strategies of the company are of stable expansion and minor diversifications into toys and speciality paints. The main features of the functional plans and policies at MRF Ltd. are described below.

Financial area. MRF follows a conservative financial policy. It depends to the maximum extent on internal funds and avoids substantial stake by financial institutions. The payout policy of the company is stringent. Since it operates in a competitive market, losses on sales margins are made up by assets-usage efficiency and financial leverage.

Marketing area. MRF excels in the marketings area, where it follows an aggressive and proactive policy. Improvements in product quality are brought through in- house as well as foreign technology. The company follows a product policy where it believes that each product should create its own profit. There has been a shift in the product mix with greater emphasis on tyres for cars and the two-wheeler segments. Exports is a thrust area. Regarding prices, it follows a policy of holding prices and discouraging discounts. The company adopts a systematic approach to advertising and promotion. There is a greater emphasis on TV advertising. Promotion is based on personal contact with truck operators and effective after-sales service along with customer counselling. The distribution policy is to focus on dealers as an important market linkage. There is a shift in emphasis from selling to state road corporations earlier to selling to replacement markets presently. Some exclusive distribution outlets have also been opened.

Operations area. The operations policy of MRF is to expand tyre manufacturing capacity and avoid backward integration. There is efficient shop floor management, advance planning for supply of raw materials, economies of scale benefits through larger-volume production, and high emphasis on quality control. The R&D policy is aimed at adapting tyre technology to conform to the requirements of Indian road conditions.

Personnel area. The personnel policy is development-oriented. Managers down the line are provided systematic exposure to technology. There are product managers for each category of tyres. The effort of the company has been to change its perception of being a low-profile organisation to that of a new image and corporate identity. The style of management is professional and policy matters are decided by the top management while day-to-day affairs are left to professional managers. MRF is a multi-plant company and disruption of production is avoided if work stoppage occurs at some of its plants.

Exhibit 14.5 Functional policies at MRF Ltd.

Source : Adapted from "MRF—racing ahead", in *Business India*, Oct., 2–15, 1989, pp.54–60 and "MRF—bumpy road ahead", in *Investment Week* (*Financial Express*), Feb. 5–11, 1990, pp. 6–7.

14.8.1 Considerations in Integration

Plans and policy formulation is a major task of strategists. They have to formulate the various functional plans and policies and integrate them as well. Glueck has referred to some issues that affect integration. We refer to those issues here and discuss them as being the major considerations before strategists. The considerations that guide strategists in the integration of functional plans and policies could be grouped under five headings as under.

1. Need for internal consistency;
2. Relevance to development of organisational capability;
3. Making trade-off decisions;
4. Determination of intensity of linkages; and
5. Timing of implementation of plans and policies.

Need for internal consistency. The need for internal consistency arises due to the segregation of key organisational tasks. Internal consistency in the various functional plans and policies ensures that the different functional areas do not work at cross-purpose but operate in harmony. Absence of internal consistency may lead to a sub-optimal implementation of strategy. For instance, an organisation which adopts a strategy of rapid expansion may have an aggressive marketing policy, R&D emphasis on operations, a conservative financial approach to sources of funds, and a progressive personnel policy. Among these functional areas, finance is likely to create a problem as a conservative use of sources of funds may limit the options for the use of internal generation of resources. If the company is in a position to finance its rapid expansion strategy through its internal sources alone, the policies would be consistent. But often, funds through internal sources are inadequate for rapid expansion and, therefore, a conservative financial policy would be inconsistent with other financial policies and the requirements of the strategy.

Relevance to development of organisational capability The development of organisational capability, specially in terms of strategic or competitive advantages, is relevant to the integration of functional plans and policies. Synergistic effects occur across functional areas and distinctive competencies emerge as a result of the concentration of resources to the areas where an organisation wishes to build up strategic advantages. This can be observed in the case of a company which is, or intends to be, a market leader, a low-cost producer, a technologically superior competitor, or an ideal employer. For achieving each of these objectives, an integrated approach to functional plans and policies would be necessary. For instance, a company which intends to be a market leader would have to offer products of the best quality at a competitive price through an efficient distribution network supported by an aggressive promotion policy. The other functional area plans and policies would have to supplement these marketing policies. Operations management will provide volume production efficiently; financial policies will be expected to adopt a liberal approach to sources, usage, and management of funds; and personnel policies will be geared to higher productivity. In this manner, the development of organisational capability in any one or more areas would critically depend on how well the functional plans and policies have been integrated.

Making trade-off decisions. The formulation and implementation of functional plans and policies involve trade-off decisions. This is due to the inherent nature of the functional areas. Marketing-orientation in functional plans and policies is in some ways contradictory to operations-orientation; marketing would typically emphasise low-volume, specialised prodcution while operations efficiency would demand large-volume production with lesser product variety. Strategists have to realise that some sacrifice in one or more functional area(s) is imperative if emphasis is laid on other functional areas. In fact, the integration of functional plans and policies serves to minimise the aberration due to trade-off decisions and optimise the overall implementation of strategy.

Determination of intensity of linkages. The intensity of linkages that exist between the different functional areas are an important consideration in integration of functional plans and policies. Such an intensity of linkage determines the level of coordination that should exist between different functional areas. For instance, a strategy which is built upon high technology, superior quality products requires close contact between Research and Development, product development, and production departments. Likewise, a strategy based on low-cost, mass consumer items would require a higher level of coordination between marketing and operations. It would be pertinent to point out here that the intensity of linkages is not constant and may vary with the requirements of strategy from time to time.

Timing of implementation of plans and policies. Integration of functional plans and policies is dependent on the timing of their implementation. The different functional plans and policies have, therefore, to be implemented at the appropriate time so that they dovetail with each other. Implementing a stringent financial policy when operational efficiency or emphasis on R & D is a major consideration may prove to be untimely. Similarly, a failure to implement a development-oriented personnel policy may be inopportune when the strategy leads the company to high-tech specialised areas where availability of trained professionals is a key success factor.

The five issues discussed above have to be considered by strategists if effective integration of functional plans and policies has to take place.

With this discussion, we end this section. The next section deals with the final aspect of strategy implementation: behavioural implementation.

14.9 SUMMARY

Functional implementation deals with the manner in which various functional plans and policies have to be formulated and implemented.

The functional plans are made in the light of strategic tasks and are meant to act as a course of action. Policies provide the guidelines to action for functional managers. Both functional plans and policies are made to serve important needs in strategy implementation. The development of plans and policies is based on the segregation of key tasks required to implement strategies and could be done in a formal as well as an informal manner.

Financial plans and policies are related to the sources, usage, and management of funds. Marketing plans and policies deal with product, pricing, distribution, and promotion. Operations plans and policies are concerned with the production system, operations planning and control, and R & D. Personnel plans and policies cover the areas of personnel systems, organisational and employee characteristics, and industrial relations.

Since the development of functional plans and policies is based on a process of segregation, integration is necessary to aggregate the functions. Strategists have to consider issues such as the need for internal consistency, relevance to organisational capability, trade-offs, intensity of linkages, and timing of functional plans and policies so that effective integration takes place.

14.10 GLOSSARY

• Distribution : A process by which products are made available to the customers.

• Plan : Plan is concerned with prepairing & implementing plans.

• Policies : A courage or principles of action to fulfil the plans.

• Pricing : It is the process of fixing prices.

14.11 SELF ASSESSMENT QUESTIONS :

1. Enumerate and discuss the major considerations strategists in the intergration of functional plans and policies?

 ____

 ____

2. Describe the major concerns of financial, marketing, operations and personnel plans and policies?

 ____

 ____

3. Discuss the significance of each functional area plans and policies for strategy implementation?

 ____

 ____

4. What are the concerns of operations plans and policies and how these are implemented?

 ____

 ____

5. Consider any organisational of your choice. Adopt the framework used in the chapter and outline the various functional plans and policies that are being formulated and implemented?

 ____

 ____

14.12 LESSON END EXERCISE

Q1. Financial policies and strategies deal with creation of wealth to share holder. Is this true? If yes, how? Discuss it in context of any Indian company.

Q2. Discuss how R&D helps a company in gaining competitive advantage for a firm.

14.13 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

STRATEGIC IMPLEMENTATION

UNIT III

BEHAVIOURAL IMPLEMENTATION

LESSON - 15

STRUCTURE

15.1 Introduction

15.2 Objectives

15.3 Leadership Implementation

15.3.1 Theoretical Underpinning of Leadership

15.3.2 Strategists' Style and Strategy

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15.4 Corporate Culture

15.4.1 Composition of Corporate Culture

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15.5 Business Ethics

15.5.1 The meaning of Values and Ethics

15.5.2 Importance of Values and Ethics

15.5.3 Values, Ethics, and Strategy

15.6 Social Responsibilities

15.6.1 Different Views on Social Responsibility

15.6.2 Scope of Social Responsibility

15.6.3 Social responsiveness and strategic management

15.1 INTRODUCTION

It deals with behavioural implementation: those aspects of strategy implementation that have an impact on the behaviour of strategists in implementing the chosen strategies. Thus, we deal with five major issues of leadership, corporate culture, corporate politics and use of power, personal value and business ethics, and social responsibility. Almost all these issues are gaining increasing attention of academicians and managers in India presently.

It is assumed that the concept of leadership is familiar to the readers. Our effort here would not be to dwell on the theories of leadership but to distill the current trend in thinking with regard to leadership in the particular context of strategy implementation. We are also interested in knowing how strategy should shape the style of leadership and in what manner the development of strategists is to be done.

Corporate culture is often considered to be the hidden agenda behind the success or failure of companies. It is the task of behavioural implementation to mould the culture of organisation so that strategies are implemented effectively. We see what constitutes corporate culture, how it affects corporate life, and the relationship between strategy and culture.

Understanding corporate politics and the use of power is imperative for strategists as these are realities which are present in all organisations. Rather than letting strategy implementation suffer due to politics and power games within organisations, strategists have to use them to implement strategies.

The meaning and importance of personal values and business ethics have to be clear to strategists. Further, an understanding of how these affect strategy implementation is necessary. We follow an approach of clarifying what values and ethics mean, why they are important, and how they affect strategy implementation.

Social responsibility is a controversial issue but among the liberal-professional ethos that is taking roots in Indian organisations, responsibility of business to society is increasingly being viewed as important. In the last section of this study, we describe how social responsiveness can be developed, enhanced, and operationalised through strategic management.

15.2 OBJECTIVES: After reading this lesson, one should be able to

(i) analyse strategy-culture relationship.

(ii) make an assessment of personal values and business ethics in a corporate world.

15.3 LEADERSHIP IMPLEMENTATION

The role of appropriate leadership in strategic success is highly significant. It has repeatedly been observed that leadership plays a critical role in the success or failure of an enterprise and ‘It has been considered one of the most important elements affecting organisational performance. For the manager, leadership is the focus of activity through which the goals and objectives of the organisation are accomplished.

Era		Focus on
1.	Personality	Traits and qualities and great personalities
2.	Influence	Relationship between individuals
3.	Behaviour	Actions of leaders
4.	Situation	Situation in which the leader operates
5.	Contingency	Dependence on behaviour, personality influence exerted by leader on subordinates, and situation
6.	Transactional	Role differentiation and social interaction between the leader and subordinates
7.	Anti-leadership	Absence of a real concept of leadership
8.	Culture	Culture of the entire organisation
9.	Transformational	Use of influence to create intrinsic motivation

The tenth era, which King terms as the integrative era, may probably focus on integration of the different approaches.

The evolutionary eras, as classified by King, bring into clear focus the changing emphasis of different theories of leadership. A greater understanding of the phenomenon of leadership may come through the integration of the different approaches in future.

Exhibit 15.1 Theory and Practive of leadership. Albert S. King traces the historical development of leadership theories and identifies nine evolutionary eras, each era focusing on a specific theme of leadership.

Source : Albert S. King, "Evolution of leadership theory", in *Vikalpa,* Vol. 15, No. 2, April-June 1990, pp. 43-54.

15.3.1 Theoretical Underpinning of Leadership

Leadership has been studied and researched for a number of years, resulting in numerous theories and models. No universally accepted theoretical framework has as yet been developed. However, enough is already known to be able to understand the various factors that affect the contact and process of leadership. Exhibit 15.1 presents an overview of leadership theory through the different evolutionary area and the emphasis placed in each era. It should, however, be noted that the eras are not chronological but in terms of the similarity of approach adopted by several theories. Thus, an era represents a group of leadership theories, each one of which adopts a similar approach. King points out that the future development of leadership theory may be based on an integrated approach.

Sziglayi and Wallace have proposed an integrative model of leadership based on three different theoretical approaches of leadership: trait (or personality), behavioural, and situational theories. Their integrative model of leadership includes four factors on the basis of which behavioural scientists and practising managers can attempt to understand the phenomenon of leadership. These four factors are : the leader (individual characteristics, leadership style, dimension and reinforcing power); the subordinate (individual characteristics, and perception); the situation (nature of task, nature of group, organisational factors, sources of influence other than the leader); and the performance outcomes.

From the above, it can be seen that leadership has proved to be an elusive concept. The different attempts at explaining the phenomenon of leadership have increased our understanding of the issue and provided significant insights into its complexities.

Several conclusions can be drawn from theory regarding the manner in which leadership could be implemented by strategists. On the basis of the present state of knowledge, it can be said that a leader must.

- develop new qualities to perform effectively:
- be a visionary, willing to take risks, and be highly adaptable to change;
- exemplify the values, goals, and culture of the organisation, and be aware of the environmental factors affecting the organisation;

- pay attention to strategic thinking and intellectual activities;
- adopt a collective view of leadership in which the leader's influence is dispersed across all levels of the organisation;
- lead by empowering others and place increasing emphasis on statesmanship;
- adopt a new perspective on power to build subordinate skills and confidence to make them agents of change;
- create leadership at lower levels and facilitate the transformation of followers into leaders; and
- delegate authority and place emphasis on innovation.

We will take up several of the issues indicated above for discussion in this and the subsequent sections.

15.3.2 Strategists' Style and Strategy

"Style describes how top managers behave in leading and motivating their organisations to achieve their desired ends." The style adopted by a strategist relates to the basic leadership functions of leading and motivating. The importance of style in organisational success can be gauged from the fact that it is considered as one of the elements in McKinsey's 7-S framework.

Several of the leadership theories have been developed on the basis of two or more contrasting styles. For instance, behaviour theories like Ohio State Studies (initiating structure and consideration styles) and University of Michigan Studies (job-centred and employee-centred styled) are based on two contrasting styles of leadership. In this sense, the theoretical approach is based on a static formulation of style and proposals are made to suggest an appropriate style of leadership.

In the Indian context, Sinha suggests that a purely authoritarian or a purely participative style may not be effective. Instead, he suggests a nurturant-task leadership style which could be more relevant in the Indian context. Nurturant-task leadership has a combination of concern for task as well as subordinates and is directive as well as paternalistic in approach. According to Maheshwari, who has studied the relationship between decision styles and organisational effectiveness, Indian organisations are neither authoritarian nor highly participative. The predominant decision style is consultation with limited participation rather than joint decision-making or system-wide participation. Organisational effectiveness is positively related to entrepreneurial style, as opposed to a bureaucratic style of decision-making. With regard to organisational policy implementation, Maheshwari is of the view that though external environment, in the Indian context, plays the most important role with regard to success, internal dynamics and choice of decision styles should be used to build internal strength.

From the preceding matter, it is clear that there could be different leadership styles; there could be an appropriate style in general; and style is also culture-specific, i.e. there could be a participative style more suited to the western context and a nurturant task or entrepreneurial style more suited to the Indian context. From the viewpoint of leadership implementation, however, we are more concerned with the relationship of strategy with the style adopted by strategists. There are questions such as these to be answered : Can a particular strategy create a need for a specific style? Will the style have to be changed to suit the requirements of a new strategy? If so how? In order to get an idea of the probable answers, consider Exhibit 15.2. This exhibit gives an illustration of the transformation in management style as a family-owned business group undertakes significant strategic changes.

TVS group is a well-diversified and highly successful group of several companies based in Tamil Nadu. The group's businesses include auto-components, two-wheelers, tyres, finance, transport, etc. Though the TVS group has been in existence for long, it has made rapid progress during the eighties.

The group has been a low-profile business group known for its conservatism and rigid family control over its companies. Internally, the past success of the group could be attributed to stringent management and financial control. All top positions in the different companies are occupied by family members.

The group's strategy has been to exhaust the growth opportunities of a particular product line before going in for diversification. With the induction of the fourth generation of family members, however, conservatism is giving way to a more open, liberal and progressive style of management. This is happening due to change in the management's attitude because of the multi-product, multi-location, expanding companies which operate in highly competitive markets.

The manifestation of a change in management style could be seen in a more conscious effort to develop managers, have formal career appraisals, pay greater attention to career planning, and delegate important functions to professional managers.

Exhibit 15.2 Style changes at TVS group

Source : Adapted from "TVS group : Superstar of the South" in *Business India*, Mar. 24-Apr. 6, 1986 pp. 42-52.

An interesting and relevant research work relating management styles, the environment (and strategy), and organisational effectiveness has been done by Khandwalla. He has found that there are basically seven management styles: entrepreneurial, neoscientific, quasi-scientific, muddling-through, conservative, democratic, and middle-of-the-road. Each of these styles could be described on the basis of five demensions as under :

1. Risk-taking : Willingness to take risky decision
2. Technocracy : Use of planning, qualified personnel, and techniques

3. Organicity : Extent of organisational structural flexibility

4. Participation : Involvement of managers

5. Coercion : Domination by top management

For instance, entrepreneurial style could be characterised by high risk-taking, moderate to low technocracy, moderate to low organicity, moderate to low participation; and variable coercion. On the other hand, a democratic style could be described as having moderate to low risk-taking, moderate to low technocracy, moderate to high organicity, high participation, and variable coercion.

Besides, the characterisation of management styles on the five dimensions, the environment can be rated on the degree of factors such as turbulence or volatility, hostility, heterogeneity, restrictiveness, and technological sophistication. Further, Khandwalla has shown which management style is best suited to which type of environment. A significant contribution of this research is a demonstration of the fact that when management style matched the environment (and strategy), the firm was more effective than when management style did not match the environment.

The practical significance of Khandwalla's research lies in its suggestion for strategists to match their style to the environment in which their company exists and the strategy adopted.

15.3.3 Development of Strategists

Like other personnel, strategists have to be developed before they can take up the tasks of strategy formulation and implementation. It is the responsibility of the top management to oversee the development of strategists. In this way, one aspect of leadership implementation relates to the development of strategists.

The ways how strategists are developed within companies vary from organisation to organisation. Three issues, however, are important for the top management in developing strategists : the choice of future strategists, their career planning and development, and succession planning.

The choice of future strategists has to be made by the top management with great care. Business organisations in India multinational, family-owned and professionally managed private companies may differ in their policies with regard to the development of strategists. But generally, talented individuals are spotted early in their career to be groomed for top positions. For instance, Sumant Moolgaokar, who was Chairman of TELCO, adopted a management style of choosing his senior cadre of managers. Being a great judge of characer, Moolgaokar would choose potential strategists from among the junior ranks, give them heavy responsibilities, keep them under strict supervision and reward them with top positions if found suitable.

The prevalence of the system of hiring executive assistants and its increasing use in all types of companies—including public sector— provides opportunities for the top management to select, train and appraise future strategists. There are several companies like TISCO, ITC, ONGC, Air India, and many others whch adopt this approach. The Tata group of companies mainly rely on the Tata Administrative Services for supply of future strategists career planning and development of future strategists may be done through the means of a formal or an informal approach. The executives who have had the benefit of formal professional management education are aware of the intricacies of strategic management due to their exposure to integrative courses such as Business Policy. Those exeuctives who have not had such a benefit may undergo specialised training, usually at an external institution. In Exhibit 15.3 we provide the objectives of two types of management development programmes offered by these institutions. Observe how these institutions set their programme objectives and in what manner these objectives are sought to be achieved. The central theme of these progammes is to prepare potential executives to take up strategic responsibility in future.

By following an informal approach, the top management may develop strategists through careful screening, assigning important tasks, keeping track of achievements and evaluating and rewarding significant accomplishments.

Administrative Staff College of India offers a 40-day course in general management for senior executives. The objectives of this course are to provide an all-round development of senior exeuctives through concentrated study and reflection while being away from day-to-day problems. The development may take place through examining the multi-dimensional and complex factors that influence organisational effectiveness and focusing attention on those concepts and techniques that are of value in improving long-term decisions.

Indian Institute of Management, Ahmedabad offers a four-and-a-half-month intensive programme in general management for successful middle managers and entrepreneurs who have made a mark in their work in one or more of the functional areas and are to shoulder general management responsbilities but have not had an opportunity to acquire formal management education. The objectives of the programme are to develop skills and attitudes for integration among different functional areas, and between macro and micro aspects; communication with peers, supervisors and subordinates; and team work to channelise individual excellence for achieving organisational objectives.

Generally, the top management in family business may resort to the informal approach. It is also possible to adopt a combination of the formal and informal approaches where the potential executives may be exposed to training and development programmes followed by individual guidance and counselling by senior executives in the organisation. Exhibit 3.24 describes how family business groups in India prepare their younger generation to take up strategic responsibilities in future.

Succession planning can be relied upon as a technique for the development of future strategists. The top positions are very few in number and there are a number of executives

Exhibit 15.3 Development of strategists through training programmes

The development of strategists in family business in India takes place through an informal process of career planning and development and succession planning. Earlier, there was a tradition, particularly among the *Marwari* community, of sons acting as understudy to their fathers and sitting by their side to learn business practices. Now, the common practice is of rotation through different departments or companies in the business group.

Most of the new generation of family industrialists entering business undergo technical or management education at reputed institutions in India or abroad. On return, they are groomed for top positions by their fathers or other family elders. The professional managers in family businesses usually accept the younger family members of the industrial group as their superiors.

A few business families like the Goenkas, Bajaj, and Mahindras have assiduously trained their younger generation through a painstaking process where these persons have started from the middle level before moving to the top. In between, they have been trained in different areas of business by senior executives and other family members. In other business groups such as the Ambanis of the Reliance group and the Mehras of the Orkay group, they have come to occupy top positions through a relatively easier process but after being exposed to professional management education.

Career planning and development and succession planning for future strategists in family businesses is, therefore, done presently by means of providing professional education, broad-based job rotation training, and careful grooming.

Exhibit 15.4 Development of strategists in family business

Source: Adapted from "The new generation in big business: Move Over, Dad!" in *Business India,* Feb. 10-23, 1986, pp. 43-54.

While choice of strategists and their career planning and development may help an organisation in building a reservoir of talent, succession planning enables the top management to prepare contingency plans to replace existing key managers whenever the need arises. Usually, small organisations are dependent solely on the leadership of a single entrepreneur. Large organisations also often develop excessive reliance on one chief executive. The crucial question before the top management should be : What should happen if the entrepreneur or chief executive is not there? "Unfortunately, death and disability often occur without notice." A top executive may also be lured away by better prospects elsewhere. Planning for management succession can take care of these contingencies.

In this section, we have seen three important issues related to leadership implementation. These issues can take care of the tasks of strategists in leadership positions. But the real test of leadership lies in viewing it as an ongoing process. The functions of leadership cannot be performed solely by occupying top positions but exerting leadership in several areas. For instance, strategists are called upon to make significant contribution to developing an appropriate corporate culture, managing corporate politics, exemplifying personal values and helping the organisation discharge its social responsibilities. Moreover, all these tasks have to be performed in the context of behaviourał implementation of strategy. The following sections take up these issues for discussion.

15.4 CORPORATE CULTURE

Corporate culture refers to values and patterns of beliefs and behaviour that are accepted and practised by company. The phenomenon which often distinguishes good organisations from bad ones could be summed up as "corporate culture". The well-managed organisations apparently have distinctive cultures that are, in some way responsible to successfully implement strategies. "It has been clearly demonstrated that every corporation has a culture (which often includes several sub-cultures) that exerts powerful influences on the behaviour of managers." We see below what corporate culture is, how it influences corporate life, and how it can be managed so that it becomes strategy-supportive.

15.4.1 Composition of Corporate Culture

"Organisational (or corporate) culture is the set of important assumptions—often unstated—that members of an organisation share in common.” There are two major assumptions in common: beliefs and values. Beliefs are assumptions about reality and are derived and reinforced by experience. Values are assumptions about ideals that are desirable and worth striving for. When beliefs and values are shared in an organisation, they create corporate culture.

The manifestation of corporate culture in an organisation is evident in:

- shared things (e.g. the way people dress)
- shared sayings (e.g. “let's get down to work”)
- shared actions (e.g. a service-oriented approach)
- shared feeling (e.g. “hard work is not rewarded here”)

These shared assumptions can help to decipher the composition of corporate culture of any organisation.

15.4.2 Impact of Culture on Corporate life

“Culture affects not only the way managers behave within the organisation but also the decisions they make about the organisation's relationships with its environment and its strategy.” “Culture is a strength that can also be a weakness.” As a strength, culture can facilitate communication, decision-making and control, and create cooperation and commitment. As a weakness, culture may interfere with the smooth implementation of strategy by creating resistance to change. Exhibit 15.5 illustrates how corporate culture in two groups :

S.K. Bhattacharya has analysed the major differences in multinational subsidiaries and professionally managed companies on the one hand compared to family business and non-resident Indian companies on the other with regard to corporate culture.

Dimensions of corporate culture	Multinational subsidiaries and professionally managed companies	Family business and non resident Indian companies
1. Nature of desired managerial skills and capabilities	Exphasis on professional qualifications and rank	Emphasis on demonstrated skills; depth, and quality of knowledge
2. Actual performance or results achieved	Emphasis on seniority, conformity to organisational values, loyalty, and relative fit between desired managerial behaviour and position in hierarchy	Emphasis on orginality of action and thinking, innovation, and upgradation of knowledge and skills by personal efforts
3. Managerial style of planning and decision-making	Emphasis on information gathering, bureaucratic mode of functioning, risk-aversion and non-entrepreeurial decision making	Emphasis on selective information usage, intitutive and qualitiative decision-making of an entrepreneurial nature
4. Management systems adopted	Emphasis on use of elegant, scientific, sophisticated and rational systems which degenerate due to low usage	Emphasis on reliance on business sense and "no" frills" systems geared to quick action
5. Nature of management control	Emphasis on comprehensive, formal and written reporting and rationalisation of failures rather than resolution of problems	Emphasis on primary use of verbal reporting and remedial action

Exhibit 15.5 Impact of culture on two different groups of organisations

Source: Adapted from S.K. Bhattacharya: "Organisational culture: An Indian perspective" in *Business World, Feb. 1-14 1988, pp. 48-49.*

multinational subsidiaries and professionally managed companies versus family businesses and non resident Indians' companies may create a different impact on organisation. While the views expressed in Exhibit 15.5 are decidedly in favour of family business and non-resident companies, there is no doubt that "in each sector of industry, the management style and corporate culture is distinctive." What is more appropriate to say is that Indian organisations, particularly family businesses, "seem to be in a ferment now" and that companies "known for their conservatism and traditional orientations have to now shift over to a more open and participative corporate culture if they have to maintain progress."

15.4.3 Strategy-culture Relationship

Having discussed what constitutes corporate culture and how it affects corporate life, it is important to understand its relationship with strategy. Since each strategy creates its own unique set of managerial tasks, strategy implementation has to consider the behavioural aspects and ensure that these tasks are performed in an efficient and effective manner. Managerial behaviour, arising out of corporate culture, can either facilitiate or obstruct the smooth implementation of strategy. The basic question before strategists, therefore, is how to create a strategy-supportive corporate culture. In other words, a major role of leadership within organisation is to create an appropriate strategy-culture fit.

The strategists have four approaches to create a strategy-supportive culture.

1. To ignore corporate culture;
2. To adapt strategy implementation to suit corporate culture;
3. To change the corporate culture to suit strategic requirements; and
4. To change the strategy to fit the corporate culture.

1. The first approach may be followed when it is nearly impossible to change culture. This is advisable because it is really difficult to change a nebulous phenomenon

such as corporate culture. Besides, cultural changes, when enforced in a short duration, may be traumatic for members of an organisation.

2. It is easier to change implementation to suit the requirements of corporate culture. This is possible because the behavioural aspects of implementation offer a range of flexible alternatives to strategists in terms of structure, systems and processes. These variables could be manipulated to subserve the interests of corporate culture. However, each situation in the organisation would call for an innovative solution and would test the capabilities of managers as strategists.

3. As said earlier, it is extremely difficult to change corporate culture. But in some cases it may be imperative. For instance, the current spate of takeovers and acquisitions in the Indian industry have led to a situation are many erstwhile multinational subsidiaries have been taken over by family business groups. This has led to a process—often prolonged and painful—of cultural transition. But such a transition may be brought about by a careful understanding of existing culture, making strategic tasks explicit, assessing risks of cultural change, enhancing managerial capability to imbibe changes, and, most importantly, exhibiting a strong, assertive leadership.

4. Rather than changing strategy to suit culture, it is better and more economical to consider the cultural dimension while formulating strategy. One of the important factors is commitment to past strategic actions which should take care that strategic changes are not drastic but incremental, allowing the cultural ripple effects to settle down to create a more condusive environment for strategy implementation. However, if an impregnable cultural barrier is faced after strategy implementation, it may be better to abandon the strategy or use a combination of the above three approaches.

The next important issue of behavioural implementation relates to corporate politics and use of power.

15.5 BUSINESS ETHICS

As we have said above, only personal values and a sense of business ethics can help a strategist to distinguish between moral and amoral use of politics and power as a means to attain organisational goals. What are personal values and business ethics and how are they important to strategists ? How are values and ethics relevant to strategic management? We attempt to answer these questions below.

15.5.1 The Meaning of Value and Ethics

Personal values refer to a conception of what an individual or group regards as desirable. A value is a view of life and judgement of what is desirable that is very much part of a person's personality and group's morale. Thus, a benign attitude to labour welfare is a value which may prompt an industrialist to do much more for workers than the labour laws stipulate. Service-mindedness is a value which, when cherished in an organisation, manifests in better customer satisfaction. Personal values are imbibed from parents, teachers and elders, and as individual grows, values are adapted and refined in the light of new knowledge and experiences. Within organisation, values are imparted by the founder-entrepreneur or a dominant chief executive and they remain in some form, a long time after that person is not there. J.R.D. Tata, the previous chairman of the Tata group, when asked to define the House of Tata and what links the different Tata companies together said: "I would call it a group of individually managed companies united by two factors. First, a feeling that they are pat of a larger group which carries the name and prestige of Tatas, and public recognition of honesty and reliability—trustworthiness. The other reason is more metaphysical. There is an innate loyalty, a sharing of certain beliefs. We all feel a certain pride that we are somewhat different from others." The several values that J.R.D. Tata refers to have been derived from the ideals of J.N. Tata, the founder of the Tata group.

Business ethics operate as a system of values and "is concerned primarily with the relationship of business goals and techniques to specifically human ends." "Specially human ends" mean viewing the needs and aspirations of individuals not merely as individuals but as a part of society. It also means realisation of the personal dignity of human beings.

A major task of leadership is to inculcate personal values and impart a sense of business ethics to the organisational members. At one end, values and ethics shape the corporate culture and dictate the way how politics and power will be used and, at the other end, clarify the social responsibility of the organisation.

15.5.2 Importance of Values and Ethics

A typical dilemma faced by strategists is to somehow reconclie the pragmatic demands of work (which often degenerate to distortion of values and unethical business practices) to the call of the "inner voice" which somehow prevents them from using unethical means for achieving organisational goals. This dilemma stems from the fact that apparently the value system of the organisation has already been contaminated beyond redemption. Some analysts attribute this to the acceptable behaviour in society at a particular point of time or justify it in terms of the rapid transition of a developing society where social mechanisms become obsolete.

Corruption in industry, which is a major by-product of degradation of values and ethics, is also related to the inability of industry to stand up to the discretionary powers of a regulatory system designed and administered by an unholy alliance of bureaucrats and politicians. But repeated observations have shown that excellent organisations that—besides other values—have explicit belief in, and recognition of, the importance of economic growth and profits, are driven by values rather than avarice. It has been possible for Indian companies such as Asian Paints, Bajaj Auto, ICICI and Amul to excel on the basis of superordinate goals—a set of values and aspirations and corporate culture. Strategists, therefore, have to provide the right values and ethical sense to the organisations they manage. Exhibit 15.5 provides material on which to determine the "rightness" of values and ethics based on Indian psycho-philosophical thought.

With regard to values and ethics rooted in Indian thought, several ideas have been proposed.

1. The concept of self in man has to embrace the spiritual dimension beyond the physical, social and economic dimensions.
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 deegoization of self.
5. The key to cooperation and teamwork lies in realising that the same *atman* dwells in all.
6. The quality of managerial decision-making and skills can be improved through an understanding and internalisation of the 'doctrine of *karma'*.
7. Motivational strategies need to based on 'giving' model rather than 'needing' model of man.
8. Ability for developing effective leadership style requires an understanding of three qualities of man: *sattwa* (righteousness); *rajas* (selfishness); and *tamas* (laziness).
9. All managerial decisions are subjective in the ultimate analysis and the effectiveness of such decision depends critically on the purity of mind of the decision maker.

Exhibit 15.5 Values and ethics in the context of Indian psycho-philosophical thought

Prof. S.K. Chakraborty of IIM, Calcutta has done extensive pioneering work on Indian psycho-philosophical thought, contained in ancient texts, to derive insights for the purpose of developing managerial effectiveness. His basic idea is to rely on education versus training, values versus skills, principles versus policies, and wisdom versus knowledge to develop managerial effectiveness. His model of managerial effectiveness is based on seven Indian thoughts: concept of self and reality, disidentification, theory of *Gunas,* theory of *Samskaras,* doctrine of *Karma,* theory and method of work, and "giving" model of motivation.

Source : Adapted from *Managerial Effectiveness and Quality of Worklife: Indian Insights* (New Delhi: Tata McGraw-Hill, 1987), and *Foundations of Managerial Work; Contributions from Indian Thought* (Bombay: Himalaya Publishing House, 1989). Both these books have been authored by S.K. Chakraborty.

15.5.3 Values, Ethics and Strategy

Values, Ethics and Strategy Personal values and ethics are important for all human beings. They are especially important for strategists as they are custodians of immense economic power vested in business organisations by society. Having personal values by strategists is one thing but is it right to let them affect the considerations for strategy formulation and implementation? This is a tricky question. A more relevant question is : Can strategists prevent their personal values affecting strategy formulation and implementation? Christensen and others attempt an answer: "Executives in charge of company destinies do not look exclusively at what a company might do or can do. In apparent disregard of the second of these considerations, they sometimes seem heavily influenced by what they personally *want* to do". If we now look at the last proposition in Exhibit 1.6, we find that it is indeed true. Guided by this, it can be added that "purity of mind" can come only from having the right connection between values, ethics and strategy. It is imperative that strategists have to take strategic decisions not only on the basis of purely economic reasons but have also to consider values and ethics.

At this point, it is necessary to differentiate values and ethics. Values are personal in nature (e.g. a belief in providing customer satisfaction and being a good paymaster) while ethics is a generalised value system (e.g. avoiding discrimination in recruitment and adopting fair business practices). Business ethics can provide the general guidelines within which strategic management can operate. Values, however, offer alternatives to choose from. For example, philanthropy as a business policy is optional. A strategist may or may not possess this value and still remain within the limits of business ethics. It is values, therefore, that vary among strategist in an organisation and such a variance may be a source of conflict at the time of strategy formulation and implementation.

Strategists have to reconcile divergent values and modify values, if necessary. A typical situation of value divergence may arise while setting objectives and determining the precedence of different objectives. One group of strategists (may be a coalition) is interested in production-oriented objectives—standardisation, and mass production while another group may stress marketing-related objectives—product quality and variety, small-lot production, etc. These interests may be legitimate in the sense that they arise from their functional bias. It is for the chief executive now to reconcile the divergent values. Obviously, this can best be done in the light of strategic requirements and environmental considerations.

Modification of values is frequently required for strategy implementation. A particular strategy, say of expansion, may create value requirements such as stress on efficiency, risk-taking attitude, etc. Implementation may be sub-optimal if existing values do not conform to these requirements. In such cases, modification of values is necessary. But what was said of corporate culture is true for values too: they are difficult, if not impossible to change. A judicious use of politics and power, redesigning of corporate culture, and making systematic changes in organisations can help to modify values gradually.

15.6 SOCIAL RESPONSIBILITIES

Strategic planning, through environmental and corporate appraisals, provides answers to what an organisation *might* and *can* do. Personal values justify what an organisation *wants* to do. Social responsibility, along with business ethics, tells what an organsiation *ought* to do. The issue of responsibilities of business towards society merits consideration in all phases of strategic management but to make it explicit and meaningful, it should be brought to the foreground during strategy implementation. In this last section of the study, we give first the differing views on social responsibility, describe its scope, and then, finally, show how social responsibilities could be imbibed in strategic management.

15.6.1 Differing Views on Social Responsibility

The issue of social responsibility evokes varying—and often, extreme—responses from academicians and businessmen. At one end, the body of opinion clearly does not favour including social responsibility in business considerations. Under this view, which has been propounded notably by the economists Adam Smith and Milton Friedman, the only responsibility of business is to perform its economic functions efficiently and provide goods and services for society and earn maximum profits. By doing so it is felt, market forces would ensure that business performs its economic functions and leaves the social functions to other institutions of society such as the government. However, this view has been severely criticized on several grounds, particularly the inadequacy of market forces and competition to ensure accountability.

At the other extreme, there is an opposite view which favours the position that it is imperative for business to be socially responsible. This is based on the argument that business organisations are a part of society and have to serve primarily societal interest rather than narrow economic objectives such as profit generation. In doing so, they have to deal with social concerns and issues and have to allocate resources for solving social problems.

In between the two extreme views, there is considerable support for the opinion that all business organisation should not attempt to solve all, or any, types of social problems. Rather, social responsiveness should be exercised on a selective basis and responsibility should be discharged in such a manner that corporate competence acts as a limitation and the scope of social responsibility is limited to those areas where the business organisation can achieve its self-enlightened objectives need not be contradictory to each other and should be achieved simultaneously.

15.6.2 Scope of Social Responsibility

The scope of social responsibility is wide and could be considered in terms of different factors. Some people consider social responsibility in terms of claimants or stakeholders: the insiders and outsiders. The insiders are the employees and shareholders while the outsiders include customers, suppliers, creditors, the government, unions, competitors and the general public. Another way in which the scope of social responsibility could be defined is in terms of social concern. Thus, the business organisations depending on their nature, size, and breadth of activity, could extend social responsiveness to the problems of the whole world, nation, local community, industry and to itself. Business organisations could also classify social responsibility in terms of relatedness to its own activities. In this way, social responsibility discharged to secure advantages for itself, e.g. the promotion of market-related activities (a tractor manufacturer educating farmers on agricultural mechanisation) or product-related activities (an electronics company sponsoring a technical institute for the supply of technology or trained personnel) could be termed as business-related social responsibility. Some business organisations, however, take up philanthropic activities in the areas of community welfare, rural development, the arts or sports, which are in no way related to their own activities.

Exhibit 15.6 provides a few illustrations of the forms of social responsibilities that Indian companies discharge.

A large number of Indian companies discharge their social responsibilities quite satisfactory. There are many companies which have excelled in such activities but when seen in the light of the country's vast needs, the achievements fall short of requirements. The money spent for social causes by companies is generally an insignificant proportion of their turnover.

Here are a few illustrations of the different social responsibility functions that Indian companies typically perform.

- Asian Paints funded a large-scale community development project to enable farmers to use local resources effectively.
- BHEL has contributed to the development of the quality of life in rural areas, health care and family welfare, adult education, etc.
- Brooke Bond has been interested in animal welfare, providing veterinary services, and improvements in animal breeding.
- Colgate Palmolive did pioneering work in the promotion of sports, dental health, and small industry development.
- Escorts Ltd has worked for farm mechanisation, agricultural development, health care, etc.
- ITC Ltd is socially active in the areas of agriculture, culture, sports and pollution control.
- SAIL Ltd contributes to the sectors of agriculture, industry, education, health care, dairy, poultry, fisheries, and drinking water supply.
- TISCO has been a pioneer in discharging social responsibility and has made several contributions in areas such as community development, social welfare, tribal area development, agriculture and related activities, rural industrialisation, etc.

Observe how companies choose their areas of interest for social responsibility. Some companies choose areas which are of direct relevance to their own business activities. (Colgate, Escorts) while others seem to be guided by philanthropic interest (BHEL, ITC).

Exhibit 15.6 Social responsibility functions performed by Indian companies

Source : Adapted from K.M. Mittal: *Social Responsibilities of Business: Concepts, Areas and Practices,* (Delhi: Chanakya Publications, 1988), pp. 189-260.

Untill now, we have not brought the strategic angle into discussion, but a discerning reader must have noted the nature of relationship that an organisation's social responsiveness has with its strategic management. The next sub-section attempts to clarify this relationship.

15.6.3 Social Responsiveness and Strategic Management

We may consider social responsiveness as the level of interest exhibited by an organisation in discharging social responsibility. It is generally the top management which takes the major decisions regarding the choice of social concerns, definition of the scope of activities, and resource allocation to social responsibility functions. These decisions are based on the views, opinions, personal values, and considerations of the business ethics of the top management. Having decided, in principle, to discharge social responsibility, the top management should seek to align its social responsiveness with strategic management. By such an alignment is meant the reflection of social responsiveness in all the phases of strategic management. Thus, the role of strategists, strategy formulation and implementation, and evaluation will be affected by social responsiveness.

The role of the board of directors is crucial in generating a high level of social responsiveness. Then it is for the chief executive to take up the tasks involved in discharging social responsibility. The missing of the organisation could be stated in such a manner that the role of the organisation in society is clear. This should be reflected in objective-setting. Besides economic objectives, non-economic objectives should be set that can help an organisation to decide what has to be achieved in the areas of social responsibility. The environmental appraisal, which includes an assessment of the social environment, should help an organisation's strategists to forecast social concerns and issues that need urgent attention. Corporate appraisal should assist the strategists in assessing corporate competence to tackle the social problems which should, in addition, help the top management in setting the priorities of social responsiveness. The choice of strategic alternatives could be guided by these priorities. In fact, there is a strong case to argue that "the inner coherence of the corporate strategy would be extended by choosing (social) issues most closely related to the economic strategy of the company, to the expansion of its markets, to the health of its immediate environment, and to its own industry and internal problems".

When it comes to strategy implementation, social responsiveness would seek to alter the pattern of resource allocation. This is a crucial test for the top management to stick to its convictions. Without adequate allocation of funds, not much headway can be made. Business organisations that are believers in social activism will have to assign duties and responsibilities to personnel or may even have to create specific positions and systems so that social responsiveness does not suffer. Policies and procedures will have to be set for an effective discharge of social responsibility functions. The leadership of role of strategists will be exhibited if they take a lead in promoting social responsiveness among organizational members and set an example by developing and inculcating personal values which supports rather than impede the discharge of social responsibility functions. Uptill now, we have seen how social responsiveness can be aligned with strategy formulation and implementation. But social responsibility functions, just like other business functions, need to be evaluated with regard to their effectiveness.

Social audits can serve the purpose of evaluation of social performance. The social audit is "a commitment to systematic assessment of and reporting on some meaningful, definable domain of the company's activities that have social impact." "Organisations like TISCO and ITC have been pacesetters so far as the introduction of social audit as a means for measuring their social performance is concerned."

All in all, it can be said that social responsiveness can be operationalised and activated by aligning it with the strategic management process. The quality of social responsiveness can also be considerably enhanced by doing so.

Our discussion of social audit has already moved us to a point where we have referred to evaluation. The next topic deals with strategy evaluation—the last phase of strategic management—in detail.

15.7 SUMMARY

This unit has dealt with several issues relevant to the behavioural aspects of strategy implementation. Among them are issues that are mostly covered in other courses in the curriculum of management programmes. Our effort, therefore, has all along been to place these important issues in the context of strategic management.

We started with describing how various leadership theories have evolved to lead to an integrative approach. This approach provides very useful insights into how the complex phenomenon of leadership probably works and we listed several practical prescriptions for strategists. The chosen strategy has a significant impact on leadership style and strategists have to adapt their style to suit the requirements of a particular strategy. Development of strategists is the responsibility of the top management and they do it through exercising a choice of strategists, their career planning and development, and succession planning.

Corporate culture is composed of beliefs and values that the members of an organisation share in common. These have a significant impact on corporate life and no effort concerning strategy implementation can be successful if culture is not strategy-supportive. By relating strategy to culture, we have described how strategists can evolve a meaningful approach to creating a good strategy-culture fit.

The use of politics and power, in a positive sense, is gaining ground and politics is no longer a dirty word. The theme of the section on corporate politics and use of power is to demonstrate how strategists should understand corporate politics and in what way should the use of power be made to facilitate the implementation of strategy.

Personal values and business ethics seek to prevent an indiscriminate use of power politics within organisations. Strategy has a moral component which is often realised by strategists but is found to be difficult to operationalise. Through behavioural implementation, it is possible to modify and reconcile divergent personal values of dominant stakeholders within organisations.

Social responsibility is a contentious issue and we have placed before the readers three different views: those for and against responsibility, and the third view of creating consistency between economic goals and social performance. Due to a combination of factors, internal as well as external, business opinion is moving towards a gradual acceptance of social responsibility by the Indian industry. For imparting a practical bias to the discharge of social responsibility, strategists have to define the scope and then proceed to align social responsiveness to the process of strategic management.

With the chapter, we have concluded our discussion of strategy implementation. The next topic deals with the final phase of strategic management, i.e. strategy evaluation.

15.8 GLOSSARY

- Corporate Culture : It refers to beliefs and behaviours that determine how a company's employees and management interact.
- Business Ethics : Study of proper business politics and practices.
- Social Responsibility : Social Responsibility tells what an organisation ought to do.

15.9 SELF ASSESSMENT QUESTIONS.

1. Write a descriptive note on the importance of leadership style in strategy implementation.

    ____

    ____

2. What is corporate culture composed of and make an assessment of the impact of culture on corporate life?

    ____

    ____

3. How do values and ethical considerations affect behavioural implementation?

    ____

    ____

4. How can strategists limit the scope of social responsibility?

    ____

5. What is meant by aligning social responsiveness to strategic management?

15.10 LESSON END EXERCISE

Q1. Since 2000, a no. of corporate scandals have been brought to light. In your opinion, What are the measures likely to increase organisational ethics in the long run?

Q2. Take any 3 top most companies of India and analyse what activities they are performing for the benefit of society.

15.11 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

AN OVERVIEW OF STRATEGIC EVALUATION AND CONTROL

UNIT IV

LESSON 16

STRUCTURE

16.1 INTRODUCTION

Strategic evaluation and control constitutes the final phase of strategic management. This study divided into five major sections, describes how strategists can undertake strategy evaluation.

We start with an overview, which clarifies the nature of strategic evaluation and its importance. It is important to know who the participants in evaluation are and what barriers they are likely to face in evaluating strategies.

Strategic evaluation should operate at two levels: strategic and operational. At the strategic level, we are concerned more with the consistency of strategy with the environment. At the operational level, the effort is directed at assessing how well the organisation is pursuing a given strategy.

The idea of strategic control is of relatively recent origin and the techniques are in the process of evolution. We describe four such types of strategic controls–premise, implementation, strategic surveillance, and special alert control.

Operational control adopts a familiar approach and consists of setting standards, measuring performance, analysing variances, and taking corrective action.

Several techniques are available to exercise strategic control and operational control.

The last section attempts to pinpoint the role of different organisational systems in evaluation.

16.2 OBJECTIVES:

An analysis of the objectives shows that—

(i) discuss the participants in strategic evaluation.

(ii) evaluate upon strategic surveillance.

(iii) discuss the process of strategic evaluation and control.

16.3 AN OVERVIEW OF STRATEGIC EVALUATION AND CONTROL

This section aims at laying down the framework of the topic of strategic evaluation and control. The following sections will elaborate and discuss further the issues that are highlighted here. We start with a description of the nature of evaluation as applied in the strategic management process. Next, we highlight the importance of strategic evaluation and point out the various participants involved in the evaluation process. The section concludes with an explanation of the different kinds of barriers faced in strategic evaluation and how they could be avoided.

16.3.1 Nature of Strategic Evaluation

The purpose of strategic evaluation is to evaluate the effectiveness of strategy in achieving organisational objectives. Thus, strategic evaluation and control could be defined as the process of determining the effectiveness of a given strategy in achieving the organisational objectives and taking corrective action whenever required.

From this definition, we could infer that the nature of strategic evaluation and control process is to test the effectiveness of strategy. During the two preceding phases of strategic management process, the strategists formulate the strategy to achieve a set of objectives and then implement the strategy. Now there has to be a way of finding out whether the strategy being implemented is guiding the organisation towards its intended objectives. Strategic evaluation and control, therefore, performs the crucial task of keeping the organisation on the right track. In the absence of such a mechanism, there would be no means for strategists to find out whether or not the strategy is producing the desired effect. In this manner, through the process of strategic evaluation and control, the strategists attempt to answer two sets of questions:

1. Are the premises made during strategy formulation proving to be correct? Is the strategy guiding the organisation towards its intended objectives? Are the organisation and its managers doing things which ought to be done? Is there a need to change and reformulate the strategy?

2. How is the organisation performing? Are the time schedules being adhered to? Are the resources being utilised properly? What needs to be done to ensure that resources are utilised properly and objectives are met?

The first set of questions relates to the more generalised and overarching issues of evaluation and are dealt with by the use of strategic control. The second set of questions relates to issues that concern the performance of tasks and are considered in operational control. We will shortly discuss these two types of evaluation systems. But first we need to be convinced of the importance of evaluation.

16.3.2 Importance of Strategic Evaluation

The process of strategic management requires that strategists lay down the objectives of the organisation and then formulate strategies to achieve them. The process of implementation of strategy starts with the identification of key managerial tasks which form the basis for the creation of organisational structure and design of systems. These are the issues that were discussed in. Here, it should be reiterated that the segregation of key managerial tasks leads to a situation where individual managers are required to perform a small portion of the overall tasks required to implement a strategy. The fact that individually a manager performs a set of functions which are interrelated to the other tasks, that managers elsewhere in the organisation are doing, makes it clear that the tasks have to be coordinated. The importance or strategic evaluation lies in its ability to coordinate the tasks performed by individual managers–and also groups, divisions or SBUs–through control of performance. In the absence of a coordinating and controlling mechanism, individual managers may pursue goals which are inconsistent with the overall objectives of the department, division, SBU or the whole organisation.

Besides the above, the importance of strategic evaluation is due to several other factors. These are : the need for feedback, appraisal and reward; check on the validity of strategic choice; congruence between decisions and intended strategy; successful culmination of the strategic management process; and creating inputs for new strategic planning.

There is need within an organisation to receive feedback on current performance so that appraisal can be done and good performance rewarded. This is essential for the motivation of employees.

Strategic evaluation helps to keep a check on the validity of strategic choice. An ongoing process of evaluation would, in fact, provide feedback on the continued relevance of the strategic choice made during the formulation phase. This is due to the efficacy of strategic evaluation to determine the effectiveness of strategy.

During the course of strategy implementation, managers are required to take scores of decisions. Strategic evaluation can help to assess whether the decisions match the intended strategy requirements. This is due to the inherent nature of any administrative system which leaves some amount of discretion in the hands of managers. In the absence of such evaluation, managers would not explicitly know how to exercise such a discretion.

Strategic evaluation, through its process of control, feedback, rewards, and review, helps in a successful culmination of the strategic management process.

Lastly, the process of strategic evaluation provides a considerable amount of information and experience to strategists that can be useful for new strategic planning.

16.3.3 Participants in Strategic Evaluation

It is important to know who the participants are and what role they play in strategic evaluation and control. This will answer the question: who evaluates the strategy and how do they do it? Going beyond the evaluators, we are also interested in knowing who the appraisees are and how they help in strategic evaluation.

The various participants in strategic evaluation and control and their respective roles are described below.

1. **Shareholder :** Theoretically, every organisation is ultimately responsible to its shareholders : lenders and the public in the case of private companies and the government in the public sector companies. The role of shareholders, in practice, however, is limited. This is specially true of the general public where the individual holding is too small to be of any effective value in strategic evaluation. Lenders such as financial institutions and banks which have equity stake are typically concerned about the security and returns on their shareholding rather than long-term assessment of strategic success. The government, through its different agencies, does play a significant role in strategic evaluation and control of public sector companies. In the next section, we will present an exhibit showing how performance evaluation

is done in public enterprises.

2. **Board of Directors:** The Board of Directors enact a formal role of reviewing and screening executive decisions in the light of their environmental, business and organisational implications. In this way, the Board is required to perform the functions of strategic evaluation in more generalised terms. But there is a lot of variation among Indian companies in the way through which the Board may perform its control functions. In some companies, the Board may have the real authority to oversee strategic evaluation while in others, its authority may be usurped by others like the chief executive or a higher *de facto* authority such as the family council, in the case of family-owned companies, or the controlling ministry in the case of public sector companies.

3. **Chief Executives:** Chief executives are ultimately responsible for all the administrative aspects of strategic evaluation and control. Ideally, a chief executive should not sit in judgement over the performance of the organisation under its control. Rather, the chief executive should be evaluated on the basis of performance. This leads to the question of who should evaluate the chief executive. Normally, the evaluation of a person should be done by an individual or a group to whom he reports. In cases where the chief executive is accountable to no one in particular (this is possible in the case of an entrepreneurial organisation), it is difficult to allocate the responsibility apart from relying on self-evaluation. But in other cases, the ownership pattern can determine who should evaluate the chief executive. Thus, the family council in family-owned companies and majority shareholders in other cases could evaluate a chief executive's performance.

4. **Auditors & Secretaries :** Financial controllers, company secretaries, and external and internal auditors form the group of persons who are primarily responsible for operational control based on financial analysis, budgeting and reporting.

5. **Executive Committee:** Audit and executive committees, set up by the Board or the chief executive, may be charged with the responsibility of continuous screening of performance. The corporate planning staff or department may also be involved in strategic evaluation.

6. **Strategic Business Unit :** The SBU or profit centre heads may be involved in performance evaluation at their levels and may facilitate evaluation by corporate-level executives.

7. **Middle Management :** Middle-level and other managers may participate in strategic evaluation and control as providers of information and feedback, as well as recipients of directions from above to take corrective actions.

In the manner described above, there are several participants in the process of strategic evaluation and control. But owing to its inherent nature, the evaluation process may face certain obstacles in its functioning. We next see some major barriers in the evaluation process.

16.3.4 Barriers in Evaluation

Earlier, we had described the control system as a component of strategy implementation. There, the discussion centered on the evaluation of performance of individual managers. In the present context, the emphasis is on the evaluation of organisational units. In practice, however, these two types of evaluation cannot be differentiated. By evaluating organisational units, one cannot avoid relying on the performance evaluation of individuals. This creates certain barriers in strategic evaluation and control. We could point out three major types of barriers in evaluation: *the limits of control, difficulties in measurement,* and *resistance to evaluation.*

1. **Unit of Control :** By its very nature, any control mechanism presents the dilemma of too much versus too less control. It is never an easy task for strategists to decide the limits of control. Too much control may impair the ability of managers, adversely affect initiative and creativity, and create unnecessary impediments to efficient performance. On the other hand, too less control may make the strategic evaluation process ineffective and redundant.

2. **Difficulties in measurement:** Secondly, the process of evaluation is fraught with dangers of difficulties in measurement. These mainly relate to the reliability and validity of measurement techniques used for evaluation. The control system may be distorted and may not evaluate uniformly or may measure attributes which are not intended to be evaluated.

3. **Resistance to evaluation:** Lastly, the evaluation process involves controlling the behaviour of individuals and, like any similar organisational mechanism, is likely to be resisted by managers.

How can these barriers be avoided? In this context, it is apt to quote Andrews when he says: "the true function of measurement (or evaluation) is to increase perceptions of the problems limiting achievement". In Andrew's opinion, it is the attitude towards evaluation that is more important than the process of evaluation itself. The real worth of evaluation lies in its ability to throw up issues that need the attention of strategists. The next two sections describe the two types of strategic evaluation system that could be used for an effective measurement of strategic and operational performance.

16.4 SUMMARY

To conclude, the purpose of strategic evaluation is to evaluate the effectiveness of strategy in achieving organisational objectives.

16.5 GLOSSARY

- Strategic Evaluation : Process of assessment that provides executives & managers performance evaluation.
- Strategic Control : Process of checking the performance of the organisation and keeping it on right track.

16.6 SELF ASSESSMENT QUESTIONS :

Q1. Discuss the nature of Strategic Evaluation

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Q2. Explain the importance of Strategic Evaluation

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Q3. Explain the various barriers to Strategic Evaluation.

16.7 LESSON END EXERCISE

Q1. Discuss the both qualitative and quantitative measures of ITC company to evaluate the overall performance.

Q2. Barriers in evaluation restricts the company from giving best performance. Give example of any company.

16.7 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Business Policy by Francis Cherunilam**

STRATEGIC & OPERATIONAL CONTROL

UNIT IV

LESSON - 17

STRUCTURE :-

17.1 INTRODUCTION

The traditional approach to control is to compare the actual performance with the standards established and to take corrective measures if there are deviations. This reactive measure is not sufficient to control a strategy that takes a long period for implementation and to produce results. The uncertain future environment makes continuous evaluation of the planning premise and strategy implementation necessary.

There are thus two broad types of control viz

1. Strategic control and
2. Operational control

Strategic control augmented by operational control makes strategic implementation more effective.

17.2 OBJECTIVES:-

An analysis of the objectives enables you :-

(i) to discuss the participants in strategic control.

(ii) to evaluate upon strategic surveillance.

(iii) to discuss the steps and types of operational control.

17.3 AN OVERVIEW OF STRATEGIC CONTROL

Pearce and Robinson point out that there are four basic types of strategic control viz., premise control implementation control strategic surveillance and special alert.

17.4 TYPES OF STRATEGIC CONTROL

17.4.1 Premises Control

Strategies are often based on premises, i.e., assumptions or predicted conditions. A strategy may be valid only as long as the planning premises remain valid. Hence the Importance of the premise control which "is designed to check systematically and continuously whether or not the premises set during the planning and implementation process a still valid".

A strategy may be based on certain premises related to the industry like the industry structure and competition and other environmental factors like government policies and regulations, socio-demographic factors, economic conditions etc. Changes in the vital premises may necessitate changes in strategy.

An early detection of the invalid premises is necessary for making valid changes in the strategy. For example, following the recommendation of a consultant, the 1DBI had undergone a total restructuring through the setting up of a committee based structure and was to go ahead with a strategy to maintain its leadership in the market but two developments had overtaken the strategy. The Reserve Bank of India threw open the world of short-term financing and Tarapore Panel suggested capital account convertibility (CAC) of the rupee within three years. These called for a change in the complexion of IDBI's business strategies. Following the liberalisation of the external commercial borrowing, in 1997 July the Reliance Industries refinanced its entire $150 million seven year syndicated loan arranged in July 1995, resulting in the company saving close to the Rs 10 crore in interest costs, besides other advantages.

The Apollo tyres 'reworked' Its strategic alliance with Continental AG of Germany for production of passenger car radial tyres in view of the slow down in economy and changed demand in the tyre industry.

17.4.2 Implementation Control

In several cases, the implementation of a strategy may not progress as planned or the cost, sales volume, revenue etc. May be at considerable variance with the planned ones. The lessons of the first phases of the implementation could be helpful in the implementation of the subsequent phases. For example, take the case of a company implementing a project involving a chain of holiday resorts in a phased manner. The experienced gained from implementing the resort in the first phase would help to make the implementation of the subsequent phases more efficient.

Similarly, when a product is planned to be launched nationally in a phased way the experience with the early launches could help better the launches in the remaining sectors of the national market. For example, the phased launch of pagers in India enabled, Motorola to redefine its target consumers and modify its promotion strategy as it expanded the market coverage.

In short, "implementation control is designed to assess whether the overall strategy should be changed in the light of unfolding events and results associated with incremental steps and actions that implement the overall strategy".

17.4.3 Strategic Surveillance

"Strategic surveillance is designed to monitor a broad range of event, inside and outside the company that are likely to threaten the course of the firms strategy". The strategy of a company could be defeated by certain such events. It is therefore, necessary that the company exercise surveillance for timely detection of such development and corrective action.

The success of Arvind Mills Ruf & Tuf encouraged rampant sale of furious products under the same brand name compelling the company to form vigilance to crack down on the unscrupulous businessmen.

17.4.4 Special Alert Control

Sudden and unexpected developments like alliance between competitors take over' mergers a political coup a major competitive move by competitor etc. could have serious impact on a firm's strategy. A "special alert control is the need to thoroughly, and often suddenly, reconsider the firm's basic strategy based on a sudden unexpected event".

In the wake of the consolidation of the market power by Hindustan Lever by taking over Tomco and the growing competition by the global majors Godrej Soaps felt insecure and forged an alliance with Procter and Gamble.

17.5 AN OVERVIEW OF OPERATIONAL CONTROL

Strategic controls by which top management monitors and steers the basic direction of the company should be supplemented by a control system at the operational level of strategy implementation. "Operational control systems guide, monitor, and evaluate progress in meeting annual objectives. While strategic controls attempt to steer the company over an extended time period (usually five years or more), operational controls provide post-action evaluation and control over short time periods usually from one month to one year".

17.6 STEPS OF OPERATIONAL CONTROL

17.5.1 Establishing criteria and standards.

17.5.2 Measuring and comparing performance.

17.5.3 Performance gap analysis.

17.5.4 Taking corrective measures.

17.6.1 Establishing Criteria and Standards

Criteria and standards provide the basis for evaluation. "Criteria for evaluating strategies should he measurable and easily verifiable. Criteria that predict results may be more important than those that reveal what already has happened may. For example strategists do not want to find out that sales last quarter were 20 per cent under what were expected. More importantly, they need to know that sales next quarter may be 20 per cent below standard unless some action is taken to counter the trend. Really effective control requires accurate forecasting".

Selection of the criteria for evaluation depends on a number of factors such the purpose of evaluation, the accuracy required, the critical importance of the variable evaluated, the strategy, internal and external environment, management philosophy etc. For example the evaluation criteria appropriate for stability strategy may not be appropriate for growth strategy or retrenchment strategy.

There are broadly two types of criteria viz. quantitative and qualitative. Quantitative factors are those results which can be measured in precise quantitative terms such as ROI profitability, market share growth rate, etc. Qualitative criteria are rather subjective and are not amenable to precise quantitative measurement. Such factors includes company image, employee morale/motivation, customer satisfaction, etc.

Having decided the criteria for evaluation the next step is to establish standards (i.e. the planned level of performance). It should be ensured that the standards set are realistic.

17.6.2 Measuring and Comparing Performance

The actual performance is measured and is compared with the standards to identify the shortfalls if any.

17.6.3 Performance Gap Analysis

Performance gap is the difference between the actual performance of a given organisational unit and the planned performance of that unit.

If there is any performance gap, it is necessary to identify the reasons for the gap to determine the appropriate corrective measure. In other words, performance gap analysis is a diagnostic step.

17.6.4 Taking Corrective Measures

Performance gap analysis will reveal the reasons for the gap and will help decide the corrective measures.

Corrective measures will depend on the reasons for the gap, the extent of the gap and, in some cases, a reassessment of the SWOT.

Depending on the nature and characteristics of the performance gap, corrective measures may include any one or more measures such as steps for more effective implementation of the strategy, modification of the objectives, strategy, standards, etc.

Continuous monitoring of the environment and implementation of the strategy is essential. In Fig. 1 the loop connecting the evaluation and control to the starting point of the strategic management process indicates that strategic management is a continuous process, the evaluation providing the feedback for modifications.

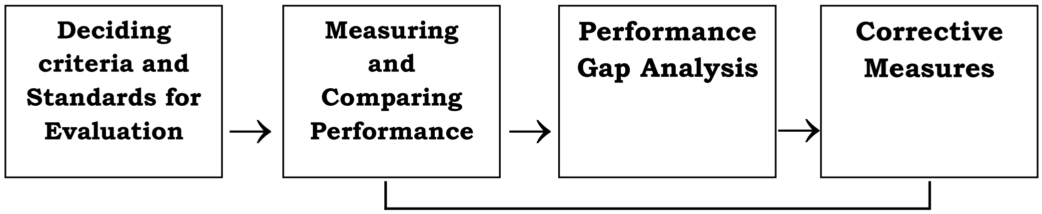

Figure 17.1 Strategy Evaluation and Control Process

17.7 TYPES OF OPERATIONAL CONTROL

There are three important types of operational control systems, namely budgeting, scheduling and focusing on key success factors.

17.7.1 Budgeting

Budgeting system is a forerunner of strategic management. With the emergence of strategic management it has become an Important tool to translate strategic plans to concrete activities.

A budget is a statement of planned or estimated expenditure or receipts in respect of a specific purpose or function over a specific period of time. Budgets themselves do not control anything but they set standards against which performance can he compared.

Budgeting may he done in respect of all important activities. For example there may be sales budgets estimating sales for a future period, territory-wise, product-wise, salesperson-wise, customers/customers group-wise etc. Similarly, there could be corresponding sales expenditure budgets. Resource allocation for projects/fixed asset is done by capital budgeting.

Budgets may be in financial or physical terms or both. Production budgets are often in physical terms. Sales budgets may have both physical and revenue estimates.

17.7.2 Scheduling

Scheduling is a very important planning tool for allocating the use of a time constrained resource or arranging the sequence of interdependent activities. Scheduling helps optimum utilisation of facilities. It also helps operation with minimum inventory and to adhere to deliver schedules. Scheduling is very important in project implementation.

17.7.3 Key Success Factors

Another important way to effect operational control is to focus on key success factors i.e., critical factors that contribute to success such as productivity, quality, employee morale and market share.

17.8 SUMMARY

Strataegic control is a warning system that differs from post action control that evaluates only after the implementation of strategy.

17.9 GLOSSARY :

- Strategic Control : The process used by organisations to control the function and execution of strategic plans.
- Budget : Budget is a statement of planned expenditure.

17.10 SELF ASSESSMENT QUESTIONS:

Q1. What is strategic control?

Q2. What are the types of Strategic Control?

Q3. Discuss the various type of Operational Control.

17.11 LESSON END EXERCISE

Q1. Discuss the process of operational control of HUL company.

Q2. Explain the procedure adopted by Apple Co. to have strategic control.

17.12 SUGGESTED READINGS

- Azhar Kazmi
- Bhattacharya, S.K. and N. Venkataramin

TECHNIQUES OF STRATEGIC EVALUATION & CONTROL

UNIT IV

LESSON - 18

STRUCTURE :

18.1 INTRODUCTION:- The different techniques discussed in this lesson have their merits and demerits. Strategists have to exercise a choice from among the techniques to be used for strategic evaluation and control. It is also clear that both strategic and operational controls have to be used in tandem to have an effective evaluation system.

18.2 OBJECTIVES: The lesson will enable the students to :

(i) Study the process of evaluation

(ii) Knowledge about the techniques of strategic evaluation.

18.3 PROCESS OF EVALUATION

The control cycle dealt with the control process as used in the context of strategy implementation. Here, we take up the issue of evaluation process in greater detail.

The process of evaluation basically deals with four steps:

1. Setting standards of performance
2. Measurement of performance
3. Analysing variances
4. Taking corrective action

These four elements of the evaluation process, and how they related to each other, are depicted in Exhibit 18.1. The strategy, plans, and objectives result in a set of performance standards which form the basis for evaluation through measurement of performance. The comparison of actual and standard performance leads to the analysis of variances. Feedback from this analysis results in either a check on performance, revaluation of standards, or reformulation of strategy, plans or objectives. Due to the inherent nature of operational control corrective action is aimed mainly at performance and standard adjustment rather than the reformulation of strategy. The reformulation task is performed usually on the basis of strategic control, specially implementation control.

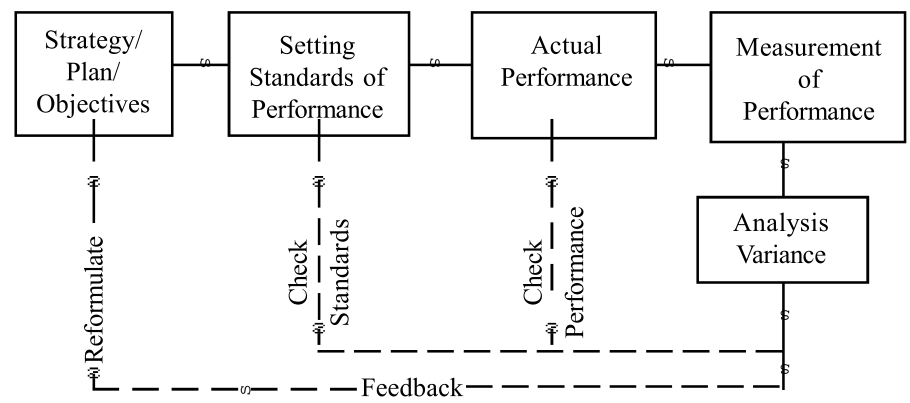

Exhibit 19.1

18.3.1 Setting of standards

Strategists encounter the following three questions while dealing with standard setting: How to set standards? What standards to set? In what terms should standards be expressed? A three-pronged basic approach to standard-setting could be used to settle these issues.

1. The key managerial tasks, derived from the strategic requirements, can be analysed for finding out the key areas of performance. Standards can then be set in each of these key areas.
2. The special requirement for the performance of the key tasks can help to determine the type of standards to set.
3. Performance indicators that best express the special requirements could then be decided upon to be used for evaluation.

Applying this approach to the case of a company which adopts a market development strategy, it can be said that one of the key managerial tasks is to expand market presence and enhance market visibility. The special requirement is to raise the overall market share and two indicators, for instance, that could satisfy the requirements could be: increase in sales revenue and efficiency of sales force. Exhibit 19.2 provides some illustrative performance indicators in four functional areas across the three grand performance indicators in four functional areas across the three grand strategies of stability, expansion, and retrenchment.

	Grand Strategies		
	Stability	Expansion	Retrenchment
Focus of evaluation	Efficiency-oriented	Growth-oriented	Cost reduction-oriented
Functional areas			
Financial area	Profitability and activity ratios; dividend and earnings per share	Leverage ratios ; credit ratings ; break-even point	Liquidity and activity ratios
Marketing area	Sales revenues and quotas; sales force productivity; accounts receivable divided by sales; number of customer complaints	Sales growth (current sales to base year's sale); new accounts opened per year; new product's sales divided by total sales	Marketing costs divided by sales; marketing costs divided by orders; sales expenses divided by total number of calls
Operations area	Productivity (e.g. manhours per production unit); capacity utilisation; investment in R & D as compared to revenue; average lead time for purchases	Growth in assets; production contribution divided by production assets	Production costs divided by sales; inventory as percentage of sales or production; scrap, reject, or waste percentage
Personnel area	Number of mandays lost divided by number of mandays worked; productivity rate of company versus industry average; employees' suggestions received, percentage accepted, and implemented	Training costs divided by average number of employees; recruitment costs divided by average number of recruits; over time costs versus total labour costs; bonus payments versus total labour costs	Personnel costs divided by average number of employees; separation costs versus total costs; retraining costs divided by average number of employees

Exhibit 18.2 Some illustrative performance indicators in functional areas across different grand strategies

Performance indicators–in order to capture the reality of action–have to be set on the basis of quantitative (or objective) as well as qualitative (or subjective) criteria. Operational control can be effectively exercised through a combination of quantitative and qualitative criteria.

Quantitative criteria Performance evaluation on the basis of quantitative criteria can be done in two ways: an organisation can assess how it has performed as compared to its past achievements and it can also compare its performance with the industry average or that of major competitors. There are several criteria–mainly financial in nature–that can be used. Companies can evaluate their performance on an annual basis for the last ten years or so on the basis of criteria like net profit, stock price, dividend rates, earnings per share, return on capital, return on equity, market share, growth in sales, days lost per employee as a result of strikes, production costs and efficiency, distribution costs and efficiency, and employee turnover, absenteeism, and satisfaction indexes. Companies can also evaluate performance on the basis of industry averages provided in industry reports published in leading business newspapers such as *The Economic Times, Financial Express* and magazines such as *Business India* and *Business World.* Exhibit 18.3 provides the model that the weekly supplement of a leading business newspaper in India uses in determining the best company in an industry.

Investment week, a weekly supplement of *Financial Express,* uses a two-stage model to determine the company in an industry for the award of annual excellence. The first stage of the model evaluates the companies in a chosen industry on 11 criteria averaged on a three-year basis.

1. Export/revenue for international competitiveness
2. Cash ploughback/total debt for capability to reduce debt
3. Profit after tax/net worth for profitability in using shareholder's funds
4. Ploughback to net worth for capability to use internal accruals
5. Interest cover for ability to serve shareholders
6. Gross profit/sales for profit margin
7. Earnings before depreciation, interest and tax/total assets for ability to use assets
8. Profit after tax/assets for profitability in using assets
9. Debt/equity
10. Increase in assets
11. Increase in sales

The second stage of the model takes the companies that score the higher values on a weighted score of the eleven criteria and then subjects them to further analysis on six different criteria: earnings before depreciation, interests, and taxes/net assets; profit after tax/net worth; growth in assets, growth in sales, gross profit/sales; and cash ploughback/net worth.

Exhibit 18.3 Determination of the best company of the year in an industry

The model indicated in Exhibit 18.3 could well be used by companies to evaluate performance on quantitative criteria on individual basis as well as on an industry level.

Qualitative criteria The quantitative criteria, with all objectivity and sophistication, cannot be sufficient for an overall assessment of performance. There has to be a set of qualitative criteria for a subjective assessment of factors such as capabilities, distinctive competencies, risk-bearing capacity, and strategic clarity, flexibility, and workability. Qualitative criteria play a major role in strategic control for evaluating strategy before implementation but can be used in operational control too. Glueck and Jauch suggest three sets of qualitative criteria: consistency, appropriateness and workability. Consistency tests strategy with respect to objectives, environmental assumptions, and internal conditions. Appropriateness assesses the strategy from the viewpoint of resource capabilities, risk preference, and time horizon. Lastly, workability checks strategy with regard to its feasibility and stimulation.

Having set the standards of performance, strategists proceed to measure performance as the next step towards evaluation.

18.3.2 Measurement of performance

The evaluation process operates at the performance level as action takes place. Exhibit 8-13 shows how this happens (actual performance is depicted within a dotted boundary as it is not a part of the evaluation process). Standards of performance act as the benchmark with which the actual performance is to be compared. It is important, however, to understand how the measurement of performance can take place. The information system is the key element in any measurement exercise. Operationally, measuring is done through accounting, reporting, and communication systems. A variety of evaluation techniques (discussed in the next section) are used for measurement. Other important aspects of measurement relate to the difficulties, timing, and periodicity in measuring.

If standards are appropriately set, and if means are available for measuring performance, evaluation is a fairly easy task. But there are several activities for which it is difficult to set standards and measure performance. For instance, it is relatively easier to measure the contribution of workers as compared to that of manager. Likewise, it is not so difficult to measure individual effort as it is to assess departmental performance. The solution lies in developing verifiable objectives, stated in quantitative and qualitative terms, against which performance can be measured.

Timing relates to the point of time at which evaluation has to take place. In general, it could be said that delay in measurement can defeat the purpose of evaluation itself. On the other hand, measuring before timing cannot serve the purpose either. It is better to measure at critical points in a task schedule. Generally, the critical points would be at the end of a definable activity or the conclusion of the task. For instance, in a project implementation schedule, there could be several critical points at which measurement would take place.

A related issue to timing is periodicity, which deals with the issue of ''how often to measure''. Normally, financial statements like budgets, balance sheets, and profit and loss accounts are prepared every year so the periodicity is on an annual basis. But there might be several functions like production and marketing where measurement will have to be done for shorter duration, possibly on a monthly or weekly basis. Exhibit 18.4 presents a few examples of private sector companies to show how performance evaluation is done. In the next section, we will provide an exhibit illustrating how performance evaluation takes place in public sector companies.

There are many family-owned and other types of private sector companies which have separate management boards or executive committees to review the performance of departments or profit centres. The difficulty arises when there is no clear cut authority for performance evaluation. Usually, the real authority for evaluation may rest in external groups. Thus, family business have their family councils, multinational subsidiaries have review committees constituted by parent company officials, while professionally managed companies may evolve varying mechanisms for the evaluation purpose. Here are a few examples to show how performance evaluation works in private sector companies.

- DCM group, which earlier followed an evaluation policy of Tender Loving Care (TLC), Shifted to the idea of forming a Board Management Committee (BMC) for exercising effective executive control. The BMC planned to have weekly meetings to conduct specific action reviews. It was to be attended by outside directors, family representative, besides the executive director, with unit or functional responsbilities. The reallocation of work by BMC resulted in upgrading of professional managers to the top management level. The focus of BMC's activities was on evolving a profitable operational strategy.

- At TISCO, the evaluation of project performance gets top priority. The review and monitoring of projects related to all capital expenditures is done by the Board of Directors itself. The Board meets regularly, usually on the last Thursday of every month, where projects are approved or rejected. When approved, the projects are subjected to strict time and cost schedules and any deviation or overrun has to get the Board's approval. Over and above, annual board presentations on the status of ongoing schemes are obligatory.

- Peico Electronics and Electricals Ltd (Philips) is organised on the basis of four product groups: lighting, components, technology and communications, and consumer electronics that function as profit centres. Each group is responsible for all operations from manufacturing to marketing of their products and decide their own budgets and targets. The responsibility for revising standards is also left to the groups.

Exhibit 18.4 Performance evaluation in private sector companies in India

Sources: Adapted from K.N. Taneja: "Who evaluates the chief executive" in *Business India,* Nov. 17-30, 1986, p. 81; D. Cherian: "DCM-BMC replaces TLC" in *Business India,* Feb. 22-Mar. 6, 1988, pp. 77-80; S. Gupta: "TISCO's bitter sweet taste of success" in *Business World,* Apr. 27-May 10, 1987, pp. 48-61; and E. Thomas: "PEICO—the gathering storm" in *Business India,* Feb. 6-19, 1989, pp. 54-56.

18.3.3 Analysing Variances

The measurement of actual performance and comparing it with the standard or budgeted performance leads to an analysis of variances. The following three situations may arise:

1. The actual performance matches the budgeted performance.
2. The actual performance deviates positively over the budgeted performance.
3. The actual performance deviates negatively from the budgeted performance.

The first situation is ideal but not realistic. In practice, the actual performance rarely matches the budget performance. Here, the strategists would have to specify a range of folerance limits between which the results may be accepted satisfactorily. So, actual performance which deviates from the budgeted performance within the tolerance limits set can be acceptable and the variance is considered as not significant.

The second situation is welcome as it is an indication of superior performance. But exceeding the targets continually should be considered as unusual and a check needs to be done for testing the validity of standards and the efficacy of the measurement system. Exhibit 19.5 takes care of this situation by having a feedback from the variance analysis to standards.

The third type of situation is alarming as it indicates a shortfall in achievement. The strategists need to pinpoint the areas where performance is below standards and go into the causes of deviation. Corrective action is taken on the basis of the analysis of the causes of deviation.

Evaluation by the top management can be facilitated if analysis of variance is presented in the form of a simple device that could be termed as the variance chart. (The same principle is applied in making control charts for statistical quality control). Exhibit 18.5 shows a specimen variance chart that illustrates the nature of deviations and the areas in which they occur.

Performance indicator	Standard	Actual	Deviation Performance
Financial area :			
• Profit over sales (%)	12	10	–2
• Dividend (%)	10	10	0
Marketing area :			
• Sales revenue (lakh Rs)	25	23	–2
• Number of customer complaints (hundred)	1.5	1.3	+0.2
Operations area :			
• Capacity utilisation (%)	85	90	+5
• Manhours per unit	4	3.5	+0.5
Personnel area:			
• Training costs divided by average number of employee (Rs' 000)	20	15	+5
• Employees' suggestions implemented compared to received (%)	60	50	–10

Exhibit 18.5 Variance chart for performance evaluation

After noting the deviations, it is now time for finding the causes of deviations. The following questions can be helpful in determining the causes.

- Is the cause of deviation internal or external?
- Is the cause random or was it expected?
- Is the deviation temporary or permanent?
- Are the strategies (and plans, objectives) still valid?
- Does the organisation have the capacity to respond to the change needed?

Analysis of variances leads to a plan for corrective action.

18.3.4 Taking Corrective Action

Taking Corrective Action suggests three courses for corrective action: checking of performance, checking of standards, and reformulating strategies, plan, and objectives.

Initiating corrective action is not an insignificant part of the evaluation process; it involves a variety of managerial functions which are performed during strategy implementation. For instance, checking of performance requires going into the details of organisational structre and systems, as well as behavioural implementation. Performance is affected adversely due to a number of factors such as distortions in resource allocation, inappropriateness of structure and systems, and wrong leadership and motivational styles. If the evaluation process shows that performance is consistently lower than expected, the strategists would have to undertake an in-depth analysis and diagnosis of the factors that might be responsible for bad performance. Taking corrective action for checking performance, is therefore, a significant part of the day-to-day activities of managers.

Checking of standards is less frequent than a peformance check but it will have to be done as soon as it is felt that there is nothing significantly wrong with performance. Standards check may result in a lowering of standards if it is concluded that organisational capabilities do not match the performance requirements. It may also lead to an elevation of standards if conditions have improved for better performance to take place. For instance, better equipment, improved systems, and upgraded skills are sure to make existing standards partly irrelevant. In such a situation, standards check would become necessary.

A more radical and infrequent corrective action is to reformulate strategies, plans, and objectives. Strategic, rather than operations, control will lead to the conclusion that strategies need reformulation, or plans need to be remodelled, or objectives have to be redefined. Reformulation of strategy will take us back to the process of strategic management where a fresh strategic choice has to be made. Remodelling of plans will entail a new resource allocation pattern and subsequent changes in strategy implementation. Redefinition of objectives, however, takes us full circle to the start of the strategic management process.

Before we conclude, there will be two explanatory sections on the techniques of strategic evaluation and control, and the role of organisational systems in evaluation.

18.4 TECHNIQUES OF STRATEGIC EVALUATION AND CONTROL

It is necessary for strategists to have an idea about the techniques of strategic evaluation and control in order to make a choice from among the many available and to use them. Several of the techniques of evaluation are traditional and have been in usage for long while there are some other techniques that are of a recent origin. This section describes briefly the techniques for strategic control and operational control.

18.4.1 Evaluation Techniques for Strategic Control

As we said earlier in this chapter, the essence of strategic control is to continually assess the changing environment to uncover events that may significantly affect the course of an organisation's strategy. Techniques for strategic control could be classfied into two groups on the basis of the type of environment. 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 appropriate.

Strategic momentum control These types of evaluation techniques are aimed at assuring that the assumptions on the basis of which strategies were formulated are still valid and what needs to be done in order to allow the organisation to maintain its existing strategic momentum. There are three techniques which could be used to achieve these aims: *responsibility control centres, underlying success factors,* and *generic strategies.*

1. Responsbility control centres form the core of management control systems and are of four types: revenue, expense, profit, and investment centres. Each of these centres is designed on the basis of the measurement of inputs and outputs. The study and application of responsbility centres is done in the discipline of management control systems.
2. The underlying success factors enable organisations to focus on key success factors to examine the factors that contribute to the success of strategies. By managing on the basis of the key success factors, the strategists can continually

evaluate the strategies to assess whether or not these are helping the organisation to achieve it objectives.

3. Generic strategies approach to strategic control is based on the assumption that the strategies adopted by firms similar to an organisation are comparable. Based on such a comparison, an organisation can study why and how other firms are implementing strategies and assess whether or not its own strategy is following a similar path.

Strategic leap control Where the environment is relatively unstable, organisations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organisations by helping to define the new strategic requirements and to cope with emerging environmental realities. There are four techniques of evaluation used for exercising strategic 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. A strategic issue is "a forthcoming development, either inside or outside of the organisation, which is likely to have an important impact on the ability of the enterprise to meet its objectives." By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plans to shift strategies whenever required.

2. Strategic field analysis is a way of examining the nature and extent of synergies that exist or are lacking between the components of an organisation. Wherever synergies exist, the strategists can assess the ability of the firm to take the advantages. Alternatively, the strategists evaluate the firm's ability to generate synergies where they do not exist.

3. Systems modelling is based on computer-based models that simulate the essential features of the organisation and its environment. Through systems modelling, organisations may exercise pre-action control by assessing the impact of the environment on the organisation through the adoption of a particular strategy.

4. Scenarios are perceptions about the likely environment a firm would face in future. In, on environmental appraisal, scenario-writing was discussed as a technique for analysing environment. Its use could be extended to evaluation by enabling organisations to focus strategies on the basis of forthcoming developments in the environment.

Several of the above techniques for strategic control—except with the possible exception of responsbility centres—are of relatively recent origin. The development of these techniques is an evidence of the expanding body of knowledge in business policy and strategic management. As the use and application of strategic management gains approval, it is quite likely that organisations would start using such techniques. Operational control, however, uses more familiar techniques which have traditionally been used by strategists. In the next part of this section, we look at techniques for operational control.

18.4.2 Evaluation Techniques for Operational Control

Operational control, as we said in the beginning of is aimed at allocation and use of organisational resources. Evaluation techniques for operational control, therefore, are based on internal analysis rather than environmental monitoring as is the case with strategic control. We indicate here several representative techniques that are used for operational control. Since almost all these techniques are described in depth in finance, accounting, and other areas—and the readers of this book are expected to be familiar with them—we only focus on their relevance to operational control. The techniques are classified in four groups: financial techniques, network techniques, management by objectives (MBO) and memorandum of understanding (MOU).

Financial techniques. There are several techniques such as budgetary control, zero-based budgeting, financial analysis, and the *parta* system that can be used for operational control.

1. Budgetary control is "used to indicate the appraisal of performance by a comparison of the actuals with the budget and the corrective action initiated thereby." Thus, budgetary control focuses on the use of budget as an instrument of control.
2. Zero-based budgeting works on the principle of periodic (usually annual) revaluation

of plans, programmes and projects to decide whether or not a change in resource allocation is required to achieve goals. Operational control is, therefore, inherent in the process of zero-based budgeting.

3. Financial analysis, including ratio analysis and sources and uses of funds analysis, is a frequently used method for assessing the financial health of any organisation. Besides evaluating the current performance, these techniques can also be used for analysing the comparative performance over a number of years and across firms in an industry. Thus, financial analysis is a powerful tool for operational control.

4. The *parta* system is an indigenous system adopted usually by *marwari* firms to keep track of daily cash generation. *"Parta* is the pre-determined budget of the net cash inflows from operations before tax and dividend.*"* The *parta* is decided in advance between the family group and company head and the actual performance is compared to this budgeted *parta* on a daily basis, thus making *parta* an effective operational control device.

Network techniques The network techniques, such as PERT, CPM, and their variants, are extensively used for operational control of scheduling and resource allocation in projects. When network techniques are modified for use as a cost accounting system, they become highly effective operational controls for project costs and performance.

Management by objectives. MBO is the system, proposed by Drucker, that is based on regular evaluation of performance against objectives that are decided upon mutually by the superior and the subordinate. By the process of consultation, objective-setting leads to the establishment of a control system that operates on the basis of commitment and self-control. Thus, the scope of MBO to be used as an operational control is quite extensive.

Memorandum of understanding. Just like MBO is a commitment to objectives between individuals, a memorandum of understanding (MOU) is "an agreement between a public enterprise and the Government, represented by the administrative ministry in which both parties clearly specify their commitments and responsibilities." Having done that, the enterprises are evaluated on the basis of the MOU. Though an MOU is usually thought of as a technique used solely in the context of public enterprise, its use can be extended to any situation where an external agency is required to evaluate a firm's performance. Thus, the multinational company can set an MOU with its subsidiary; a family business group council can use an MOU to evaluate its constituent companies. But since the current usage of MOU is largely confined to evaluation of peformance in public enterprise, we will take this opprtunity to provide an exhibit which describes the context in which MOUs are used.

18.5 SUMMARY

The different techniques discussed in this section have their merits and demerits. Strategists have to exercise a choice from among the techniques to be used for strategic evaluation and control. It is also clear that both strategic and operational controls have to be used in tandem to have an effective evaluation system.

18.6 GLOSSARY

- Process Evaluation : Method of assesing how a programme is being implemented.
- Standard: It is the yardstick for measurement of performance.
- Strategic control : It is concerned with tracking a strategy.

18.7 SELF ASSESSMENT QUESTIONS

Q.1. Explain in detail the process of evaluation ?

____

____

Q.2. What are the various techniques of strategic evaluation and control?

____

____

Q.3. What are the basic techniques of operational control?

____

____

18.8 LESSON END EXERCISE

Q1. Take the case of a large retailing firm and identify the key factor affecting its performance and suggest an effective system of operational control.

Q2. Under what conditions are corrective actions not required in the strategy evaluation and control process.

18.8 SUGGESTED READINGS

- Azhar Kazmi
- Bhattacharya, S.K. and N. Venkataramin

STRATEGIC EVALUATION

ROLE OF ORGANIZATIONAL SYSTEM AND CONTROL

UNIT IV

LESSON - 19

STRUCTURE :-

19.1 INTRODUCTION

As we took up the discussion of the six organisational systems one by one, it is clear that each of these systems play a vital role in the implementation of strategy. Further, changes in strategy create new requirements that have to be satisfied through modifications in the existing organisational systems.

Exhibit-19.1 attempts to bring together what has been discussed in the form of a matrix showing the predominant organisational system characteristics required for implementing various strategies through the adoption of different types of structures. We have included the characteristics of the economy and the environment to provide a wholistic perspective to the relation of the external environment and the core systems within an organisation.

It should be noted, however, that either end of the systematic continuum does not fully preclude the possibility of using the characteristics at the other end. The systemic characteristics are indicative rather than definitive and are intended to provide strategists an idea of the relative priority to be accorded to either of the two ends of the continuum. For instance, the control -system for the implementation of stability strategies should preferably be formal but the use of certain informal controls is not entirely ruled out. Further, in divisional or SBU-structures, the implementation of the expansion strategy should preferably be through informal controls operating between the corporate and SBU-levels, but within SBUs, formal controls may still operate.

Nature of Economy	**Controlled, protected, and regulated**	**Globalised, liberalized and privatized**
Environmental characteristics Strategic continuum Structural alternatives	Certain, stable and predictable Stability / controlled growth Entrepreneurial / Functional	Unstable, volatile and bewildering Focused expansion / selective divestment Division/SBU/alternate and new forms
Information Control Appraisal Motivation Development Planning	Efficiency – orientation Formal – direct Efficiency based Quantitative / objective Monetary-informal internal-focussed; Programmed; promotion of personal Directive	Decisional-orientation informal-indirect Broad-based; Quantative/subjective Non-Monetary-formal External-focussed Need-based; recruitment From outside; use of OD techniques Participative

Exhibit-19.1 Predominant System Characteristics vis-à-vis Strategic Continuum and structural Alternatives.

The organizational system characteristics as follows :-

1. **Information system.** Change from a restrictive style of decision making to a participative style supported by better communication through a decentralised structure.

2. **Control system.** Change from a system of monthly performance reports to a more result-oriented review and control mechanism which updated operating results of each line of business through monthly-operating reviews by presidents/ group VPs.

3. **Appraisal system.** Change from a traditional appraisal to a performance-based appraisal system aimed at creating an atmosphere which supported professionalism.

4. **Motivation system.** Change to an informal and accommodating style of management from a restrictive traditional style compensation packages for managers based on 'assigned job values' system and not on designation. Beyond a certain rank, there was only a minimum for a salary grade and no maximum. There were no fixed increments.

5 **Development system.** For senior managers, a planned system of deputation from corporate planning to line function existed. External recruitment was done if positions could not be filled through promotions from within.

19.2 OBJECTIVES

An analysis of the objectives enables you :-

1. to discuss the role of Organizational Systems and Control.

2. to evaluate the role of Organizational Systems and Control.

19.3 ROLE OF ORGANIZATIONAL SYSTEMS AND CONTROL

The process of strategic evaluation and control does not operate in isolation. Rather, it works on the basis of different organizational systems that are used to implement strategies. Earlier we described six organizational systems : information, control, appraisal, motivation, development and planning There, the thrust of discussion was to understand the role that these systems play in strategy implementation and how they have to be adapted to suit the requirements of hanging strategies. Here, we briefly review the role of organisational systems in valuation.

19.3.1 Information System

Evaluation is done by comparing actual performance with standards. The measurement of performance is done on the basis of reports generated through the information system. In fact, the purpose of management information system is enable managers to keep track of performance through control reports. Several of the techniques described in the previous section, whether for strategic surveillance financial analysis, are based on the use of information system to provide relevant and timely data to managers to evaluate performance and strategy and initiate corrective action.

19.3.2 Control System

The control system, of course, is at the heart of any evaluation process for setting standards, measuring performance, analysing variances, and taking corrective actions. The central role of the control system in evaluation is evident from our discussion of the process of evaluation.

19.3.3 Appraisal System

The appraisal system actually evaluates performance and so is a part, of wider control system. Its significant role in evaluation, however, is to be assured. In practice, it is difficult to differentiate strictly between the performance of individuals and that of the organisational units they belong to.

Thus, the achievement of a department or a profit centre is the sum total (or even more; synergistically) of the individual performance of managers and employees in that department or profit centre. The evaluation process, through the appraisal system, measures the actual performance and provides the basis for the control system to work.

19.3.4 Motivation System

The central role of the motivation system is to induce strategically desirable behaviour so that managers are encouraged to work towards the achievement of organisational objectives. Now, if we look at the way that the evaluation process works, we will observe that its efficacy depends on the extent to which it is able to bring actual performance to the level of standards. In other words, the lesser is the deviation of actual performance from standards, the higher is the efficacy of the evaluation process. The motivation systems play a significant role in ensuring that deviations do not occur, or if they do, then they are corrected by means of rewards and penalties. Incentive systems are directly related to the amount of deviation. Performance checks, which are a feedback in the evaluation process are done through the motivation system.

19.3.5 Development System

The development system prepares the managers for performing strategic and operational tasks. Among the several aims of development, the most important is to match a person with the job to be performed. This in other words, is matching actual performance with standards. This matching can be done provided it is known what a manager is required to do, and what is deficient in terms of knowledge, skills, and attitude. Such a deficiency is found out through the appraisal system. What we term as corrective action in the evaluation process is, in reality, the taking of steps that would lead to the development of individual so as to enable them to perform as required. The role of development system in evaluation is, therefore, to help strategists to initiate and implement corrective action.

19.3.6 Planning System

With regard to the planning system (that is more concerned with the formulation of strategies), we deal with the issue of "planning for evaluation." Since the evaluation process is a part of strategic management, therefore, it is to be planned for Questions such as the following are to be dealt with : Who will perform evaluation? How will the information generated be used? How much resources will be required? To what extent will control be exercised so that it is cost-effective? What administrative systems will be required to support the evaluation system ? etc. Further, the evaluation process also provides feedback to the planning system for the reformulation of strategies, plans, and objectives. Thus, the planning system closely interacts with the evaluation process on a continuing basis.

19.4 SUMMARY

With the reformulation of objectives, we have reached the end of our intellectual journey or, may be, the beginning of a new one. The process is cyclical and recommences to traverse the path we have charted in the course of our study of strategic management.

19.5 GLOSSARY

- Organisational Control : Refers to the process by which an organisation influences its subunits & members to behave in ways that lead to attainment of organisational goal.

- Development System : Prepares managers for performing strategic and operational tasks.

19.6 SELF ASSESSMENT QUESTIONS

Q.1. Explain the role of Organisational System.

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Q.2. State the Difference between Appraisal System and Motivation System.

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Q.3. Explain the process of Evaluation.

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19.7 LESSON END EXERCISE

Q1. Disscus the various strategies for evaluation based on Rumelt's criteria.

Q2. Elucidate the organisational systems used by various service sector industries.

19.8 SUGGESTED READINGS

- Azhar Kazmi
- Bhattacharya, S.K. and N. Venkataramin

GLOBAL ISSUES IN STRATEGIC MANAGEMENT & RECENT ADVANCES AND CORE COMPETENCE AS THE ROOT OF COMPETITIVE ADVANTAGE IN COMPETITIVE ADVANTAGE

UNIT IV

LESSON - 20

STRUCTURE :

20.1 INTRODUCTION

Organisations with core competencies enjoy global leadership. It represents the organisation's will, to harmonise their multiple resources and skills. It distinguishes the firm in a market place because of its products and service's uniqueness and because they become difficult to imitate by others. In such an organisation, all business strategies revolve around the core competency. Core competencies give a company one or more competitive advantages, in creating and delivering value to its customers in its chosen field. Organisations which believe in spending generously on research and development can and the ones which experiment and investigate the processes can develop core competency.

Core competencies lead to the development of core products. Core products are not directly sold to end users; rather, they are used to build a larger number of end-user products. For example, let's take the example of Honda's expertise in engines. Honda was able to exploit its core competency to develop a variety of quality products from lawn mowers and snow blowers to trucks and automobiles. Honda can boast of its sharp and competitive engineer's team who can be credited for its core competency. In another example, Microsoft has expertise in many IT based innovations where, for a variety of reasons, it is difficult for competitors to replicate or compete with Microsoft's core competences in building software.

20.2 OBJECTIVES :

An analysis of the objectives shows about :

i. Various global issues in strategic management

ii. the importance of competency

iii. recent development in achieving competitive advantage

20.3 GLOBAL ISSUES IN STRATEGIC MANAGEMENT

International Strategic Management (ISM) is an ongoing management planning process aimed at developing strategies to allow an organization to expand abroad and compete internationally. Strategic planning is used in the process of developing a particular international strategy.

An organization must be able to determine what products or services they intend to sell, where and how the organization will make these products or services, where they will sell them, and how the organization will acquire the necessary resources for these tasks. Even more importantly an organization must have a strategy on how it expects to outperform its competitors. When an organization moves from being a domestic entity to an international organization it must consider the possible broad complexities that accompany such a decision. In a domestic country, an organization must only consider one national government, a single currency and accounting system, one political and legal system, and usually a similar culture. Entering into one or more foreign countries can involve multiple governments, currencies, accounting systems, legal systems, and a large variety of languages and cultures. This can create numerous barriers to entry for an organization looking to expand internationally.

20.3.1 Issues in Global strategic management

In foreign countries, there are the possibilities of:

- Local languages required in many situations.
- Inadequate or limited communication.
- Very diverse cultures, both between countries and sometimes even within countries.
- Often volatile politics.
- Varied economic systems.
- Scarcity of skilled labour, with possible costs in training labour or redesigning procedures.
- Poorly-developed financial markets and government-controlled capital flows, in some of the countries.
- Problems and exorbitant costs in obtaining market research data.
- Limited advertising, subjected to lots of restrictions.
- Possible low literacy rates, not to mention the possibility of making mistakes in the language when advertising.
- Currency exchange fluctuations.
- Mandatory worker participation in management in some countries.
- Legal restrictions on laying off of workers.

The organisations, while performing ought to deal with above mentioned situations in a very efficient manner in order to survive and compete in fast changing business scenario.

20.4 CONCEPT OF CORE COMPETENCE AND COMPETITIVE ADVANTAGE

The term was popularized by Dr.C.K Prahalad and Prof. Gray Hamal, back in 1990 in the Harvard Business Review. Peter Drucker was one of the first to mention it in 1964 when he focused on 'strength analysis'. A core competency comprises of reliable processes, synergy with customers & suppliers, a patent, an industrial design, know-how, unique product development, a brand/s. The term 'core competency' was coined by in 1989.

Core Competence can be defined as the fundamental strength of a business which includes a unique combination of various resources, knowledge and skills, which differentiates a company in the marketplace. It is the profound dexterity that provides one or more lasting competitive advantage to the company in creating and delivering perceived benefits to the customers. Core competence is fundamental, unique and inimitable strength of the firm that:

(i) Provides the firm, the access to a variety of products/markets.

(ii) Contributes significantly to customer benefits in the end products.

(iii) Is an exclusive preserve of the firm and cannot be imitated easily by competitors.

Core competencies are a pack of skills and technologies that are very difficult or impossible to copy or match; skilled employees, tacit knowledge, organisational endowment, collective values, supreme technology, and organisational ethics culture – these are some features which add to the core competency of an organisation. The primary reason for 3M's success is its people. 3M has always motivated its employees to innovate, think different and progress in their relative careers. This company has been blessed with generations of imaginative, industrious employees in all parts of its enterprise, all around the world. Core competence is fundamental, unique and inimitable strength of the firm that provides the firm, the access to a variety of products/markets.

Competitive advantage is a business strategy where companies find ways to differentiate themselves from their competitors to attract more business. Service-based industries, such as hospitality, banks, health care use competitive advantage strategies to gain an elevated position in the field. Usually competitive advantage is sought out of one or more functional advantages. Competitive advantages give a company an edge over its rivals and a capability to produce greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more complex it is for competitors to offset the advantage.

There are two main types of competitive advantages: comparative advantage and differential advantage. Comparative advantage, or cost advantage, is a firm's ability to produce a good or service at a lower cost than its competitors, which gives the firm the ability sell its goods or services at a lower price than its competitors or to generate a larger margin on sales. A differential advantage is created when a firm's products or services differ from its competitors and are seen as better than a competitor's products by customers. Today India can boast of comparatively younger, English speaking low cost labour as one of her competitive advantage. This factor has given boost to outsourcing business in India.

Companies can achieve a competitive advantage a number of ways. Three common and effective strategies which companies have used to find success are

(i) cost leadership

(ii) differentiation

(iii) market segmentation.

- Cost leadership refers to bringing consumers goods at a lower price. Companies can achieve cost leadership by improving efficiency in their operations. If they can lower overhead costs in manufacturing, labor, resources, and every other aspect that goes into the production of their goods or services, they can give consumers the greatest value, which can lead to increased sales and customer loyalty.

- Differentiation refers to providing better or unique products. Companies can do this by making the highest-quality products, delivering services faster than competitors or reaching more customers quickly and conveniently. Companies achieve differentiation by using creativity and innovation to fill a need or solve a problem that no other company has been able to solve. Since these companies are able to make a higher-quality product, they are able to charge more, which increases their profit margins.

- Market segmentation, which is also referred to as focus, is another strategy for achieving competitive advantage. It requires that companies understand the specific needs of their target market better than their competitors. This often involves focusing on a particular niche market that larger corporations overlook. This strategy can be combined with the cost leadership or differentiation strategies. For example, some companies differentiate themselves by providing a unique, personalized service to a select group who they know will be willing to pay more for the ease of the one-on-one service.

The sources of competitive advantage have their limited life. Therefore, businesses are engaged in a never ending search to find new angles of competitive advantages. It's all about finding some way of differentiating products and services from the competitor's offerings. The whole purpose of business strategy is to find new sources of competitive advantage. Wal-Mart's success lies in their cost cutting. Wal-Mart's most operational processes are carried out in China because of their labor costs are which are much lower than many countries in world.

20.5 CORE COMPETENCE AS A ROOT OF COMPETITIVE ADVANTAGE

Competitive Advantage can be described as something, that the competing firms are not able to do, or it is something owned by the firm that the rivals firms wish to have. On the other extreme, Core competence is the distinct proficiency of the company, which cannot be imitated by its rivals. To acquire competitive advantage in any market, a firm needs to be able to deliver a given set of customer benefits at lower costs than competitors, or provide customers with a bundle of benefits its rivals cannot match. To realize the potential that core competencies create, a company must also have the imagination to envision markets that do not yet exist and the ability to stake them out ahead of competition. A company will strive to create new competitive space only if it possesses an opportunity-horizon that stretches far beyond the boundaries of its current businesses. Building core competence becomes essential to competitive advantage building, because advantages emanating from the product-price-performance-tradeoffs are almost short term, especially in an era where technologies are altering the existing boundaries of business.

Resources and capabilities are the building blocks upon which an organisation create and execute value-adding strategy so that an organisation can earn reasonable returns and achieve strategic competitiveness. The organisations pick up skills, abilities, and resources that are unique to them, reflecting their particular path through history. These resources and capabilities reflect the unique personalities, experiences, and relationship that exist only in a single organisation. Such resources can be the sources of sustained competitive advantage, and those imitating these resources will be at a cost disadvantage building them.

Developing core competencies enables organisations to gain competitive advantage with the express benefit of increasing sales and profits. Companies achieve this through innovation in developing products and services. While seeking ways to fill niche target markets, deliver services quickly and efficiently, and increase product quality, companies are bringing consumers better products and better values. This is something that customers recognise and pay back with loyalty. Another benefit of developing core competencies is that it helps organisations establish the essence of their brand. If a company's core competency lies in their outstanding customer service, then that is also an excellent attribute that can be used for marketing their brand.

Whether launching a new business idea or rebranding a product to fit the current market, developing core competencies can lead to competitive advantage. Companies need to exploit the special strengths that make their product or service stand out among others in the industry. Understanding these concepts will set resourceful and strategic companies apart from the rest.

20.6 RECENT ADVANCES IN THE FIELD OF COMPETITIVE ADVANTAGE

Basically, core competencies help an organisation to distinguish its products from its rivals as well as to reduce its costs than its competitors and thereby attain a competitive advantage. It helps in creating customer value. Also, core competencies help in creating and developing new goods and services. Core competencies decide the future of the organisation. These decide the features and structure of global competitive organisation. Core competencies give way to innovations. Using core competencies, new technologies can be developed. They ensure delivery of quality products and services to the clients.

In the past time the various competences used by the organisations were the specific skills, knowledge and expertise, that are hard to be followed by the competitors. But in today's world, many advances have been made to make organisations more competitive.

A full list is almost impossible to build, it would probably be infinite. One approach is to consider all competitive advantages align with these value disciplines:

- **Product leadership**: Companies like Apple or BMW. Their competitive advantages include intellectual property, innovation talent and processes, brand, etc.
- **Operational Excellence**: Usually translates into lower costs, which means lower prices and higher margins. Companies like Dell, Wal-Mart and McDonald's fall in this category. Their competitive advantages include supply chain processes, vendor relationships, financial engineering, scale, distribution models, etc.
- **Customer Intimacy**: These companies produce customer preference by providing customization, better service, and cultivating customer relationships like Nordstrom and Rackspace. Their competitive advantage stems from their company culture, brand, price discipline, a customer experience discipline, and focusing the business on customer-centric metrics.
- **Customer satisfaction**: it is the practice of asking customers how they feel about your product and brand. Customer satisfaction information is gathered with a short survey or rating tools.
- **Economies of Scale:** It is a product or service that drops in cost as you produce more. It is often due to dilution of fixed cost such as property, plant and equipment.
- **Know-how:** It is the knowledge that directly applies to productivity. It is associated with difficult to teach abilities that are acquired through experience.
- **Organisational Culture:** it is a set of principles, values, language, history, symbols, norms and habits of an organisation that collectively represent a competitive advantage or disadvanatage.
- **Market Share:** It is the space captured by an established brand, product or service in a crowded market. It answers the question "Why do customers buy our products?" It provides a competitive advantage to the firm.
- **Relational Capital:** It is an intangible asset established by business based on its reputation and relationships with stakeholders.

- **Risk Management:** It is the identification and management of potential risk and losses. There is strong relationship between risk and reward Risk Management neither seeks to maximize reward or minimize profits. Its goal is to optimize risk return ratio.
- **Technology:** Technology is the craft of science. It includes both information technology and tools that are most physical in nature such as vehicles, spacecrafts, etc. Technology includes IT, automation, gamification, and many more.
- **Barriers to Entry:** these are the obstacles that make it difficult for new competitors to enter into the market. Barriers to entry include things like know-how, reputation, technology, location, etc.

20.7 SUMMARY

This study has dealt with the final phase of strategic management, i.e. strategic evaluation and control.

The nature of strategic evaluation is judgemental. Through evaluation, strategists can adjudge whether their strategy is in consonance with the environment and whether the performance of tasks would lead to the achievement of objectives. The importance of evaluation lies in its ability to control strategy implementation and performance. There are various participants in evaluation including the board of directors, chief executives, financial controller, and committees. Because evaluation involves assessment of performance, certain barriers can be expected. These could arise from the difficult decision by strategists regarding the magnitude of control, the problems in measurement, and resistance of managers to subject themselves to control. These barriers could be avoided by strategists through adopting the right attitude to evaluation.

Evaluation operates at two levels: strategic and operational. Strategic control is aimed at a continual assessment of the changing environment to see that the strategy is not out of line with it.

Resources and capabilities are the building blocks upon which an organisation create and execute value-adding strategy so that an organisation can earn reasonable returns and achieve strategic competitiveness. The organisations pick up skills, abilities, and resources that are unique to them, reflecting their particular path through history. These resources and capabilities reflect the unique personalities, experiences, and relationship that exist only in a single organisation. Such resources can be the sources of sustained competitive advantage, and those imitating these resources will be at a cost disadvantage building them.

20.8 GLOSSARY

- **Competitive Advantage:** Competitive Advantage can be described as something, that the competing firms are not able to do, or it is something owned by the firm that the rivals firms wish to have.
- **Competency:** Core competence is the distinct proficiency of the company, which cannot be imitated by its rivals.
- **Differentiation:** Differentiation refers to providing better or unique products. Companies can do this by making the highest-quality products, delivering services faster than competitors or reaching more customers quickly and conveniently.
- **Cost Leadership:** Cost leadership refers to bringing consumers goods at a lower price. Companies can achieve cost leadership by improving efficiency in their operations.

20.9 SELF ASSESSMENT QUESTIONS

Q1: Discuss the various competencies which bring an organization at the superior position.

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Q2: What are the different types to achieve competitive advantage by the organisation?

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Q3: Discuss core competency as a tool to get competitive edge. Explain with examples.

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Q4: Describe in detail the recent advances made to achieve competitive advantage in the market.

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Q5: Discuss the global issues in strategic management.

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20.10 LESSON END EXERCISE

Q1. Explain how TATA company has gained competitive advantage due to its unique core competency.

Q2. Discuss the issues being faced by Global companies in making international strategies.

20.11 SUGGESTED READINGS

- **Business Policy by Azhar Kazmi**
- **Strategic Management by V S P Rao**
- **Strategic Management by Upendra Kachru**
- **Business Policy by Frances Chereunilam**