Introduction to Strategic Management

Introduction

The word Strategy comes from the Greek word 'Strategos' which means a general. In military science, Strategy literally means the art & science of directing military forces in a war or battle. Today, the term strategy is used in business to describe how an organization is going to achieve its overall objectives. Most organizations have several alternatives for achieving its objectives. Strategy is concerned with deciding which alternative is to be adopted to accomplish the overall objectives of the organization.

Strategy is a Comprehensive long term plan.

Definition

"*Strategy is a plan of action or policy designed to achieve a major overall aim*"- **Oxford Dictionary**

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

"***Strategy includes the determination & evaluation of alternative paths to achieve an organization's objectives & mission & eventually, a choice of the alternative that is to be adopted***"- **Lloyd L. Byars**

The term Strategy can be defined in a Simple words as follows:
"*Strategy is a broad long-term plan designed to achieve the overall objectives of the firm"*

What Is Strategic Management?

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives.

Process/ Elements of Strategic Management

The strategic management process can be broadly divided into three phases. Each phase consists of a number of steps The three phases are as follows:

I. Strategy formulation
II. Strategy Implementation
III. Strategy Evaluation

I. Strategy formulation

Strategy formulation can also be referred as strategic planning. The strategy formulation involves the following steps:

1) Framing Mission & Objectives

The first step in the formulation of a strategy is to frame mission & objectives of the firm. The mission states the philosophy & the purpose of the organization. The objectives are the aims or ends, which the organization seeks to achieve. The mission & objective must be clearly defined.

2) Analysis of the Internal Environment

After setting the objectives or goals, the management needs to make an analysis of the internal environment. The analysis of the internal environment may be done prior to setting of objectives. The internal

environment refers to manpower, machines, methods, procedures & other resources of the organization. A proper analysis of the internal environment reveals strength & weakness of the organization.

3) Analysis of the External Environment.

The management must conduct an analysis of the external environment. The external environment refers to government, competition, consumers, technological development & other environment factors that affect the organization. A proper analysis of the external environment reveals opportunities & threats

4) Gap analysis

The management also conducts "gap analysis". For this purpose, the management must compare & analyze its present performance level & the desired future performance level. Such a comparison would reveal the extent of gap that exists between the present performance & future expectations of the organization. If there is a sufficient gap, the management must think of suitable measures.

5) Framing Alternative Strategies

After making a SWOT analysis & the Gap Analysis, the management needs to frame alternative strategies to accomplish the objectives of the firm. There is a need to frame alternative strategies as some strategies may be put on hold & other strategies may be implemental.

6) Choice of strategies

The organization cannot implement all the alternative strategies. Therefore the firm has to be selective. The organization must select the best strategy depending upon the situation. Before selecting the best strategy, the organization needs to conduct a cost-benefit analysis of the alternative strategies. The strategy, which gives the maximum benefits at minimum cost, would be selected.

II. Strategy Implementation

The strategies are formulated for each and every functional department such as production, marketing, finance & personnel. Once the strategies

are formulated, then the next stage is implementation of such strategies. The strategy implementation involves the following elements:

1) Formulation of plans, programmes and projects

There is a need to frame plans, programmes and projects. Strategy by itself does not lead to action. For instance, if expansion strategy is formulated, then various types of expansion plan need to be formulated. An expansion plan would involve expansion in production capacities of existing product &/or development and production of new products Plans result in different kinds of programmes. A programme is a broad plan which includes goals, policies, procedures and oter aspects required to implement a plan. For instance, there can be R & D programme for the development of new product. Programmes lead to the formulation of project which is a specific programme for which the time schedule and cost are predetermined.

2) Project Implementation

A project passes through various stages before the actual implementation.

The various phases include

- Conception phase, where idea are generally generates for future projects
- Definition phase, where preliminary analysis of the project is undertaken.
- Planning & Organizing phase, where the planning and organizing of resources required to undertake the project is decided
- Implementation Phase, where details of the implementation of the product such as awarding contracts, order placement etc. are decided.
- Clean-up Phase, which deals with disbanding the project infrastructure & banding over the plant to the operating personnel.

3) Procedural Implementation

The organization needs to be aware of regulatory frame work of the regulatory (government) authorities before implementing strategies. The regulatory elements to be reviewed are as follows:

- Regulation in respect of foreign technology
- Foreign collaboration procedures
- FEMA regulation
- Capital issue guidelines
- Foreign trade regulations etc.

4) Resource Allocation

It deals with the arrangement & commitment of physical, financial and human resources to various activities so as to achieve the organization goals. The strategies need to allocate resources to the various division, department etc. The resources need to be allocated depending upon the importance of activities in each of the departments or divisions. It includes allocation of manpower, machines, tools, money and other resources for each and every activity.

5) Structural Implementation

Organization structure is the frame work through which the organization operates. There can be various organizational structure for the implementation of Strategy, it can be

- Entrepreneurial (line) structure, which is suitable for small owner
- Functional structure, which is suitable for multi-departmental organization.
- Matrix Structure, which is suitable for multi-project/product organization.

6) Functional Implementation

It deals with the implementation of the functional plans and policies. For effective implementation of strategy, strategies have to provide direction to functional managers regarding the plans and policies to be adopted. Plans and policies need to be formulated and implemented in all the functional areas such as production, marketing, finance and personnel.

7) Behavioral Implementation

It deals with those aspects of strategy implementation that have an impact on the behavior of strategists in implementing the strategies. It

deals with issues of leadership, corporate culture, corporate politics and use of power, personal value, business ethics and social responsibility.

III. Strategy Evaluation

Evaluation of strategy is that phase of strategic management process in which managers try to assure that the strategic choice is properly implemented and is meeting the objectives of the enterprise. It involves the following elements.

1) Settling of Standard

The strategists need to establish performance targets standards and tolerance limit for the objectives, strategies and implementation plans. The standard can be established in terms of quantity, quality, cost and time. Standards need to be definite and they must be acceptable to employees.

2) Measurement of Performance

The next step is to measure the actual performance. For this, the manager may ask for performance reports from the employees. The actual performance can be measured both in quantitative as well as qualitative ways. The actual performance also needs to be measured in terms of time and the cost factor.

3) Comparison of actual performance with standards

The actual performance needs to be compared with the standards. There must be objective comparison of the actual performance against the predetermined targets or standards. Such comparison is required to find out deviation, if any.

4) Finding out deviations

After comparison, the managers may notice the deviations. For instance, if a particular brand's sales targets was 1000 units for a certain period and the actual sales are only 9000 units for that period then the deviations are to the extent of 1000 units.

5) Analyzing deviations

The deviation must be reported to the higher authorities. The higher authorities analyze the causes of deviations. For this purpose, the higher authorities may hold necessary discussions with functional staff. For instance, the deviation of 1000 units may be due to poor promotion,

faulty pricing, poor distribution and so on. The exact cause or causes of deviation must be identified.

6) Taking corrective measures

After identifying the causes of deviations, the managers need to take corrective steps to correct the deviations. At times, there may be a need for resetting of goals and objectives or re-framing plans, policies and standards. The corrective steps must be taken at the right time so as to accomplish the objectives.

Nature & Characteristics of Strategies

1. Objective Oriented

Strategies are developed in order to achieve the objectives of the organization. To formulate strategies, one has to know the objectives that are to be pursued & also the policies that must be followed.

2. Future Oriented

Strategy is a future oriented plan. It is designed to attain future position of the organization. Through Strategy, management studies the present position of the organization & their aims at attaining the future position of the organization. The strategy provides answer to certain questions relating to

- Profitability of the present business
- Continuity of the present business
- Entry into difference businesses in future
- Effectiveness of the present policies of the organization.
- Growth & expansion of the business in the long run.

3. Unified, Comprehensive and Integrated

A Strategy is not Just plan. It is a unified, Comprehensive & integrated plan. It is unified as it unifies all the parts of sections of the organization together. It is comprehensive as it covers all the major aspects or areas of the organization. It is integrated as all the parts of the plan are compatible with each other and fit together well.

4. Strategy Alternatives

Organizations need to frame alternative strategies. It is not sufficient to frame one or two strategies. Small organizations survive with one or two strategies due to fewer complexities in their business. However, large organizations need to frame alternative strategies in respect of growth & survival of the organization. It can be into fours broad groups:

- Stable Growth Strategy
- Growth Strategy
- Retrenchment Strategy
- Combination Strategy

5. Relates to the Environment

The internal and external environment affects the strategy formulation & implementation. The internal environment relates to mission& objectives of the firm, the labor management relations, and the technology used, the physical, financial & human resources. The external environment relates Competition, customer, Channel, intermediaries, Government policies & other social, economic & political factors.

6. Allocation of Resources

For effective implementation of Strategy, there is a need for proper allocation of the resources. Proper allocation of resources is required to undertake the various activities so as to attain objectives. The resources can be broadly divided into 3 groups:

- Physical resources such as plant & machine
- Financial resources i.e. Capital
- Human resources i.e. Man Power

7. Universal Applicability

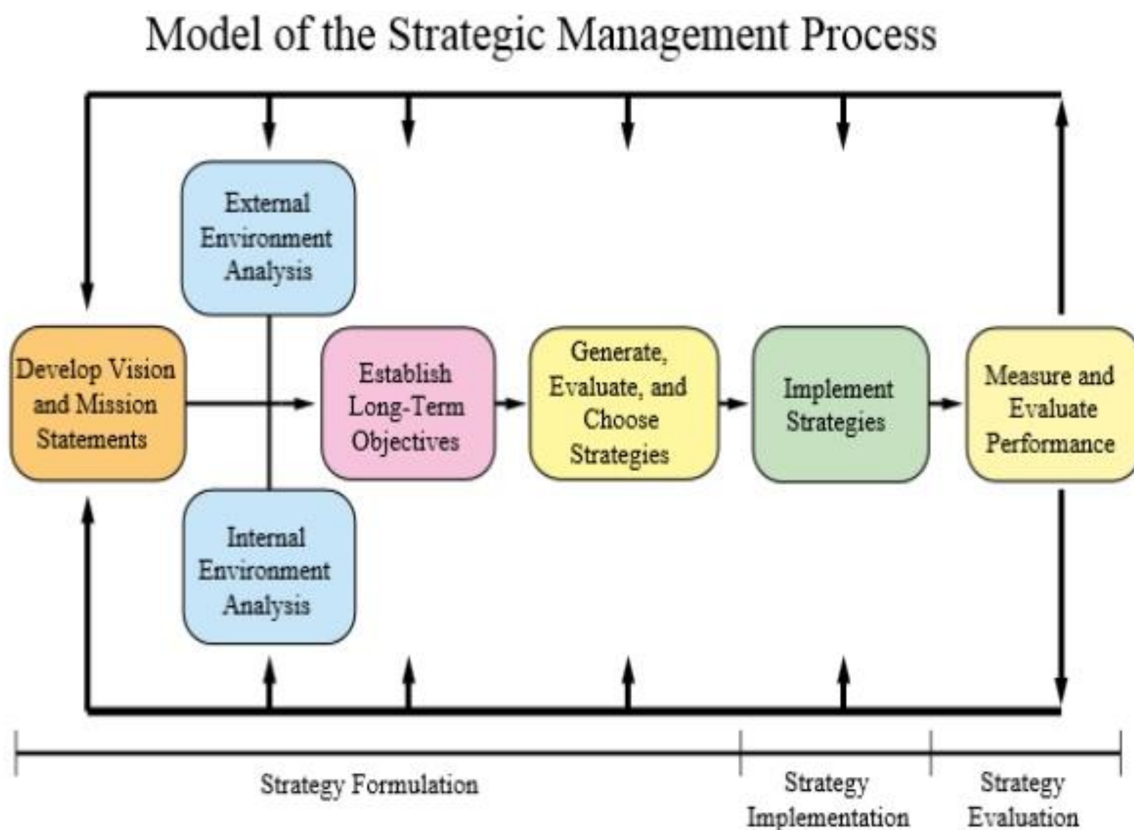
Strategy is universally applicable. It is applicable to business organization as well as to non-business organization. This is because every organization need to frame strategies for their growth & survival. The presence of Strategies keeps the organizations moving in the right direction.

8. Periodic Review
Strategies need to be reviewed periodically. Such review is required to revise the strategies depending upon the changing needs of the business. Periodic review of strategies is required to gain competitive advantage in the market.

9. Applicable to all functional areas
Strategies are applicable to all functional areas. The functional areas include production, marketing, finance, human resources management, etc. Strategies aid in planning, organizing, directing & controlling activities in all functional areas.

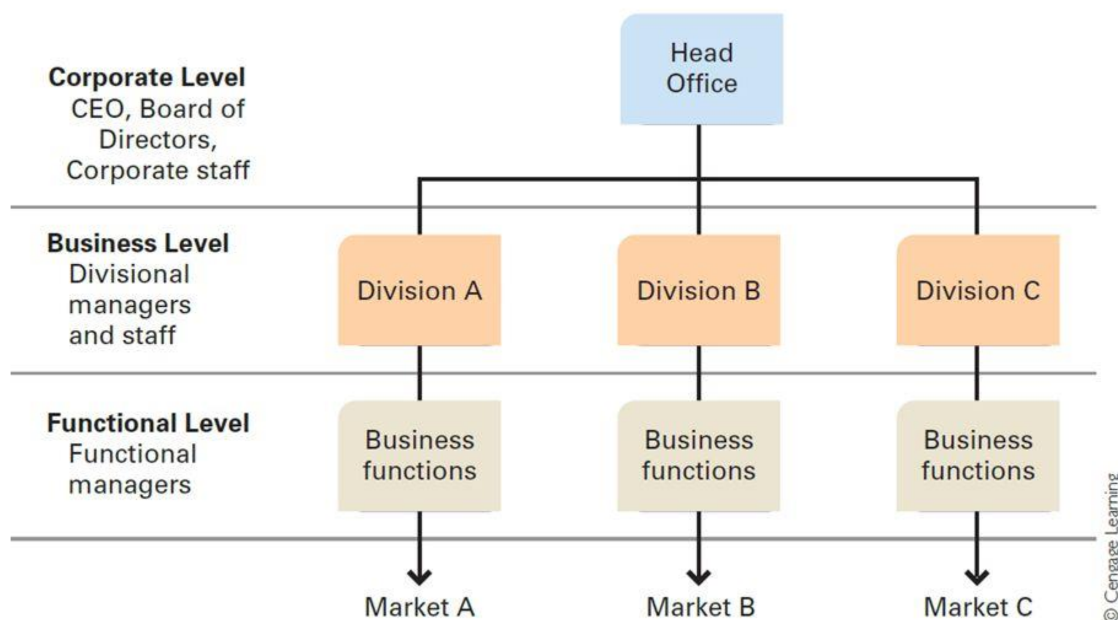
The Strategic-Management Model

The strategic-management process is dynamic and continuous. A change in any one of the major components in the model can necessitate a change in any or all of the other components. For instance, a shift in the economy could represent a major opportunity and require a change in long-term objectives and strategies; a failure to accomplish annual objectives could require a change in policy; or a major competitor's change in strategy



LEVELS OF STRATEGY

A company is a collection of functions or departments that work together to bring a particular good or service to the market. If a company provides several different kinds of goods or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contains its own set of functions) to manage each different good or service.



Corporate-Level Managers

The corporate level of management consists of the chief executive officer (CEO), other senior executives, and corporate staff. These individuals occupy the apex of decision making within the organization. The CEO is the principal general manager. In consultation with other senior executives, the role of corporate-level managers is to oversee the

development of strategies for the whole organization. This role includes defining the goals of the organization, determining what businesses it should be in, allocating resources among the different businesses, formulating and implementing strategies that span individual businesses, and providing leadership for the entire organization.

Business-Level Managers

A business unit is a self-contained division (with its own functions, for example, finance, purchasing, production, and marketing departments) that provides a product or service for a particular market. The principal general manager at the business level, or the business-level manager, is the head of the division. The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses. Whereas corporate-level general managers are concerned with strategies that span individual businesses, business-level managers are concerned with strategies that are specific to a particular business.

Functional-Level Managers

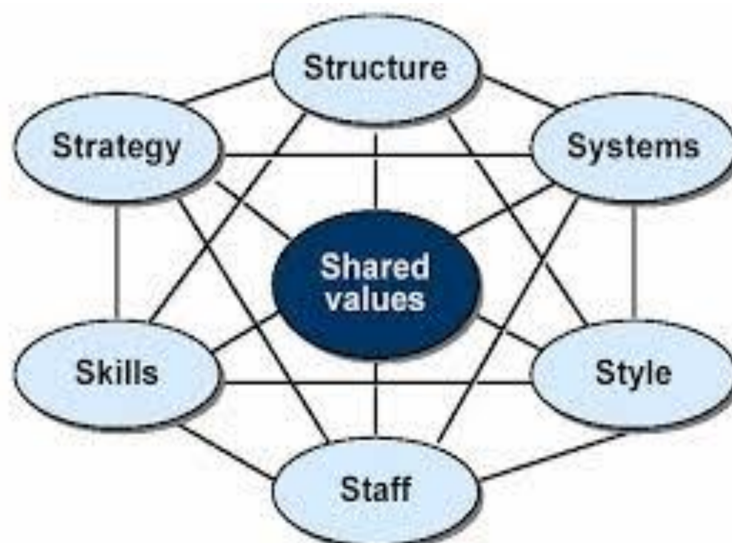
Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity, whereas general managers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organization, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfill the strategic objectives set by business- and corporate-level managers.

7 'S' FRAMEWORK

McKinsey 7s model is a tool that analyzes firm's organizational 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 organization to achieve its objectives.

McKinsey 7s model was developed in 1980s by McKinsey consultants Tom Peters, Robert Waterman and Julien Philips with a help from Richard Pascale and Anthony G. Athos. 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 organizational 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.



- **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

- **Structure** represents the way business divisions and units are organized and includes the information of who is accountable to whom. In other words, structure is the organizational chart of the firm. It is also one of the most visible and easy to change elements of the framework.

- **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 organizational change.

- **Skills** are the abilities that firm's employees perform very well. They also include capabilities and competences. During organizational change, the question often arises of what skills the company will really need to reinforce its new strategy or new structure.

- **Staff** element is concerned with what type and how many employees an organization will need and how they will be recruited, trained, motivated and rewarded.

- **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.

- **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 organization.

CHAPTER-2

STRATEGIC INTENT

Strategic intent is the term used to describe the aspirational plans, overarching purpose or intended direction of travel needed to reach an Organisational vision. Beneficial change results from the strategic intent, ambitions and needs of an organisation.

- Vision
- Mission
- Business definition
- Business model
- Goals and objectives

  Strategic intent lays down the framework within which firms would operate, adopt a predetermined direction and attempt to achieve their goal.

VISION

The vision statement answers the question "**What do we want to become?"**

A clear vision provides the foundation for developing a comprehensive mission statement. Many organizations have both a vision and mission statement, but the vision statement should be established first and

foremost. The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement.

Definition

Kottler, "vision means description of something in future".

FOR EXAMPLE
General Motors' vision is to be *the world leader in transportation products and related services.*

PepsiCo's responsibility is to continually improve all aspects of the world in which we operate—environment, social, economic— *creating a better tomorrow than today.*

Dell's vision is to *create a company culture where environmental excellence is second nature.*

BENEFITS OF HAVING A VISION

- Good vision is inspiring and exhilarating.
- Good vision helps in the creation of common identity and shared sense of purpose.
- Good visions are competitive, original and unique.
- Good vision foster long term thinking.
- Good vision foster risk taking and experimentation.

MISSION

Mission statement answers the question "***What is our business***?"

A well-conceived mission statement defines the fundamental, unique purpose which sets a company apart from the other firms of its type and identifies the scope of the firm's operation in terms of the product/ services offered and the markets served. It may also include the firm's philosophy about how it does the business and treats the employees. It puts into words not only what the company is now, but also what it wants to become- management's strategic vision of the firm's future.

For example, the mission of Kodak is *to provide "customers with the solutions they need to capture, store, process, output, and communicate images—anywhere, anytime.*"

In other words, Kodak exists to provide imaging solutions to consumers.

This mission focuses on the customer needs that the company is trying to satisfy rather than on particular products. This is a customer-oriented rather than a product-oriented mission. An important first step in the process of formulating a mission is to arrive at a definition of the organization's business. Essentially, the definition answers these questions:

- **"What is our business?**
- **What will it be?**
- **What should it be?"**

Characteristics of an Effective Mission Statement

1) Clarity

It should be clear and easy to understand the philosophy and purpose of the organization. It should be clear to everyone in the organization so that it acts as a guide to action. However, it is to be noted that clear mission statement by itself does not ensure success; it only provides a sense of purpose and direction.

2) Feasibility

It should not state impossible tasks. A mission statement should always aim higher but not impossible goals. It should state a purpose which should be realistic and attainable. A company should always consider its abilities and resources before making a mission statement.

3) Current

It may become outdated after sometime. A mission statement may hold good for a certain number of years say 10 year. Very few definition of purpose and mission of a business have anything like a life expectancy of thirty, let alone fifty years. It should be modified or revised taking into consideration the change in the internal and external environment.

4) Enduring

It should be a motivating force guiding and inspiring the individuals in the organization for higher and better performance. For instance, mission statement of education institution may state "higher and still higher achievements" may motivate the individuals in the institution.

5) Distinctive

It should be unique and distinctive. It should not appear similar as compared to the other competitors or companies. It is true that the

mission statement of most companies aim higher in terms of market share, service to the customers, quality products & service, but the drafting of the mission statement must be done in such words that it brings uniqueness to the mission statement.

6) Precise

It should contain few words and not a very long statement. It should sound good and look good. It should be a very attractive statement. This does not mean that it should contain only two to three words.

7) Comprehensive

It should be comprehensive in nature. It should indicate the philosophy, the purpose and the strategy to be adopted to accomplish it. It should not only state only philosophy or purpose.

How does Mission Statement help a firm? (Importance)

- It provides direction in planning and in setting objectives of the firm.
- It helps the personnel at various levels in the organization to understand the direction in which they should move.
- It helps the firm to focus on the customers as the very basis of the business is the customer.
- It helps the firm to respect and reward the individuals i.e. employees, the shareholders, customers, suppliers and other members of the society who are involved in some way or the other with the organization.
- It not only helps in setting objective but also in framing policies and strategies of the firm.
- A mission statement establishes a sound organizational culture.

BUSINESS DEFINITION

It explains the business of an organization in terms of customer needs, customer groups and alternative technologies.

Oerik Abell suggests defining business along the three dimensions of customer groups, Customer functions and alternative technologies. They are developed as follows:

(i) Customer groups are created according to the identity of the customers.

(ii) Customer functions are based on provision of goods/services to customers.

(iii) Alternative Technologies describe the manner in which a particular function can be performed for a customer.

BUSINESS MODEL

A business model could be defined as '***a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network'.***
Business model are often expressed in the form of a question: how does the organization make money? A kirana dukan (provisional store) owner buys commodities and products at a price and then applying a mark-up price, sells them at retail prices thus earning revenue and profit.

Business model have an intimate relationship with the strategy of an organization. Strategies result in choices; a business model can be used to help analyse and communicate these strategic choices. Companies in the same industry competing with each other can rely on different business model as a matter of strategic choice.

Example:
Bharti Airtel's business strategy is to differentiate itself in India's competitive communications environment by ensuring customer delight through personalized customer service and accomplishing this through a high cost-effective business model.

GOALS AND OBJECTIVES

Goals denote what an organization hopes to accomplish in a future period of time.

A **goal** is a precise and measurable desired future state that a company attempts to realize. The purpose of goals is to specify with precision what must be done if the company is to attain its mission or vision.

Well-constructed goals have four main characteristics:

1. They are ***precise and measurable***. Measurable goals give managers a yardstick or standard against which they can judge their performance.
2. They ***address crucial issues***. To maintain focus, managers should select a limited number of major goals to assess the performance of the company. The goals that are selected should be crucial or important ones.
3. They are ***challenging but realistic***. They give all employees an incentive to look for ways of improving the operations of an organization. If a goal is unrealistic in the challenges it poses, employees may give up; a goal that is too easy may fail to motivate managers and other employees.
4. They ***specify a time period*** in which the goals should be achieved, when that is appropriate. Time constraints tell employees that success requires a goal to be attained by a given date, not after that date. Deadlines can inject a sense of urgency into goal attainment and act as a motivator. However, not all goals require time constraints.

Objectives are the ends which the organization intends to achieve through its existence and operations. Organizational objectives vary from organization to organization.

Objectives play an important role in the functioning of any organization. Objectives provide the basis for strategic decision making. It provides the basis for planning, organizing, co-ordinating, direction and control. Therefore, there is a need to setup clear and well defined objectives.

Significance/ Importance of Business Objectives

1) Help in Defining the Organization

Objectives help in defining the organization in its environment. By stating its objectives, an organization commits itself to what it has to achieve for the members of the society i.e. the government, customers, suppliers, dealers and even the employees recognize the organization through its objectives.

2) Facilities Planning

Listing of objectives helps the organization to plan its activities. Planning involves setting of objectives and then framing short range and long range plans so as to undertake the various activities to accomplish objectives. Without framing proper objectives, it is not possible to frame the plans.

3) Facilities Direction

Objectives provide direction to the employees to undertake the various activities in the organization and employees know the right direction in which they are moving.

4) Provide basis for evaluation

Objectives help in evaluation and control. Objectives provide a standard against which actual performance can be evaluated. If deviations take place, the organization can adopt suitable control measure. In the absence of objectives an organization would have no clear basis for evaluating its performance.

5) Facilities decision making in all functional areas

Objective facilitates systematic decision making on the part of the managers in the organization. Decision making in all the functional areas like marketing, production, finance and personnel is facilitated due to the presence of objectives. In the absence of well-defined objectives, the decision making process would be hampered.

6) Reduce wastages

Proper objectives help to reduce wastage in the organization. All the resources in the organization are put to proper use, wastages are avoided or minimized.

7) Develops team work

Well defined objectives facilitate team work in the organization. The members of the organization work in close cooperation with each other to attain the goals.

Team work brings success to the organization.

8) Generates higher efficiency

When objectives are set properly there can be proper organizing and utilization of resources. This would result in higher efficiency both in terms of quality and quantity in the organization.

9) Ensures survival and success of the firm

Objectives facilitate the implementation of strategies in the organization. Proper implementation of strategies ensures survival and success of the organization.

10) Ensures proper organizing of resources.

Objectives provide the target to be achieved over a period of time. Depending on the targets, the organization can make proper arrangement of physical, financial and human resources. In the absence of a well-defined objective, manager may not be able to organize the right amount of resources.

Corporate Social Responsibility

Business is basically an economic activity merely on profit maximization. It is a group effort, as there is participation directly or indirectly, of the workers, management, customers, shareholders, government and the society. Business cannot function independently and depends on the society for supply of raw materials, capital, labor and other requirements.

Therefore, there is a need to have social responsiveness in strategic management. This is because greater social responsiveness means good business.

Beyond making profits, companies are responsible for the totality of their impact on people and the planet. "People" constitute the company's stakeholders: its employees, customers, business partners, investors, suppliers and vendors, the government, and the community. Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their business. In the business community, CSR is alternatively referred to as "corporate citizenship," which essentially means that a company should be a "good neighbor" within its host community

Social Responsibility towards Various Groups

Responsibility towards Employees

The survival and success of a business depends upon the quality and commitment of its human resources. Therefore a business organization needs to fulfill its social responsibility towards its employees in the following manner.

- The Company should provide job security to its employees
- Employees should be paid proper and timely wages and other monetary incentives

- The Company should take adequate measures to protect the health and life of the employees.
- The workers should be provided with good working condition such as good lighting, ventilation, proper working hours and soon.
- The Company should adopt proper personnel policies relating to training, transfer, promotion, performance appraisal etc.
- There should be proper grievance procedure to handle employee's complaints.
- The management should recognize the rightful trade union, representing majority of the workers.

Responsibility towards Shareholders

- The corporate should indulge in optimum utilize the funds.
- The management should make a proper disclosure regarding the affairs of the company.
- The management should provide periodic information about important happening or development in the company.
- The shareholders would appreciate if the company directors indulge in fair practices on the stock exchange
- The corporate should provide fair return on their investment.

Responsibility towards Customers

- The Company should produce quality goods
- The Company should charge fair price.
- The Company be honest in advertising and information
- The Company should make the goods available regularly and not create artificial shortage to raise prices
- The firm must provide goods and after sales services also

- The Company should deal with the complaint of the customers immediately.
- The Company should do healthy competition in the market and not monopolistic hold over the market by one dominant seller.

Responsibility towards Society

- The Company should take all possible measures to prevent air, water and soil pollution
- The business firms should make indiscriminate use of the scarce resources in the interest of the society
- The society expects that companies should make efforts to uplift backward areas by starting and developing industries in such areas.
- The business firms should uplift the weaker section of the society by making efforts to provide jobs and also social activities
- The society expects that the companies should work for communal harmony and not to participate in anti-social activities.
- Business firm should donate generously to various social causes such as eradication of poverty, illiteracy etc.

Responsibility towards Government

- The government expects co-operation and financial assistance from the business sector in implementing socio economic programs
- The government expects the business sector to pay taxes and duties regularly
- The business firms should strictly follow government's rules and regulations
- The business firms should work toward political stability in the country

- The business forms should avoid seeking unfair favor from government authorities
- The corporate sector should provide assistance to the government during natural calamities.

EXAMPLES

- BMW holds its pride in being one of the most socially responsible companies in its industry. They plan to do this by creating programs such as “The Schools Environmental Education Development Project” to help raise awareness of social and environmental issues.

- Everyone recognizes Twitter as one of the leading social media networks. In 2010, Twitter launched *The Fledgling Initiative* campaign to support Room to Read, a non-profit organization promoting literacy among children.

UNIT 2

Environmental Analysis

Environment refers to all those forces or factors that influence various decision of the firm. A firms environment consists of internal environment & external environment, both these environments help to determine the strength, weakness, opportunity & threat.

An environmental analysis, also called an environmental scan, is a strategic tool used to identify and assess all external and internal elements in a business environment. It examines organizational and industry factors that can positively or negatively affect the business.

Components of Business Environment

The various components or factors of business environment can be broadly divided in to two groups

- **Internal Environment**
- **External Environment**

Internal Environment

Firm's Internal Environment consist of its Plan, Policies, Resources, Relations & other factors which affect its working. The following are some of the important factors of internal environment.

1. Management Philosophy

It greatly influence the working of a business firm, the management may adopt a traditional philosophy or a professional philosophy Traditional approach places emphasis on family management &normally uses outdated techniques or practices, there is not much emphasis on social responsibility Professional approach gives importance to professionalism in management & social responsibility towards various members of the society.

2. Mission & Objective

The objective of the firm must be consistent with the mission statement therefore it is always advisable to frame a mission statement and then list out the various objectives.

An analysis of the internal environment will enable the firm to find out whether the objectives are in line with the mission statement & it will help the firm to know if the objectives are accomplished or not. If a firm is not in a position to accomplish its objective then it is a sign of weakness of the firm so necessary measures need to be taken to accomplish the objective

3. Plan & Policies

The plan and policies of the firm must be in line with its objectives as far as possible, a firm should frame proper plans &policies taking in to consideration the objectives and resources. The analysis of the internal environment will help the firm to know the appropriateness of its plans

and policies **e.g** a firm may be placing to much emphasis on seniority as the basis for promotion instead of merit as the basis, after the analysis the firm may reframe the personal policy of promotion in favour of merit rather than seniority

4. Human Resource

The survival and success of the firm largely depends on the quality of human resource, the knowledge, attitude, skills & social behaviour of the employee greatly affect the working of the business firm. Therefore a firms need to have not only experience & qualified workforce but also a highly dedicated &motivated team. An analysis of the environment in respect to human resources would reveal the shortcomings and measures can be taken to correct such weakness

5. Physical Resources

It includes machines, buildings, equipment, office premises, furniture & fixture etc. A firm need adequate and quality physical resources , appropriate resources bring job satisfaction improve quality & quantity of production, an analysis may reveal the weakness of the physical resources and corrective measures can be taken.

6. Financial Resources

It relates to monetary resources, a firm needs adequate working capital as well as fixed capital, there is a need to have proper management of working & fixed capital. The firm should obtain the funds from the right sources at lowest possible cost.

An analysis of financial resources would reveal the strength or weakness if weakness is detected the firm should take adequate measures to improve the financial strength of the firm.

7. Corporate image

A firm should develop, maintain &enhance a good corporate image in the minds of employees, investors, customers & others. Poor corporate image is a weakness thus a firm should undertake an analysis of its image if problem is detected corrective measures should be taken

8. Labour Management Relations
There should be excellent relations between the management and workers (unions) they should work as a team to achieve the objective of the firm. If the analysis reveals any issues immediate measures should be taken to improve labour management relations.

External Environment
The external business environment also plays an important role in the survival & success of a business enterprise. There is a constant need to analyze the external environment so as to find out the opportunities & threats.
The external environment can be divided in to two groups
- **Micro Environment**
- **Macro Environment**

Micro Environment
Micro environment consists of all those factors in the Firm's immediate environment.

1. The Customers
The Customer is one of the most important factors in the firm's external environment. The Consumers affect most of the business decisions. The Customers' Needs, Wants, Preferences and Buying behaviour must be studied in order to frame proper production and marketing strategies.
Nowadays, Customers' expectations are high. They expect new and better goods. Their taste and preferences do change. They expect a Company to provide quality goods at reasonable prices. Therefore the firm must keep in mind the customer's expectations and requirements and accordingly make market decisions.

2. The Competitors
The Company has to identify and monitor its competitor's activities. Information must be collected about Competitors in respect of their prices, products, promotion and distribution strategies. Such information

will enable the Firm to analyse the strengths and weaknesses of the competitors. The Firm has to take adequate measures to win over the confidence of the customers in its favour.

3. The Suppliers

Suppliers supply raw materials, machines, equipments and other resources, Such purchases do have a direct impact on the Firm's marketing decisions. The Company has to keep a watch over prices and quality of materials and machines supplied by the suppliers, The Company has to maintain good relations with them to supply quality items at the right price and at the right time.

4. Channel Intermediaries

Dealers and other Intermediaries in the chain of distribution are important factors in the Firm's immediate environment, The Firm has to select and satisfy its dealers in order to push and promote its products in the market. Nowadays dealer recommendations play an important role to convince buyers to buy products, especially in the case of consumer durables. The Firm has to monitor and motivate the Dealer to push and promote its products and also to obtain timely feedback about consumers' tastes, preferences etc.

5. Society

The Society may also affect Company's decisions. The Society can either facilitate or make it difficult for a Company to achieve objectives. Professional business firms maintain Public Relations Departments to handle complaints, grievances and suggestions from the general public. The various members of the Society include Financial Institutions and Banks --- affect Firm's ability to obtain funds.

 Media --- affect the goodwill of the Firm through their favourable or unfavourable reporting about the Company,

 Government --- affect the Firm's decisions through its policies, rules and regulations etc.

Macro environment

Macro environment consists of the Societal factors that affect the working of a Firm. It relates to the demographic, economic, natural, technological, political, cultural international and legal forces. The various macro environment factors are :

1. Demographic Environment

It studies human population with reference to its size, density, literacy rate, life expectancy, sex ratio, rural-urban divide, age composition, occupation etc. Since business deals with people, business firms have to study in detail the various demographic factors which would help them to frame proper production and marketing strategies.

2. Economic Environment

A business firm closely interacts with its economic environment, which consists of

- Economic conditions in the market.
- Economic policies of the Government.
- Economic system of the Country.

Business firms should have a good idea about the economic conditions in the market i.e. demand and supply factors. They must have good knowledge of government policies in respect of taxation, foreign trade, money market etc.

Natural (Ecological) Environment

It relates to natural resources like land, water, minerals etc. In doing so, two things happen

- Erosion of natural resources
- Pollution of resources like air, water etc.

Business firms should understand the above two effects and take necessary Measures to control erosion and pollution of natural resources. They may search for alternative resources such as solar energy, recycling of waste etc. They should produce environment friendly and consumer health oriented products.

3. Technological Environment

These are constant technological developments. Business firms must constantly monitor changes in the technological environment. This is because a change in technology may have an impact on the Firm's business. As such, business firms should make efforts to adapt and adjust to new technological development so as to survive and succeed in the competitive business world.

4. Political Environment

Business decisions are greatly influenced by the developments in the political environment. This environment consists of government agencies, political parties and pressure groups that influence and control various individuals and organisations in a society. A change in the government brings about a change in Attitude, preference, objectives and priorities. Business firms need to keep a track of all political events, anticipate changes in government policies and frame production and marketing changes accordingly.

5. Cultural Environment

This involves knowledge, beliefs, morals, laws, customs and other such elements which are acquired by individuals and groups in a society. The Cultural norms and values are passed along from one generation to another through institutions like family, schools, colleges and religion etc. Culture is deep rooted in people. However slow and gradual changes are taking place in our cultural environment. Western cultures are influencing Indian consumers, especially the young generation. Their lifestyles, taste and preferences are changing and as such business firms should make a note of such changes so as to serve their customers with appropriate goods and services.

6. Legal Environment

Legal environment includes Laws which define and protect the fundamental rights of individuals and organisations. Business needs legal support to

- Protect Firms by defining and preventing unfair competition,
- Protect Consumers from unfair business practices.

- Protect the interest of various members of the society such as employees, investors, suppliers, dealers etc.

Business firms must have up to date and complete knowledge of the laws governing production and distribution of goods and services.

SWOT Analysis

SWOT Analysis is the primary step in Strategic Management.
SWOT Analysis refers to analysis of the **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. The analysis of Internal environment reveals strengths and weaknesses of the organisation, and the analysis of the External environment reveals opportunities and threats for the organisation.

- **Strengths** are positive competencies of a Firm as compared to its competitors in the areas of Production / Operations, Marketing, Finance, Personnel and Management. Every Firm should make an attempt to consolidate its Strengths.
- **Weaknesses** are the negative competencies of a Firm as compared to its competitors in all the functional areas of the Organisation. Every Firm should make efforts to minimize its weaknesses.
- **Opportunities** are the favourable circumstances or the situations which the External environment offers or provides to Organisations. Every Firm should make an attempt to grab the right opportunities at the right time.
- **Threats** are the unfavourable situations which the External environment provides to the Organisation. Every Firm must make efforts to overcome or minimize the effect of threats. SWOT Analysis provides a framework for strategic planning and decision making. A wide array of systematic decisions can be made based on the SWOT Analysis.

	Opportunities (external, positive)	**Threats** (external, negative)
Strengths (internal, positive)	**Strength-Opportunity strategies** Which of the company's strengths can be used to maximize the opportunities you identified?	**Strength-Threats strategies** How can you use the company's strengths to minimize the threats you identified?
Weaknesses (internal, negative)	**Weakness-Opportunity strategies** What action(s) can you take to minimize the company's weaknesses using the opportunities you identified?	**Weakness-Threats strategies** How can you minimize the company's weaknesses to avoid the threats you identified?

Advantages of SWOT Analysis

1. Consolidate Strengths

SWOT Analysis pinpoints the strengths of the Organisation vis-a-vis the Competitors. The Strengths may be in respect of its various functional areas such as Production, Marketing, Finance and Personnel. For instance, the employees may be highly motivated and dedicated to their work, as a result of which the Firm enjoys high labour productivity. Sound business firms will not be just satisfied in knowing their strengths, they would also make every possible effort to consolidate on their strengths, as yesterday's strengths may turn to be tomorrow's weaknesses, especially when the firm adopts a casual approach towards its strengths.

2. Minimize Weaknesses

SWOT Analysis pinpoints not only the strengths but also the weaknesses of the Organisation vis-a-vis the Competitors. The Weaknesses may be in any or many of its functional areas such as Production, R & D, Finance, Purchase, Marketing etc. For instance the Firm may lack proper

R & D facilities as a result of which the Firm may not be in a position to improve its quality and also fail to bring innovative or new products in the market, which in turn affects its market position and profits.

3. Help to Grab Opportunities

Through SWOT Analysis, business firms continually tune in to the environmental forces that influences the demand for existing products and services and that creates opportunities for new ones. Firms need to identify correctly or to anticipate all the developments that would influence the future and to be ready for the resulting opportunities.

4. Minimizes Threats

SWOT Analysis not only helps to grab opportunities, but it also helps to minimize threats. Foresighted management can anticipate threats from the environment such as from the technological fronts and gear up to face the threats by remaining proactive. It helps business firms to develop an early warning system to prevent threats or to develop strategies, which can change a threat to a firm’s advantage. Thus a business firm may close down existing business and enter into new ones before it is too late.

5. Facilities Planning

SWOT Analysis help the management to recognize that many products and services have life cycles and that today’s winners may be losers in the course of time, and thus, it can plan for the successors – tomorrow’s breadwinners. The management can plan for the resources to produce and market their successors to a receptive environment.

6. Facilitates Alternative Choices

SWOT Analysis helps business firms to narrow the range of alternatives available, eliminate unsuitable alternatives & process most promising alternatives. It helps business firm to reduce time pressure & to concentrate on those areas or activity which are more important & result oriented.

7. Helps to Innovate

A proper SWOT analysis makes the firm innovative, business firm anticipates changes in the business and the industry. A considerable amount of time & effort are devoted to R&D activities by progressive firms to face the threats/changes in the environment, such R&D efforts leads to innovation of new or better products

8. Ensure Survival & Success

SWOT analysis enables firms to survive & succeed this is because firms which undertake systematic SWOT analysis make every possible effort to overcome weakness & to consolidate on the strength, such firms also make efforts to grab opportunities & handle or diffuse threats

External Factor Evaluation (EFE) Matrix

A business organisation must evaluate external factors such as Economic, Social, Cultural & Political environment, as well as Government, Legal, Technological and the Competitive environment. An organisation must develop EFE matrix to identify opportunities & threats. The following are the steps in developing EFE matrix

Need for Environmental Analysis

- **Ensure Survival & Success**

  The ability to deal well with the environment has enabled organisation to survive and succeed despite certain weakness. Correspondingly some of the best managed companies expanding vital efforts & resources in the direction not in tune with a changing environment do face difficulties & even disaster.

- A failure to respond to changes in the environment results in the eventual failure of the organisation no matter how well it might have been operated internally.

- **Facilities Planning**
  Environmental analysis helps the management to recognise that many products and services have life cycle, today's winner may be loser in the course of time hence the planning for their successors is important, the management can plan for the resources to produce and market these successors to a receptive environment

- **Help to grab Opportunities**
  Business organisation continuously tunes into the environmental forces that influence the demand for existing product & service thus creating opportunities for new one, firms need to identify correctly or to anticipate all the development that would influence the future so as to be ready for the resulting opportunities

- **Minimize Threats**
  A proper environmental analysis not only helps to grab opportunities but also helps to minimize threats. Farsighted management can anticipate threats from the environment such as from the technological front and gear them to face the threats by remaining proactive, it helps a firm to develop an early warning system to prevent threats or develop strategies which can turn a threat to the firms advantage.

- **Build Image**
  Business firms needs to be popular and earn a good name in the society, this is possible when they not only study the environment and adapt to it but also strive to make the environment hospitable to the growth of the business

- **Helps in Innovation**

Business firm anticipate A considerable amount of time & effort is devoted to R&D activities by progressive firms to face the threats/changes in the environment, such R&D efforts leads to innovation of new or better products & services.

- **Ecological Balance**
  Business firms are aware of depletion of resources and pollution of environment through industrial waste, therefore sound business firms look for newer resources or alternate resources they also take adequate measures to minimize the pollution effect on the environment by recycling waste

- **Optimum Use of Resources**
  A study of technological development, government policies, demographic pattern etc will help a business firm to plan its activities & allocate the limited resources in a better way. A systematic analysis of business environment helps s business firm to make optimum utilization of limited resources and meet the ever increasing and changing need of the consumer

- **Flexibility in Operation**
  The environmental factors are uncontrollable & a business firms finds it difficult to influence the surrounding of its choice, a study of environment will enable a firm to adjust its operation depending upon the changing environmental situation.

- **Help to face Competition**
  A study of business environment enables a firm to analyze the competitors' strengths and weakness, this would help the firm to incorporate the competitors' strengths in its working and exploit the competitor's weakness in its favour this can be done thru effective production and marketing strategies.

Organizational Appraisal

Dynamics of Internal Environment

An organization uses different types of resources and exhibits a certain type of behavior. The interplay of these different resources along with the prevalent behavior produces synergy or antagonism within an organization, which leads to the development of strengths or weakness over a period of time.

Some of these strengths make an organization especially competent in a particular area of its activity causing it to develop competencies. Organizational capability rests on an organization's capacity and the ability to use its competencies to excel in a particular field, thereby giving it a strategic advantage.

The resources, behavior, strengths and weaknesses, synergic effects and competencies of an organization determine the nature of its internal environment.

Following is the diagram showing the framework that we adopt for an explanation of the process of development of strategic advantage by an organization

Organizational Resources

The dynamics of the internal environment of an organization can be best understood in the context of the resources-based view of firms or the resources-based theory of strategy. A firm is a bundle of resources, tangible and intangible, that include all assets, capabilities, organizational process, information, knowledge etc. These resources could be classified as physical, human and organizational resources. The physical resources are the technology, plant, and equipment, geographical location etc. present in an organization. The organizational resources are the formal systems and structures as well as informal relation among group.

Organizational Behavior

IT is the manifestation of the various forces and influences operating in the internal environment of an organization that create the ability for, or

place constraints on the usage of resources. Organizational behavior is unique in the sense that it leads to the development of a special identity and character of an organization. Some of the important forces and influences that affect organizational behavior are the quality of leadership, management philosophy, shared values and culture, quality of work, environment and organizational climate, organizational politics, use of power etc.

Strengths and Weaknesses

Organizational resources and behavior do not exist in isolation. They combine in a complex fashion to create strengths and weakness within the internal environment of an organization. Strength is an inherent capability which an organization can use to gain strategic advantage. A weakness, on the other hand is an inherent limitation or constraint which creates a strategic advantage for an organization.

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

Synergetic Effects

It is inherent nature of organizations that strengths and weaknesses, like resources and behavior, 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 mathematically but combine to produce an enhanced or a reduced impact. Such phenomenon is known as the synergistic effect. Synergy is an idea that the whole is greater or lesser than the sum of its part. It is also expressed as the “Two plus two is equal to five or three” effect.

Competencies

On the basis of its resources and behavior, an organization develops certain strength and weakness which when combined lead to synergistic effects. Such effects manifest themselves in terms of organizational

competencies. Competencies are special qualities possessed by an organization that makes them withstand the pressures of competition in the market place. In other words the net results of the strategic advantages and disadvantages that exist for an organization determines its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core competencies, invisible assets, embedded knowledge etc.

When an organization develops its competencies over a period of time and bones them into a fine art of competing with its rivals, it tends to use these competencies exceedingly well. The capability to us the competencies exceedingly well turns them into core competencies.

When a specific ability is possessed by a particular organization exclusively or relatively in large measure, it is called a distinctive competence.

Organizational Capability

Organizational capability is the inherent capacity or potential of an organization to use its strengths and overcome its weaknesses in order to exploit the opportunities and face the threats in its external environment. It is also viewed as a skill for coordinating resources and putting them to productive use. Without capability, resources even though valuable and unique, may be worthless.

Since organization capability is the capacity or potential of an organization, it means that it is a measurable attribute. And since it can be measured, it follows that organizational capability can be compared yet, it is very difficult to measure organizational capability as it is, in the ultimate analysis, a subjective attribute. As an attribute, it is the sum total of resources and behavior, strengths and weakness, synergistic effects occurring in and the competencies of any organization.

Capabilities are the outcomes of an organization’s knowledge base i.e. the skill and knowledge of its employees. There is a growing body of opinion that considers organizations as reservoirs of knowledge, in which case they are all learning organizations.

Strategic and Competitive Advantages

Strategic advantages are the outcomes of organizational capabilities. They are the result of organizational activities leading to rewards in terms of financial parameters, such as profit or shareholder, value and/ or non-financial parameters, such as market share or reputation. In contract, strategic disadvantages are penalties in the form of financial loss or damage to market share. Clearly such advantages or disadvantages are the outcome of the presence or absence of organizational capabilities. Strategic disadvantages are measurable in absolute terms using the parameters in which they are expressed. So, profitability could be used to measure strategic advantage. Higher the profitability better is the strategic advantage. They are comparable in terms of historical performance of an organization over a period of time or its current performance with respect to its competitors in the industry.
Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measure. So, outperforming rival in profitability or market standing could be a competitive advantage for an organization. Competitive advantage is relative rather than absolute and it is to be measured and compared with respect to other rivals in the industry.

Organizational Capability factors

Capabilities are most often developed in specific functional areas such as marketing or operations or in a part of a functional area such as distribution or research and development. It is also feasible to measure and compare capabilities in functional areas.
Thus, a company could be considered as inherently strong in marketing owing to a competence in distribution skills or a company could be competitive in operations owing to superior research and development infrastructure.
Organizational capability factors are the strategic strengths and weaknesses existing in different functional areas within an organization, which are of crucial importance to Strategic formulation and implementation. Other terms synonymous to organizational capability

factors are strategic factors, strategic advantage factors, corporate competence factors etc.
We now describe capability factors in the six functional areas of finance, marketing, operations, personnel, information and general management. For each capability factor, we first define that factor, point out some of the important elements that support capability in an area, give a few illustrations of typical strengths and lastly, provide a few examples from real life business situations to help enhance your understanding.

Financial Capability
Financial capability factors relate to the availability, usages and management of funds and all allied aspects that have a bearing on an organization's capacity and ability to implement its strategies.
Some of the important factors which influence the financial capability of any organization 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 tenders, 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 organization.

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 organizations capacity and ability to implement its strategies.

Some of the important factors which influence the marketing capability of an organization are as follows.

a. Product related factors: Variety, differentiation, mix quality, positioning, packaging etc

b. Price related factors: Pricing objectives, policies, changes, protection, advantages etc.

c. Place related factors: Distribution, transportation and logistics, marketing channels, marketing intermediaries etc.

d. Promotion related factors: Promotional tools, sales promotion, advertising, public relations, etc.

e. Integrative and systematic factors: marketing mix, market standing, company image, marketing organization, marketing system, marketing management information system etc.

Operations Capability

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

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

a. Factors related to the production system: Capacity, location, layout, product or service design work systems, degree of automation, extent of vertical integration etc.

b. Factors related to the operations and control system: Aggregate production planning, material supply, inventory cost and quality control, maintenance systems and procedures etc.

c. Factors related to the R & D System: Personnel facilities, product development, patent rights, level of technology used, technical collaboration and support etc.

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 organization’s capacity and ability to implement its strategies. Some of

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

a. Factors related to the personnel system: Systems for manpower planning, selection, development, compensation, communication and appraisal, position of the personnel department within the organization, procedures and standard etc.

b. Factors related to the organizational and employee, Corporate image, quality of managers, staff and workers perception about an image of the organization as employer, availability of development opportunities for employees, working conditions etc.

c. Factors related to industrial relations Union management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale etc.

Information management capability

Information management capability factors relate to the design and management of the flow of information from outside into and within an organization's capacity and ability to implement its strategies.

Some of the important factors which influence the information capability of an organization are as follows.

a. Factors related to acquisition and retention of information sources, quality, quantity and timelines of information, retention capacity and security of information.

b. Factors related to processing and synthesis of information database management, computer systems, software capability and ability to synthesize information.

c. Factors related to retrieval and usage of information. Availability and appropriateness of information formats and capacity to assimilate and use information

d. Factors related to transmission and dissemination.

e. Integrative Systemic and supportive factors: Availability of IT infrastructures, its relevance and compatibility to organizational needs, up gradation of facilities, willingness to invest in state of the art systems, availability of computer professionals and top management support

General Management Capability

It relates to the integration, co-ordination and direction of the functional capabilities towards common goals and allied aspects that have a bearing on the organization's capacity and ability to implement its strategies.

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

a. Factors related to the general management system: Strategic management system, processes related to setting strategic intent, strategy formulation and implementation machinery, Strategy evaluation system management information system, corporate planning system, rewards and incentives systems for the top managers etc.

b. Factors related to general manager orientation, risk-propensity, values, norms, personal goals, competence, capacity for work, track record, balance of functional experience, etc.

c. Factors related to external relationship: Influence on and rapport with the government, regulatory agencies and financial institution, Public relations sense of social responsibility, philanthropy, public image as corporate citizen etc.

d. Factors related to organizational climate: Organizational culture, use of power, political processes, balance of vested interests, introduction , acceptance and management change, nature of organizational structure and controls etc.

Internal Factors evaluation Matrix

Every organization has its strengths and weakness. The strengths and weakness do occur in varying degrees in the functional areas such as production (Operation), marketing, finance, personnel and so on. A firm must find out its strengths and weaknesses on all its functional areas so as to minimize its weaknesses and consolidate its strengths.
An internal audit needs to be conducted in respect of strengths and weaknesses of the functional areas. A summary steps in conduction internal audit is to develop an Internal Factor Evaluation (IFE) matrix. The IFE matrix is an important tool of strategy formulation. This tool evaluates the major strengths and weaknesses in the functional areas of a business. It also provides a basis for identifying and evaluating the relationship among those areas.
The IFE Matrix can be developed through the following steps.

- **Identifying Critical success factors:**

The management must identify the critical success factors in all the functional areas. List out 10 to 15 vital factors that are essential for the success of the organization. Some of the factors may be strengths and some others may be the weaknesses. List out the strengths followed by weaknesses. As far as possible state the factors with percentages, ratios and comparative figures. For instance, market share increased by 10% net profit grew by 20% bad debts reduced to 1% of credit sales and so on.

- **Assign weight to each factor**: After specifically listing the vital internal factors, the management must assign a weight that ranges from 1.0 (All important) to 0.0 (not all important) to each factor. The weight assigned to each factor indicates the relative importance of the factor to become successful in the industry.

It is to be noted that regardless of whether a key factor is an internal strength or weakness, factors that have greatest impact on organizational performance should be assigned the highest weights. The total of all weights must come to 1.0.

- **Assign Rating to Each Factor:**

The management must assign rating to each factor. The rating may be in the range of 4 to 1.

 4 for major Strength
 3 for minor strength
 2 for minor weakness
 1 for manor weakness

It is to be rated that the ratings are company based whereas the weights are industry based.

- **Multiply Factor's weight by Rating**

After assigning appropriate rating to each vital factor, then the management needs to multiply each factor's weight by its rating.
This would enable to determine a weighted score for each factor.

- **Total weighted scores**

The weighted scores of each and every vital factor must be totaled up in order to determine the total weighted score for the firm. It is to be noted that regardless of the number of factors included in the IFE matrix, the total weighted score can range from a high of 4 to a low of 1, with the average score of 2.5. If the total weighted score is below 2.5 then it indicates a weak internal position of the firm, whereas if the total weighted score is well above 2.5 it indicates a strong internal position of the firm.

Competitive Profile Matrix (CPM)

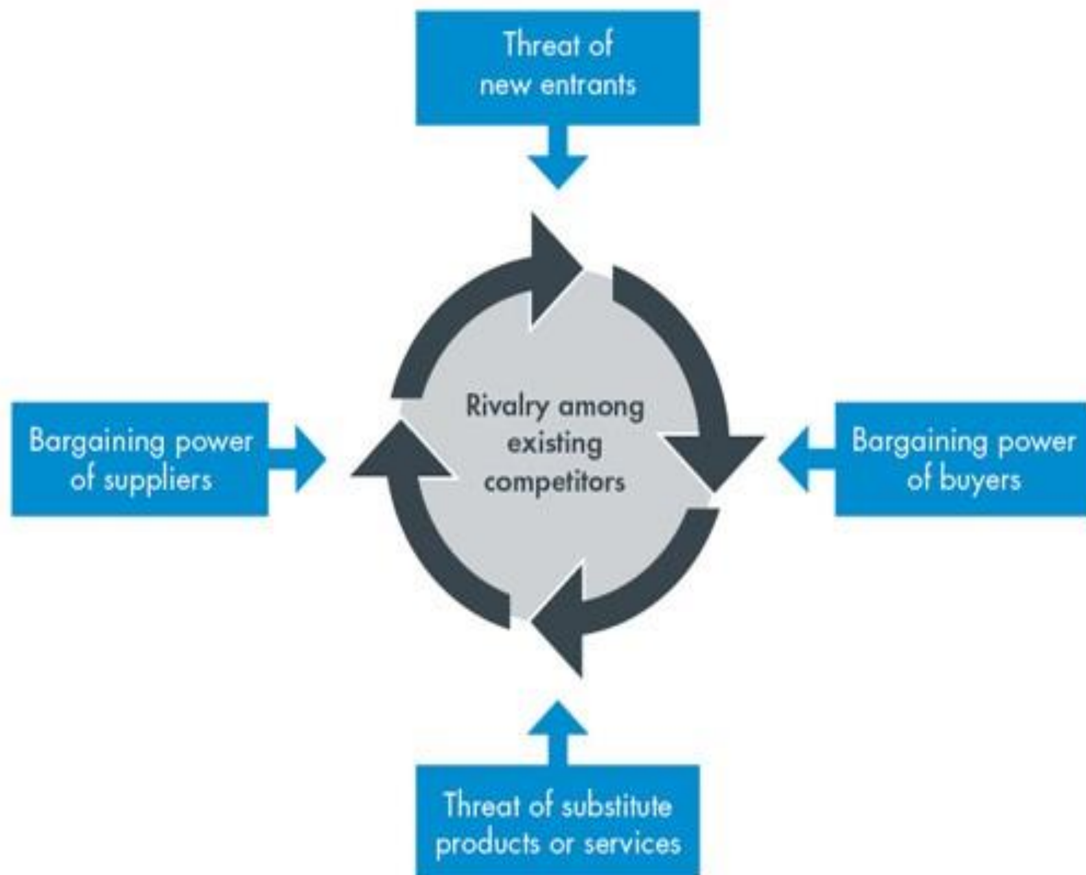
The management should develop CPM to identify firm's major competitors and their strengths and weaknesses in relation to that of the firm. The weights and total weighted scores in both CPM and IFE matrix have the same meaning. But the factors in a CPM includes both internal and external ones and ratings refers to strengths and weaknesses.

There are certain difference between IFE and CRP which are as follows:

- The critical success factors in a CPM are broader. They do not include specific or factual data and may even emphasize on internal factors.
- The critical success factors in a CPM are not grouped into opportunities and threats.
- In a CPM, the rating and total weighted scores for rival firms can be compared to the firm under study. Such comparison provides important internal strategic information.

Porter's five forces analysis

A firm is a part of the industry and therefore its working is influenced by the industry in which it operates. Michael Porter advocates that a structure analysis of industry be made so that a firm would be in a better position to identify its strengths and weaknesses. The proposed a model consisting five competitive forces, threat of new entrants, rivalry among competitors, bargaining power of suppliers, bargaining power of buyers and threat of substitute products that determine the intensity of industry competition and profitability.



1. **Threat of New Entrants**

There is always a threat of new entrants in the market, especially when an industry offers profitable prospects. The new entrants may desire to make good investments in the industry so as to get a good market share. The new entrants may take away a part of the market of the existing firms or it may gain a share of the growing market. The existing firms may be affected due to the entry of new firms in the market.

The chances of new entrants entering into the industry depend upon the entry barriers and the retaliation strategies adopted by existing firms. If the entry barriers are quite high then the potential entrants may find it difficult to enter the market. So, also if the existing firms adopt aggressive retaliation strategies, then the new entrants would find it difficult to enter the market or sustain its entry.

The entry barriers may be due to several factors such as:

- Capital requirements may be very high which may prevent new entrants from making investment.
- Product differentiation by existing firm through aggressive advertising, sales promortion and other such techniques may lead to brand loyalty and customers may not be willing to accept the products of new entrants
- Access the distribution network may be domination by existing firms through effective dealer's relationships which may act as an entry barrier for new entrants as dealers may not be willing to stock and push sales of products of new firms.
- Economies of large scale production and distribution leading to lower costs for existing firms which the new entrants may not be able to match.
- Rivalry among competitors- The desire to be a market leader or to get a larger market share leads to rivalry among the competitors. The extent of rivalry among the firms affects the intensity of competition within the industry. For instance when the rivalry is less, competition level is low and vie-versa. The rivalry in the market can affect the existing firms as well as the new entrant.

There are several dimensions of rivalry among competitors, some of which are as follows:

2. Rivalry among competitors

The intensity of rivalry among competing firms tends to increase as the number of competitors increases, as competitors become more equal in size and capability, as demand for the industry's products declines, and as price cutting becomes common. Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when consumer demand is growing slowly or declines such that rivals have excess capacity and/or inventory; when the products being sold are commodities (not easily differentiated such as gasoline); when rival firms are diverse in strategies, origins, and culture; and when mergers and acquisitions are common in the industry. As rivalry among competing firms intensifies, industry profits decline, in some cases to the

point where an industry becomes inherently unattractive. When rival firms sense weakness, typically they will intensify both marketing and production efforts to capitalize on the "opportunity."

3. **Bargaining Power of buyers**

The bargaining power of buyers either individually or collectively, also affects the position of suppliers and buyers in the industry. A high buyer bargaining power may adversely affect the existing firms as well as the newer entrants. The high buyer bargaining power may be due to

- o When the buyer places a large order
- o When several alternative sellers or suppliers are present in the market
- o When the buyer may be in a position to produce such product or components
- o When the buyer charges low prices for its products and so on.

4. **Bargaining power of suppliers**

The bargaining power of suppliers either individually or collectively can also affect the position of suppliers and buyers in the industry. A high supplier bargaining power can adversely affect the position of the buyers. The suppliers may increase the price or may force the buyer to accept whatever is provided. A high supplier bargaining power may be due to

- o When the suppliers are few in numbers
- o When the products or components supplied are unique in nature
- o When the products supplied are not critical to the survival of the supplier.
- o When the buyer buys in small quantity and therefore may not be important to supplier.
- o When the supplier may be in a position to integrate forward and use its products for the production of end product or services etc.

5. **Threat of substitute products**

The availability of close substitutes affects adversely the existing firms as well as new entrants in the market. For instance, tap water or lime

juice can be substitute for soft drinks and tea can be a substitute for coffee and so on.
Naturally those businesses where close substitutes are not available appear to be more attractive. The firms in such industries may charge higher prices and earn higher returns. However there are more chances of competition in such industries.
Business firm have to adopt suitable strategies taking into consideration, the five forces are explained above. For instance, firms may adopt expansion strategies in the case where the industry does not have close substitutes, provided such expansion can bring economies of large scale production and distribution and in turn higher returns to the firm.

Unit 3
Strategy Implementation

Introduction – Strategy Provides answers to questions like how to enhance the firm long term business position, and how to make organizations mission a reality. A Strategy may be framed at difference levels.

- A Strategy is needed for the Company as a whole (Corporate strategy)
- A Strategy is needed for each business of the Company (business strategy)
- A Strategy is needed for each functional unit of the organization (functional strategy).

Strategy alternatives revolve around the issue of whether or not to pursue or change the existing business so as to improve the efficiency of the firm.
On the basis of above explanation, there are different types of strategies

a) Intensification Strategy
b) Integrative Strategies
c) Diversification Strategies
d) Restructuring/Retrenchment Strategies

Intensification Strategies

Market penetration, market development product development and innovation are sometime referred to as intensive strategies because they require intense efforts if a firm's competitive position with existing product is to improve.

 Market penetration

A market penetration strategy seeks to increase market show for present products or services in present market through greater marketing effort. This strategy is widely used alone and in combination with other strategies market penetration includes increasing the number of sales persons, increasing advertising, expenditures, offering extensive sales production items, or increasing publicity effort.

The five guidelines indicate where market penetration may be an especially effective strategy.

 When current markets are not stature with a particular product or service.

 When the usage rate of present customers could be increased significantly.

 When the market shares of major competitions have been declining while total industry sales have been increasing.

 When the correlation between dollar sales and dollar sales and marketing expenditure historically has been high.

 When increased economies of scale provide major competitive advantages.

Market Development

Market development involves introducing present products or services into new geographic areas.

Eg:- Pepsi Co. Inc. is spending $1 billion in China from 2009 to 2012 to build more plants specifically in western & interior areas of China. Also in China, Pepsi Co is developing products for China consumers, building

a large sales force and expanding research & development efforts China is Pepsi's second largest beverage market by volume, behind the United States Pepsi owns Lay's potato chips & in China sells the chips with Beijing duck flavor Pepsi has 41% share of potato chips market in China. Pepsi rival coke, which dominates pepsi in the carbonated soft drink sector in China. Coke has a 51.9% share of the market to Pepsi's 32.6%.

Following Six guidelines indicate when market development maybe an especially effective strategy.

- When new channels of distribution are available that are reliable, inexpensive and of good quality.
- When an organization is very successful at what it does.
- When new untapped or unsaturated market exist.
- When an organization has the needed capital & human resources to manage expanded operations.
- When an organization has excess production capacity.
- When an organization's basic industry is rapidly becoming global in scope.

Product Development

Product development is a strategy that seeks increased sales by improving or modifying Present products or services. Product development usually entails large research and development expenditures. Google's new chrome OS operating system illuminates' years of money's spent on product development. Google expects chrome OS to overtake Microsoft windows by 2015.

These five guidelines indicate when product development maybe an especially effective strategy to pursue.

- When an organization has successful products that are in the maturity stage of the product life cycle the idea here is to attract satisfied customers to try new (improved) product as a result of their positive experience with the organization's present products or services.
- When an organization competes in an industry that is characterized by rapid technological developments.

- When major competitors offer better quality product at comparable prices.
- When an organization competes in a high growth industry.
- When an organization has especially strong research & development capabilities.

Integration Strategies

Integration means combining activities related to the present activity of a firm such a combination may be done on the basis of the value chain. A value chain is set of interlinked activities performed by an organization, right from procurement of basic raw materials low to the marketing of finished products to the ultimate consumers so a firm may move up or down the value chain to concentrate more comprehensively on the consumers groups and needs that it is already serving.
Integration is an expansion strategy as it involves widening of business definition of firm. It is also a subset of diversification strategy as it involves undertaking certain activities or business which the firm was not dealing earlier.

The integration strategy can be of two types
- Vertical integration – background/forward integration.
- Horizontal Integration

Vertical Integration

When an organization starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity under taken with the purpose of either supplying inputs (such as raw materials) or serving as a customer for output (such as marketing of firm's product) is vertical integration vertical could be of two types backward and forward integration. Backward integration means retreating to the source of raw material forward integration moves the organization ahead, taking it nearer the ultimate customer.

Generally, when firm integrate vertically, they do so in a complete manner i.e. they move backward or forward decisively, resulting in a full integration.

- **Horizontal integration**

When an organizational take 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 for eg Luggage company taking over its rival luggage company is horizontal integration.

A horizontal integration strategy results in a bigger size with benefit of a stronger competitive position in the industry. It may be frequently add with a view to expand geographically buying a competitors business to increase the market share or to benefit from economies of scale. Yet it does not take the organization beyond its existing business definition. It still remains in the same industry, serving the same markets & customers through its existing products, by the means of the same technologies Horizontal integration is quite similar to merge & acquisition since these are one of the means for integrating horizontally.
Eg:- Takeovers of smaller banks in order to consolidate & attain a bigger size taken over of sangli bank by ICICI bank and Unite Western bank by IDBI bank. There are many obvious benefit of adopting horizontal integration strategy are-

1. **Economics of Scale –**

Horizontal integration in variety leads to a lower cost structure by spreading over the fixed cost of operations over a large base of product, thereby reduce the per unit cost resulting in economies of scale economics of scope.
When horizontal integration result in two or more organization using the same resources base to produce a variety of product in the product range offered, it results in economics of scope. This is due to better utilization of assets.

2. **Increase Market Power –**

Bigger the size of operations enables the organization adopting horizontal ration to exercise increased market over suppliers and customers.

3. **Reduction in industry rivalry**

After horizontal integration this are fewer competition left in the industry there by reducing the intensity of industry rivalry.

Diversification Strategies

Diversification is one type of internal growth strategy. It involves entry into new products and in new diversification can be defined as entry of a firm into new product or product lines, new services or new markets, involving substantially different skills technology and knowledge.
When an established firm introduces a new product which has little or no affinity with its present product line and which may be meant for a new class of customers different from the firm's existing customers groups, the process is known as conglomerate diversification.
Eg: - book publisher going into carpet manufacturing There are two types of diversification

a) Concentric or related
b) Conglomerate or Unrelated

Concentric or related Diversification

When an organization takes up an activity in such a manner that it is related to existing business definition of one or more of a firms business either in terms of customer groups, customers functions or alternative technologies, it is concentric diversification. The relatedness is to be seen in terms of three dimensions. If the new business is in any way related to the original business in term of the customer groups served,

customers function performed or alternative technologies employed, then it is related or concentric diversification.

Concentric Diversification of three types,

- **Marketing – related concentric diversification**

A similar type of product is offered with the help of unrelated technology.

e.g :- a company in the sewing machine business diversified into kitchenware and household appliances, which are sold a chain of retail stores to family consumers. The market relatedness here is in terms of the common distribution channel for sewing machines, kitchenware and household appliances.

- **Technology – related concentric diversification**

A new type of product is offered with the help of related technology

eg – a leasing firm offering hire- purchase service to institutional customers also start consumer financing for purchase of durables to individual customers. The technology relatedness is in terms of the procedure of the financing service to institutional and individual customers.

- **Marketing – and technology related Concentric diversification**

A similar type of product or service is provided with the help of a related technology.

eg – a synthetic water tank manufacturer makes other synthetic items such as pre – fabricated doors & windows for residential & commercial establishments, sold through its hardware supplier network. The market relatedness here is in terms of the common distribution channel for water tanks & pre-fabricated doors and windows, while the technology relatedness is in the common technology of plastic processing and engineering required for manufacturing these products.

Conglomerate or Unrelated

When an organization adopts a strategy which require taking up those activities which are unrelated to the existing business definition of any of its business, either in terms of their respective customer groups, customers functions or alternative technologies, it is conglomerate diversification offering a new product manufactured through an unfamiliar technology for a new set of customers involves considerable risk. There has to be sound rationale for taking the risk of unrelated diversification. In order to understand the rationale for unrelated diversification, we need to understand the condition under which such diversification can be undertaken often strategies would embark upon diversification when their organization has excess capital. It can be only be re invested in the present business if there are chances of increasing the worth of the organization and enhancing the shareholder's valve. Thus, unrelated diversification can only be justified when the surplus cash reinvested into new ventures can generate more value for the shareholders; otherwise it is provident to return it to them.
There are several examples of Indian companies in different sectors which have adopted a path of growth & expansion through conglomerate diversification. Almost all private sector business groups, whether family owned or professional are diversified entities. The Aditya Birla Group is in a variety of unrelated business such as aluminium business process outsourcing carbon black, cement, chemicals, copper fertilizers, gas, insulators, mining, retail, software, sponge iron, telecom and textiles.

Public sector organizations even of a very large size, normally would not go beyond their core businesses. When they do so, through vertical integration, as it happens in the case of oil and gas industry. But even here, sometimes one may come across a company like Indian oil that has ventured into relating which is unrelated to its mainline business of oil.

<u>Retrenchment/ restructuring Strategies</u>

This strategy involves dropping some of the activities in a particular business or totally getting out of some of the business of the firm. This

strategy is more suitable during recession and other economic crises, so as to concentrate on important activities and business.

A firm adopting retreat strategy may drop some of its functions, products or markets. There is a need for redefining the priorities of business. The firm may sell some of its brands/ products or may simply withdraw from the market some products/ brands.

The retrenchment strategy may be adopted in different forms/ types which are –

- **Turnaround**
- **Divestment**
- **Liquidation**
- **Merger**
- **Acquisition (Take over)**
- **Joint Venture**

Turnaround Strategy

Turnaround strategy can be referred as converting a loss-making unit into a profitable one. According to Dictionary of Marketing "Turnaround means making the company profitable again"

Turnaround is possible only where the company restructure its business operation. Turnaround strategy is a broader strategy and it can include divestment or get out of certain business and sells off units or divisions.

Normally, the turnaround strategy aims at improvement in declining sale or market share and profit. The declining sales or market share may be due to several factors both internal and external to the firm. Some of these factors may include high cost of materials, lower price utilization for the goods and services increased competition, recession managerial inefficiency, etc.

Need for Turnaround Strategy –

A firm may opt for turnaround strategy in the following situations

- **Liquidity problem** – A company may be facing liquidity problem, i.e shortage of cash or liquid assets. This may be due to less inflow and arising outflow of funds.

The liquidity problem affects the working capital need of the firm.
- **Fall in market share/sales** – A firm may face the problem of declining market share, which may be due to heavy competition, or ineffective marketing and distribution of goods and services.
- **Decline in Profits** – A firm may witness decline in profits over a period of time and may start incurring losses. The losses may be due to increase in costs, and lower revenues.
- **Underutilization of plant capacity** – In case the production capacity of a plant is underutilized. This can be done by merging the firm with another company, which is in a position to make optimum use of installed capacity.
- **High inventory** – there are cases where the inventory piles up continuously which indicates that the sales are decline and therefore, turnaround is required through restructuring, otherwise they may have to close down.

Managing Turnaround

There are three ways in which turnaround can be managed
- **Company Executives** – The turnaround can be managed by existing company executive including the chief executive officer. The management may take the help of an external expert or consultant brainstorm sessions are held, every member of turnaround team is expected to give suggestions or ideas to reduce losses are improve profitability. The ideas are then evaluated, and finally a turnaround action plan is prepared and implemented.
- **External Consultant** – In this case, an external consultant is appointed to take the complete charge of managing the turnaround. The existing executives are asked to hand over the affairs of the company to the consultant. The manager team is kept aside till the turnaround plan is completed. The turnaround consultant is appointed as per the instructions OP the firm or financial institutions. The turnaround Consultant Continues to manage the firm till the turnaround plan is completely implemented.
- **New Chief Executive** – In this method, the chief executive of the sick company is either asked to resign or replaced by a new one. The top

management team may also be changed. This practice is normally followed in the case of American firms.

The Chief executive, with the help of a turnaround consultant, prepares an action plan for turnaround. The new chief executive may adopt either of the two approaches.

- **Surgical Approach**
- **Non- Surgical Approach**

Divestment Strategy

This strategy involves dropping some of the product, markets or functions. The dropping of activities or business can be attained rather through sale or liquidation. There are several reasons or objectives for adopting divestment strategy such as

- **Necessity for withdrawal of obsolete products** – Obsolete of products, which no longer brings good returns to the firm, and therefore, they can be divested.

Therefore the firm may get rid of obsolete products and concentrate on those products, which has good market share.

- **Problem of Mismatch** – A business that has been acquired by the firm may prove to be a mismatch. With the existing business & therefore, such business may be difficult to integrate with the existing business of the company. Therefore, the firm may take initiative to get rid of the newly acquired business, as quickly as possible so as to avoid future problems.
- Problem of competition – Sometimes, a firm may find it difficult to compete in the market due to heavy competition. There may be cut-throat competition which may complete a firm to withdraw certain products from the market, or sell the units producing such products, so that the firm can concentrate on its core products.
- **Negative cash flows** – A firm may get negative cash flows from a particular business. The returns from particular business may be low as compared to the expenditure incurred. This creates financial problems

for the entire organization, and therefore, it would be advisable to divest that business.

 Technology Up-gradation – Technology up-gradation is required for survival of the business, but the cost of up gradation is quite high, and the firm may not be in a position to invest in such technological up gradation. Therefore, the company may divest a part of the business so as to generate funds for technology up gradation, which in turn would enable the firm to

Improve quality & quantity of production - Reduce cost

 Problem of managing certain business – A firm may find it difficult to manage growing business, and therefore, it may divest non-core business to concentrate on core business.

 Alternative for Investment – A firm may find a better alternative to invest, and as it may divest a part of business in order to take advantage of the alternative business area. For instance the firm may invest in new product lines which may have a good demand in the market.

 Dept Servicing – Growing financial burden such as dept servicing may force the company to divest a part of business so as to repay loans. It would be advisable to repay at the earliest to reduce interest burden. Therefore, A firm may sell a part of the business, especially, the poor performing ones.

 Returns to shareholders – Some firm may divest increase shareholders returns.

They may divest certain units or businesses which are underperforming. At time, the non-core businesses are divested. The divestment proceeds are passed on to the shareholders in form of hefty dividends. Approaches to divestment –

A firm may choose to divest into ways:

a) Liquidation

Liquidation is the extreme case of divestment strategy. In this case, the organization take the decision to sell its entire business and funds so realized can be invested in some other business. Liquidation is common in case of small businesses, where the owners sell their entire business units and then invest in some other area.

The decision to close down or liquidate the firm is taken, when the firm is continuously suffering from losses, and all efforts to make a profitable again have failed.

Reason for Liquidation

- When a firm is continuously suffering losses and all efforts to make it profitable again have failed.
- When a firm has accumulated losses and some other firms offer prices to take benefit of tax advantages, then it senses to sell the unit.
- Some firm may offer a better price firm, as they may like to consolidate their market position with the combinations, and therefore, a firm, which is offered a better deal, maybe offered to divert.
- When affirm finds it difficult to manage the present business due to declining sales and low or no profits, then it may liquidate its business.
- When a business is in a peak form but it future is not certain, a firm may decide to divest its business and obtain a good price.

b) Merger Strategy

A merger refers to fusion or combination of two or more companies into one company survives and the other company ceases to exist. The merger takes place for a consideration, which the acquiring company pray either incase or by offering
its shares. For eg, the merger of Reliance Petroleum with Reliance industries, where by the shareholder of Reliance petroleum were offered one share of Reliance Industries for every 11 share held by them in Reliance petroleum.

Reasons/Advantages

1) **Operational efficiencies** – It enables the pooling of resources and streamlining of operations, thereby, resulting in improve operational efficiencies.

2) **Size and synergy** – Size and synergy are the two mean considerations for merger. The merger entity gains the advantages of size and synergy of the must business. Eg- There can be marketing synergy, which may take place as the merged entity can used the same distribution channels, advertising and sales forces.
3) **Economics of scale** – The merged enjoys economics of large scale product and distribution of goods and service. Mergers, therefore, improves the overall competitiveness. Due to benefits of economics of scale, the firm is in a position to generate higher profits than the aggregate profits of the premerger entities.
4) **Help to face competitions** – Merger be to face competition in the market due to economics of large scale production and distribution, the firm is in a position to offer not only better quality of goods a services but also at better prices, and therefore, it can effectively face competition in the market.
5) **Finance related advantages** – Merger results in integration of assets and other resources and provides stability of cash flows and serves as leverage for raising more funds from the market, both from investors, as well as from banks and financial institution.
6) **Revival of Sick Units** – Merger can bring out a revival of sick units. The sick units can be merged with strong company and therefore, the problem of industrial sickness can be avoided in case of certain units.
7) **Faster growth rate**- Merger can provide opportunities for faster growth rate than can be achieved through internal sources. This is because, merger offer offers advantages in several areas such as marketing, production, finance, research and development and so on. The operational advantages of various functional areas can bring faster growth rate to the merged entity.
8) Tax advantages- Merger can be used as effective source of tax planning especially, when one of the merged entities was having accumulated losses. In such a case, it can result in several tax savings for the merged entity.

c) Takeover Strategy

A takeover involves the acquisition or whole of the equity capital of another firm, which enables the acquirer to exercise effective control over the affairs of the taken over firms. With the help of takeover, a firm can expand its capacity or competence in the desired area of operation. Takeover can help a firm to a new business without the disadvantage of gestation or setup time. Foreign MNC's may take over existing units in the overseas market so as to facilitate easy entry in the overseas market.

Takeovers Strategy may bring several advantages.

1) It can bring benefits of size and synergy.
2) There can be operational efficiencies.
3) The taken over firm can enjoy tax benefits, if the taken over firm had accumulated losses.
4) There can be faster growth rate.
5) It can generate economics of large scale production and distribution.
6) It can help to face competition in the market.
(Refer for explanation of advantages under merger strategy)

d) <u>Joint Venture</u>

Joint Venture is a type of partnership where by two or more firm together and establishes a new business unit to achieve certain well-defined goals. Joint venture involves sharing of ownership, management and control of a separate business unit established for mutual benefit by two or more companies. In general, Joint ventures are very common and popular in the international trade and are a best way to enter into foreign collaboration.

The following are the main features of Joint ventures.

1) Joint Venture is an arrangement between the parties for a specific purpose like production, marketing, transfer or sharing of technology etc.

2) The participating firms contribute money, management and technical known how plant & machinery and other facilities for the accomplishment of the agreed objectives.

3) The ownership, management and control in the new business unit are shared by the participating firms in the agreed proportion.

4) Joint venture agreement can be entered into by
a) Two more local companies.
b) A local company and a government company.
c) A local company and a foreign company.

Advantages of Joint Venture –
1) **Huge capital** – Joint venture are suit for large projects with huge capital requirements and of long gestation jointly the firm can collect funds from a large number of investors and creditors.
2) **Synergic affect** – Parties to the joint venture pool together technical market and managerial skills. Joint venture brings in synergic effect. This is due to the combined effort of the part to the joint venture.
3) **Better use of resources** – Joint venture optimum use of available resources. All the resources human, financial & physical resources are put to this possible use.
4) **Goodwill and reputation** – Joint venture between local and foreign company is useful to improve the image of local firm in the domestic market. The local firm can also earn good reputation in the overseas market due to the tie-up with a reputed foreign firm.
5) **Risk sharing** – Joint venture is a method of sharing high business risk among parties to the joint venture. This enables the joint venture to undertake large project.
6) **Expansion and diversification** – Joint venture enables the business entity to expand and diversify its business operations. This is because of combined strength of parties involved in Joint venture.

Limitations of Joint Ventures –

1) **Delay in decisions** – Joint ventures involve joint decision making by patterns since many people are involved in decision making its slow down the decision making, resulting into delayed actions.
2) **Conflicts** – Joint ventures are prone to conflicts among parties concerned. This happens when the interest and objectives of parties are not similar or when one of the parties is aggrieved or dominated by another partner.
3) **Uncertainty** – The working of Joint Venture depends upon many social, economic, political and environmental factors. A change in business environment has immediate impact on the life cycle of joint venture.
4) **Short life** – Joint venture is sometime of two independent partners, therefore to exist once the purpose is served.
5) **Transfer of outdated technology** – The party from developed nation may transfer outdated technology to the Joint venture in the developing countries. This may not bring much benefit to the developing country.
6) **Unfair Terms and Conditions** – The party from the developed nation may impose term and conditions on the party of the host country, which may not fair and justified for instance, the party from the developed country, may demand a higher profit and/or royal for use of patents, trademarks, etc.
7) **Drain on foreign exchange** – A Joint venture involving a foreign party may drain foreign exchange out of the country due to the payment of royalty and dividends.

NATURE OF STRATEGIC EVALUATION AND CONTROL

Strategic evaluation and control are that phase of strategic management which ensures whether or not a particular strategy contributes to the objectives of the enterprise. With the help of strategic evaluation, management measures the results of strategic action, and strategic control helps to take corrective action, if deviations take place. However,

in reality, the term strategic control is a broader term, which includes strategic evaluation.

William Glueck and **Lawrence Jauch** define strategic evaluation follows:

“Evaluation of strategy is that phase of the strategic management process in which the top managers determine whether their strategic choice is implemented is meeting the objectives of the enterprise.”

Nature of Strategic Evaluation:

The process of strategic management requires that the managers set their objectives of the organization and then formulate the strategies to accomplish them. After formulating the strategies, the managers make arrangement to implement the strategies in order to accomplish the objectives. On implementing the strategies or even during the implementation, the managers need to evaluate the performance of the strategies so as to find out whether or not the objectives are accomplished. If deviations or gaps are noticed between the actual performance and the standard, then necessary corrective measures need to be taken.

The following are the characteristics of strategic evaluation and control:

1. **Goal oriented:** Strategic evaluation and control is goal oriented. Corrective measures are undertaken to achieve pre-determined goal or objectives. The emphasis is place on achievement of goals rather than more activities.

2. **Involves measurement:** Strategic evaluation and control involves monitoring of actual performance and then comparing it with planned targets. Necessary corrective measures are taken to correct deviations id any.

3. **Continuous process:** Strategic evaluation and control is a continuous process.

There is a constant need to monitor the performance in the light of plans. As long as the organization exists, there is a need for strategic management process to accomplish objectives, and as long as there is strategic management process, there is need for strategic evaluation and control. In other words, strategic management process is meaningless, if it does not involve strategic evaluation and control.

4. **Effective use of resources:** Strategic evaluation and control helps to make optimum use of resources. Wasteful expenditure, and wastages of materials and other resources is avoided or minimized due to effective evaluation and control.

5. **Helps to recognize change:** Evaluation and control helps managers to recognize the need for a change. At times, managers may find it difficult to accomplish the targets, in spite of corrective measures. This may be because; the managers are concentrating their efforts on wrong strategic areas, which are not suitable to achieve the desired objectives. Therefore, the evaluation and control process may enable the managers to find out the effectiveness of the strategic areas. For instance, the organization may be concentrating on those markets or products, which are not suitable to its line of business.

6. **Facilitates direction:** Strategic evaluation and control facilities direction of action. Efforts are directed at purposeful activities. Unproductive activities are avoided, thereby, saving valuable efforts and resources of the organization.

IMPORTANCE OF STRATEGIC EVALUATION AND CONTROL

The purpose of strategic evaluation and control is to ensure that the objectives are accomplished. For this purpose, strategies are formulated, implemented, and then evaluated, and if necessary, control measure are taken. The need and importance of strategic evaluation and control is briefly situated as follows:

1. **Facilitates coordination:** Strategic evaluation and control facilitates coordination among the various departments of the organization. Whenever, there are any deviations, the activities of the concerned departments are coordinated so as to take collective and corrective measures. The collective efforts on the part of concerned departments enable to correct the deviations and to accomplish the objectives.

2. **Facilitates optimum use of resources:** Evaluation and control enables optimum use of resources – physical, financial and human resources. The resources are properly allocated and utilized, which in turn generates higher productivity and efficiency system should be suitable to the needs of organization.

3. **Prompt:** An effective control system should promptly help recognize deviations and to take quick and corrective steps.

4. **Flexible:** the control system must be flexible. The system must workable even during the changing conditions when the plans changed or modified.

5. **Forward looking:** A good control system should help the managers to plan their activities for the future.

6. **Simplicity:** The control system must be simple. Those who are got to use it or who would be affected by it must understand it clearly and correctly.

7. **Economical:** the control system should be economical to administration. It should bring more returns than the money spent on it.

8. **Objectivity:** It means that the system should be definite and verifiable. Performance standards must be objective and specific. They may qualitative or quantitative.

9. **Suggestive:** the control system must be suggestive. It should indicate where the problem is, who is at a fault and what should be done to correct the faults, if any.

10. **Motivating:** a good control system should encourage rather than discourage the employees. It should be designed to prevent mistake rather than to punish individuals.

11. **Critical Point Control:** it may neither desirable nor economical to control each and every activity. Effective control requires special attention to those factors critical to evaluating performance against plans. Therefore, the organization should be selective in control matters. A good control system should focus on the critical factors areas, where control is vital to ensure survival and success of the organization.

12. **Control by Exception**: The control system should enable managers to focus their attention on exceptional or significant deviations. The senior managers should control on major or exceptional deviations, and the routine control matters should be left to the junior managers to handle. It is believed that more a manager concentrates his control efforts on exceptional deviations; the more efficient would be the results of the control.

The principle of critical point control is often confused with the principle of exception. Both these principles are closely related. However, critical point control is concerned with recognizing the points or factors where control focus is required, while the exception principle is concerned with the size of deviations at these points.

PROCESS OF EVALUATION AND CONTROL

The process of evaluation and control consists of several steps, which are briefly described as follows:

1. **Setting of standards:** The strategists should set targets or standards of performance in all the key result areas of the organization. The key

result areas are the important areas or departments of the organization such as production, marketing, finance, quality control, inventory control, etc. Specific standards or targets are set for a definite period. The period can be further divided into sub-periods. For instance, if the performance period is of one year duration, it can be further divided into quarterly or three-month period, with targets set for each sub-period. For instance, the marketing department may set the target to sell 10,000 units of a product during the year 2003-04. The target of
10,000 units can further be divided into three-month period.

2. **Implementation of targets:** Activities are directed to achieve the planned targets. Necessary policies and programs are developed to achieve the targets. The manager makes arrangement of required resources. All the activities are directed towards the accomplishment of the planned targets. Undesirable activities are avoided.

3.**Measurement of performance:** Performance of individuals/departments is measured periodically. Necessary reports or tables are prepared to indicate the performance of individuals. The reports may be prepared section wise, activity wise, and period wise.

4. **Comparing performance with plans:** The actual performance is then compared against the planned targets. By comparing, the manager can find out the shortfalls or deviations. For instance, the actual performance of sale is 9,000 units of the product in the year 2003 – 2004 against the target of 10,000 units, then the shortfall is 1000 units.

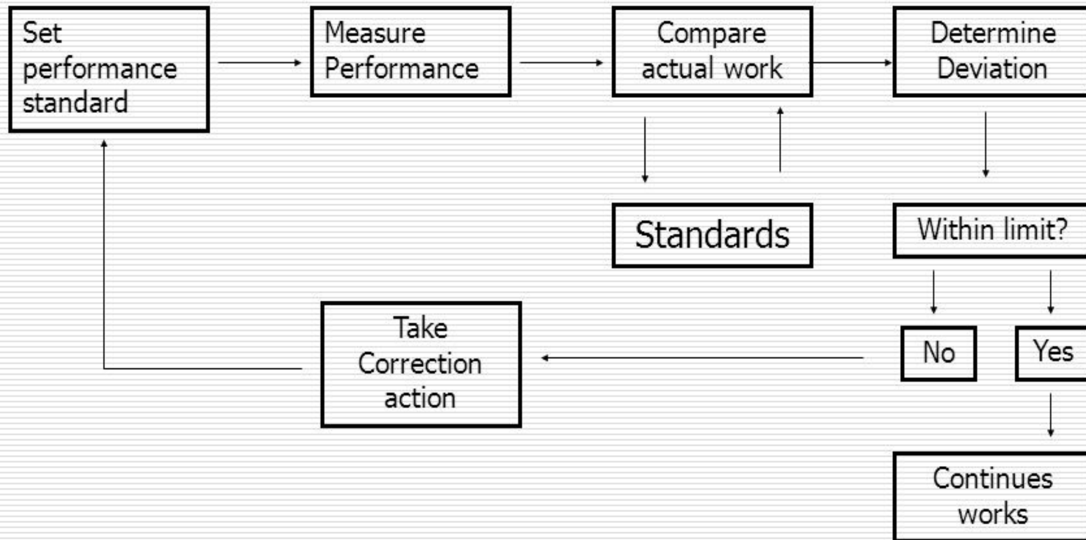
5. **Finding the causes of deviations:** The manager may study the cause of deviations, especially, when there are negative deviations. For instance, there can be shortfall in sales. This may be due to any of the following reasons:
a) Poor advertising campaign.
b) Poor dealer relationships.
c) Problems with the quality of product.
d) Problem with the pricing of the product.

e) Problem with the distribution of the product.
f) Better marketing strategies of the competitors, etc.

6. **Listing out corrective measures:** The next step would be to list out the various corrective measures to correct the deviations. For instance to correct shortfall in sales, the corrective measures can be such as :
a) Corrective Measure I ® to increase advertising.
b) Corrective Measure II ® to improve quality.
c) Corrective Measure III ® to increase dealers incentives, etc.

7. **Selecting and implementing corrective measures:** Once, a list of corrective measures is prepared, the manager makes a cost-benefit analysis of the corrective measures. He then selects the best feasible corrective steps. The measures are then implemented.

8. **Review or follow-up:** The manager needs to review the corrective measures to find out whether the corrective measures taken are in a position to correct the deviations. If necessary, additional corrective measures may be taken, or the targets may be set again.



STRATEGIC CONTROL AND OPERATIONAL CONTROL

Strategic control is the process, which takes into account the changing assumptions of both internal and external factors affecting the organization, on which a strategy is based, continuously evaluating the strategy as it is being implemented, and taking corrective measures to adjust strategy according to changing situation. Strategic control attempts to provide answers to the following questions:

1. Are right assumptions made at time of strategy formulation?
2. Is the strategy being implemented properly?
3. Is there any need to change the strategy?
4. If changes are to be made in the strategy, then to what extent?

Operational control is the process of ensuring that specific tasks are carried out effectively and efficiently. The operational control aims at evaluating the performance of the organization, and that is why it is used so extensively in organizations.

The operational control attempts to answer the following questions:

1. Is the performance of the organization as per the standards?
2. Are the resources of the organization being used properly?
3. What are the measures required to ensure proper use of resources so as to accomplish organizational objectives?

Most of the control systems in organisations are operational in nature. Some of the examples of operational are as follows:

- budgetary control – ensuring performance as per budgetary targets.
- Quality control – ensuring product quality as per standards laid down.
- Inventory control – maintaining inventory at desired limits.
- Production control – maintaining production as per planned targets.
- Cost control – maintaining expenses within set limits.

The main features of operational controls are as follows:

- Operational controls are programmed or decided in advance. They are self-regulatory in nature. Therefore, limited managerial discretion is required for their operation.
- The operational controls are impersonal in nature. Techniques, tool, procedures are used as means of control.