BBA-601

BUSINESS POLICY AND STRATEGY

DIRECTORATE OF DISTANCE EDUCATION

SWAMI VIVEKANAND
SUBHARTI UNIVERSITY
Meerut (National Capital Region Delhi)

CONTENTS

Syllabus

Business Policy and Strategy

Course Code: BBA-601		
Course Credit:	Lecture: 04	Tutorial: 1
Course Type:	Course Structure	
Lectures delivered:	50	10

End Semester Examination System

Maximum Marks Allotted	Minimum Pass Marks	Time Allowed
70	28	3:00 Hours

Continuous Comprehensive Assessment (CCA) Pattern

Minor Tests (marks)	Assignment/Tutorial/ Presentation	Attendance	Total
15	5	10	30

Course Objective: To enable the students to gain insights into the structure and strategy which go in the making of an organization and how do the various analyses function.

Unit	Content	Hours
I	**Concepts of Strategic Planning and Management:** Conceptual Framework for Strategic Management-Concept of Strategy, Importance of Strategy, Levels of Strategy, Modes of Strategy Making.	14
II	**Strategic Planning and Management:** Process, Importance, 7-S Framework and its. Importance in Strategic Planning and Management, Strategic Planning for Multinationals, Small Business, Non-profit Organizations and Public Sector.	10
III	**Various Analyses Related to Strategic Management:** Environmental Analysis: Dynamics of Environment, Need of Environment Scanning, Characteristics of Environment, Environmental Factors Competitive Analysis: EFAs, Porter's Five-forces Model Organizational Analysis: IFAS, VIRO Framework analysis SWOT, ETOP Profile, SAP, KSFs	15
IV	**Corporate Governance:** Overview and its Social Responsibility	07
V	**Strategy Formulation, Choice, Implementation and Control:** Strategy Formulation: Corporate Strategy, Business Strategy, Functional Strategy Choice of Strategy: Concept, Choice Process, Corporate Portfolio Analysis Strategy Implementation: Structural Implementation, Functional Implementation, Behavioral Implementation, Organizational Change and Innovation. Strategic Evaluation and Control Techniques	14

Course Outcomes:

At the end of this course, students should be able to:

1. Understand about the dynamism of environment in which business is conducted.
2. Understand the various forces which shape the course of action for any business vis-à-vis its outlook.
3. Understand how strategies play role of reducing uncertainties in business.
4. Understand the various aspects related to strategy formulation and its implementation.

Reference Books:

1. Cherunilam, F. Business Policy and Strategic Management. New Delhi: Himalaya Publishing House.
2. Ghosh, P. K. Strategic Planning and Management. New Delhi: Sultan Chand & Sons.
3. Hunger, J. D. and Wheelen T. L. Strategic Management and Business Policy. New Delhi: Pearson Education.
4. Kazmi, A. Strategic Management and Business Policy. New Delhi: Tata McGraw Hill.
5. Prasad, L. M. Business Policy: Strategic Management. New Delhi: Sultan Chand & Sons.

UNIT 1: STRATEGIC PLANNING AND MANAGEMENT

NOTES

STRUCTURE

1.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to understand the following:

- What is a Strategy?
- Strategic, Operational and Tactical Planning;
- Strategic Management Process;
- Corporate Level Strategy Formulation;
  - ➢ Diversification Strategy;
  - ➢ Stability Strategy;
  - ➢ Retrenchment and Combination Strategies;
- BCG Matrix;
- Business Level and Functional Level Strategies;
- Strategic Choice, Control and Assessment;

1.2 INTRODUCTION

Companies have to fight competition on a daily basis. To survive and flourish in a competitive world, companies have to consistently deliver outstanding value (offering unmatched quality at affordable prices) to customers. To this end, they must make the right moves and put resources to best use. If they simply follow the crowd, they will never be able to make it big. They must stay ahead of the pack, make winning moves, innovate constantly and move closer to the hearts of customers.

The fortunes of a firm must always be guided by a concrete plan of action and to this end, everything must be put in place to execute the game plan with chilling efficiency. To remain ahead of competition, the firm must focus on markets, technologies and processes, which are known to it and over which it has got a grip. This is where a strategy comes into play a pivotal role. Generally speaking, successful companies possess the winning habit of managing their resources well. They are also able to manage their environment proactively. In such a scenario, the firm is able to fight competition on terms that are extremely favourable to it. The unique internal strengths coupled with a favourable market position would ultimately help a firm gain an unbeatable competitive 'edge' over its rivals.

1.3 WHAT IS A STRATEGY?

A firm's strategy reflects a firm's awareness of how, when and where it should compete; against whom it should compete and for what purpose it should compete. It is an integrated and coordinated set of commitments and actions designed to exploit a firm's internal strengths and external opportunities with a view to gain a competitive advantage. (Hitt, Black and Porter) This definition reveals the following key elements of a strategy:

- **Scope:** A strategy focuses attention primarily on how to use the resources of a firm most effectively in a changing environment. A strategy defines the scope of the firm that is, the kind of products the firm will offer, the markets (geographies, technologies, processes) it will pursue and the broad areas of activity it will undertake. It will, at the same time, throw light on the activities the firm will not undertake.
- **Goals:** A strategy invariably indicates the long-term goals towards which all efforts are directed. For example, long-term goals might be to 'dominate the market, to be the technology leader or to be the premium quality firm'. Such enduring goals help the employees to give their best in a unified manner and enable the firm to specify its competitive position very clearly to its rivals. A recent advertisement from Maruti Suzuki, for example, claims: 'We don't just sell more cars than No.2. We sell more cars than the entire competition put together'. Maruti's commitment to being number one (sales, distribution network, lowest cost producer, highest resale value, one stop solution provider, etc.) in the markets it serves sends clear signals to its rivals in more than one way.
- **Comprehensive, well-integrated plan of action:** A strategy is a long-term plan of action seeking answer to certain basic questions such as where are we going? How are we going to get there? How to attract and please customers? How to grow the business? How to respond to changing market conditions? It is thus a comprehensive and well-integrated plan that ties all parts of a firm together, covering almost every aspect of business and critically examining whether all parts of the plan are in sync with each other or not.
- **Competitive advantage:** A strategy seeks to put resources to best advantage. It seeks to put the firm in a favourable position when compared to its rivals. It tries to strike a rapport between a firm's unique strengths and the external

environmental forces in order to give the firm an edge or a competitive advantage over its rivals. Competitive advantage is 'anything that a firm does especially well, compared to rival firms'.

NOTES

- **Terrain:** The term 'terrain' is highly relevant in explaining the concept of strategy more clearly. From a business-sense, terrain refers to markets, segments and products used to win over customers. The essence of strategy is to match strengths and distinctive competence with terrain in such a way that one's own business enjoys a competitive advantage over 'rivals competing in the same terrain. The basic premise of strategy, as things stand now, is that an adversary can defeat a rival—even a larger, more powerful one—if it can manoeuvre a battle or engagement onto a terrain favourable to its own capabilities. The term 'capability' refers to the ability or capacity of a bundle of resources deployed by a firm to perform an activity (Pitts and Lie). For example, 3M's capability is developing radically new products frequently; Sony's is making high-quality consumer electronic products in compact sizes and Toyota's is manufacturing cars, efficiently.
- **Logic:** This is the most important element of strategy. For example, a firm's strategy is to dominate the market for inexpensive detergents by being the low-cost, mass-market producer. Here, the goal is to dominate the detergent market. The scope is to produce low-cost detergent powder for the Indian mass market. The competitive advantage is the firm's low-cost. Yet this example does not explain why this strategy will work. Why the firm will get ahead of others by limiting its scope and by being the low-cost producer (competitive advantage) in the detergent industry. The 'why' is the logic of the strategy. To see how logic is the core of a strategy, consider the following expanded version of a strategy: 'our strategy is to dominate the Indian market for inexpensive detergent powder by being the low-cost producer selling through mass-market channels. Our low price will generate high volumes. This, in turn, will make us a high volume, low-cost producer. The economies of scale would help us improve our bottom-line even with a low price'. The only thing that needs to be qualified here is that the economies of scale must be sufficient enough to give the firm the cost advantage it believes it will have over its rivals.
- **Strategy is all about winning — capturing mindshare and conquering markets (Trout):** It is about matching the strengths and distinctive competencies of a firm with the terrain in such a way that one's own business enjoys an edge over rivals competing on the same terrain (Pitts and Lie). Rivals should be compelled to come to a terrain where you have the capabilities to gain an edge. A good strategy—when executed properly – enables a company to earn superior returns and gain financial strength over time. The firm is also able to improve its competitive strength and market standing. Strategy is an inherently creative process. Once one understands the firm's current situation and has a view of the future, improving the firm's performance requires thinking up new opportunities for creating and capturing value by leveraging its important assets.

A strategy provides consistent guidelines for the activities of business. It enables a business to have a dear purpose and proper direction. A strategy does not indicate as to what is to be done in detail, it only provides a general programme of action, outlining the deployment of human and material resources in order to increase the chances of

NOTES

achieving selected objectives like survival, stability, growth, profitability and so on. Strategy is forward looking: It takes the long-range view and that is why, strategic planning is often used interchangeably with long-range planning. Strategy's life span is limited: it is a single-use plan. It is designed to fit a specific situation and is 'used up', when the goal is accomplished. Strategies are products of top management thinking. It is believed that only executives at the highest levels have the necessary perspective and information to plan for the organisation, as a whole. Only top executives can adopt the strategic moves, which the firm plans to make by assuming certain calculated risks. Strategy is a dynamic and flexible programme of action. It is basically designed to meet the environmental challenges. Business involves great risk-taking and strategies provide management the necessary data so that reasonable and informed gambles can be made, when necessary. Flexibility and dynamism are ingrained in the strategic planning process. Changes in the environment bring about changes in strategic planning activities. Thus, strategies are more action-oriented; they specify the need for changing gears and taking appropriate direction in the light of continuous changes in the environment.

1.4 STRATEGIC PLANNING

The rapid advances in technology, global competition, changing preferences of customers, changing policies of government have multiplied the problems of managers all over the globe. Most of these changes are thrust on managers and they are forced to adjust their activities (customer service, teamwork, speed, product/service quality, productivity improvement have become the new corporate mantras!), in order to take full advantage of favourable developments or to minimise the adverse effects of unfavourable ones. Successful managers introduce original actions aimed at removing present difficulties; anticipating future problems; changing the goals to meet internal and external challenges; experimenting with creative ideas; attempting to shape the future and creating a more desirable environment. Strategic planning involves setting long-term objectives and deciding about the judicious deployment of resources to achieve those objectives.

Popular Definitions of Strategic Planning

According to Alfred Chandler: It is 'concerned with the determination of basic long-term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary for carrying out these goals'.

According to William Glueck: It is 'a stream of decisions and actions which lead to the deployment of an effective strategy or strategies to help achieve corporate objectives ... decisions and actions, which determine whether an enterprise excels, survives or dies'.

According to Hellriegel et al: 'Strategic planning is the process of diagnosing the organisation's external and internal environments, deciding on a vision and mission, developing overall goals, creating and selecting general strategies to be pursued and allocating resources to achieve the organisation's goals'.

Features of Strategic Planning

Strategic planning, is long-term in nature. It tends to be a top management responsibility. It requires looking outside the organisation for threats and opportunities.

It also requires looking inside the organisation for finding out weaknesses and strengths. It affects many parts of the organisation, as its decisions have enduring effects that are difficult to reverse. It tries to equip the organisation with capabilities needed to confront future uncertainties by taking a holistic view of the entire organisation. Its focus is clearly on the 'jungle, not the trees'. The main objective is to position the firm in an advantageous position in relation to the environment, keeping the firm's own capabilities in mind.

Strategic, Tactical and Operational Planning

Strategic plans are designed to meet the broad objectives of an organisation. They are long-range plans. Tactical plans are concerned with implementing strategic plans by coordinating the work of various departments in an organisation. They are known as intermediate plans. Operational plans are short-range plans. They offer details as to how the strategic plans will be accomplished. Table 1.1 draws the distinction between these terms clearly.

Table 1.1. Comparison between Strategic, Tactical and Operational Planning

Strategic Plans (long-range)	Tactical Plans (Intermediate)	Operational (short-range) Plans
Long range plan.	Intermediate plan.	Short range plan.
Time frame: 3 or more years.	Time frame: 2-3 years.	Time frame: One year.
Top Management responsibility.	Performed by managers at middle level.	Done usually at lower levels.
Concerned with broad objectives of the organisation.	Concerned with integrating the work of various departments in the organisation.	Covers day-to-day operations; implements internal goals.
Focus on planning and forecasting.	Focus on coordination.	Focus on control, primarily.

To be fully effective, the organisation's strategic, tactical and operational plans must be aligned i.e., they must be consistent, mutually supportive and focused on meeting the common purpose and direction. For example, Whole Food's strategic goal is to 'sell the highest quality products that also offer high value for customers'. Its operational goals focus on ingredients, freshness, taste, nutritional value, safety and appearance that meet or exceed its customers' expectations including guaranteeing production satisfaction. Tactical goals include store environments that are 'inviting, work environments' for its employees.

Evolution of Strategic Planning

The first three decades of the twentieth century witnessed significant changes in business activity. Firms focused their energies on increasing production of standardised goods to derive the economies of scale. They were more comfortable working with day-to-day, operational plans. Whatever came into the market, got readily absorbed. Large volumes, standardised products, ever-increasing demand characterised this era.

After the 1930s, firms witnessed increased environmental turbulence. Competition became intense with the emergence of new players; technological changes

NOTES

were swift and government policies restricted the economic freedom of the firms in most countries. Consumer tastes and preferences changed radically. New products with novel features made headlines and to sustain demand, firms had to promote products heavily and spend significant amounts on market segmentation. They had to commit their resources carefully, assessing various alternatives offered by the external environment from time-to-time. The reactive, ad hoc responses rarely yielded results, forcing firms to change their orientation (from short-term to long-term) and look beyond the four walls of the organisation, more closely.

The 1950s saw dramatic changes in technology; new products emerged rapidly; competition became cut-throat; multinational corporations began to dominate global markets and governmental policies encouraged free market forces. These environmental complexities literally compelled the firms to come out with proactive steps by pinning their hopes on route maps provided by strategic plans. They had to be lean and flexible so that they could remain solvent and move fast.

They had to almost undo existing styles, systems and standards, looking at internal as well as external environments from a strategic perspective.

Why Strategic Planning?

No military officer would undertake to engage his enemy without a clear idea of strategy. No seasoned politician would undertake a campaign for a major office without a clear concept of his strategy. Likewise, no business firm can afford to get ahead without a clear map of why and where it wants to go. Strategic planning provides the route map for the firm.

Importance of Strategic Planning

- It provides the road map for the firm; it shows the way for achieving targets.
- It helps the firm utilise its resources in the best possible manner. It allows more effective allocation of time and resources for identifying opportunities.
- The firm can respond to environmental changes in a better way – by exploiting opportunities to its advantage and avoiding costly mistakes in investment decisions.
- It minimises the chances of mistakes and unpleasant surprises. It seeks to prepare the firm to confront future challenges through certain proactive steps and even shape the future to its advantage. As rightly pointed out by FR David, strategic planning 'allows an organisation to initiate and influence (rather than just respond to) activities, and this exert control over its own destiny'.
- It creates a framework for internal communication among personnel. It helps to integrate the behaviour of individuals into a total effort. It provides a basis for the clarification of individual responsibilities. It gives encouragement to forward thinking. It encourages a favourable attitude toward change. It provides a cooperative, integrated and enthusiastic approach to tackling problems and opportunities (Greenley).

It serves as a comprehensive guide; it provides the big picture for all employees of an organisation. By defining the mission of the organisation in specific terms, it helps managers give needed direction and purpose to organisational efforts. The organisation is able to function better as a result and becomes more responsive to a dynamic environment. It helps in identifying opportunities early and exploiting the same vigorously. It helps to decide where and when to use the available resources in an optimal way. Additionally, it provides a complete and broad base for judging each

NOTES

executive's contributions. Targets are clarified and the means to follow are outlined. As the future unfolds, adequate controls can be established to evaluate whether the right course of action has been adopted or not and whether the results are satisfactory or not. Strategic planning also minimises the chances of mistakes and unpleasant surprises because goals and strategies are subjected to careful examination. There are less chances of committing mistakes and decisions arrived at ultimately, can stand the test of time.

Pitfalls: Strategic planning is laborious and time-consuming. There are very few satisfactory short-cuts. Immediate results are rarely obtained. Further, establishing and maintaining a formal system involves many expenses. Sophisticated strategic planning systems are a luxury for small-scale organisations. Again, it should be remembered that trying to reach 100 per cent perfection is an ideal, a pious intention that can never be satisfied through strategic planning. Many executives, enthralled by strategic planning, tend to overdo the fact-gathering job. Much time and effort is wasted in collecting all sort of data that is not fully put to fruitful use. Strategic planning, quite often, restricts the organisation and executives to the more rational and risk-free options. Managers are wedded to a philosophy of adopting those strategies or objectives that bear the weight of careful scrutiny and detailed analysis. In the process, many attractive opportunities may be lost since they are characterised by a high degree of risk and uncertainty.

1.5 STRATEGY vs POLICY

Srategies define the overall character, mission and direction of an enterprise. They focus on an organisation's long-term relationship with its external environment. They specify what an organisation will be doing in future, reflecting the kind of enterprise that the managers envision. Strategies are formulated and implemented with a view to achieve specific goals. An appropriate strategy will give managers an advantage over their opponents or competitors; it will enable them to marshall their resources so that they will be more effectively utilised. In other words, the basic purpose of a strategy is to deploy human as well as physical resources in order to maximise the chances of achieving a selected objective in the face of difficulties. It is an important offensive device, in the hands of aspiring Davids to combat corporate Goliaths.

A policy, on the other hand, tells people what they should and should not do, in order to contribute to the achievement of corporate goals. It states how goals will be attained. It is a helpful guide that makes the strategy of the business explicit, and provides direction to subordinates.

Table 1.2. Reveals the differences between strategies and policies clearly

Strategy	Policy
• Deals with strategic decisions that govern the long-term health of an enterprise. It is a comprehensive plan of action desgined to meet certain specific goals.	• It offers guidelines for managers to take appropriate decisions.
• It is a means of putting a policy into effect within certain time limits.	• It is a general course of action with no defined time limits.

NOTES

• Deals with those decisions, which have not been encountered before in quite the same form, for which no predetermined and explicit set or ordered responses exist in the organisation and which are important in terms of the resources committed or the precedents set.	• It is a guide to action in areas of repetitive activity.
• Deals with crucial decisions whose implementation requires constant attention of top management.	• Once policy decisions are formulated, these can be delegated and implemented by others independently.

1.6 STRATEGIES vs TACTICS

It is useful to draw the distinction between strategies and tactics at this stage. Strategy is a comprehensive plan designed to ensure that the basic objectives of an enterprise are achieved. It includes determination of a specific course of action that is capable of meeting competition as well as fulfilling an enterprise's objectives. It is action-based and more specific than objectives. Tactics are the action plans of specific, step-by-step methods by which strategies are executed. Tactics convert the philosophy of management into practice and force the enterprise to go down to the nuts and bolts of its operations. Tactics are formulated at the supervisory level and their primary focus is on implementing policy decisions taken at the top level. They are short-term in nature and mainly concentrate on people and their actions.

The differences between strategies and tactics are outlined below:

Table 1.3

Strategies	Tactics
• Developed by management; these decisions are never delegated below a certain level in management hierarchy.	• Employed and related to lower levels of management.
• Generally, the focus is on long-term.	• The focus is on short-term.
• The uncertainty level is quite high; lots of information to be obtained from diverse sources.	• Decisions are more certain and are taken within the framework of strategies.
• Affects various parts of an organisation in a significant way.	• The reach is limited to only specific segments of an organisation.

These differences should not always be taken seriously as tactics are nothing but sub-strategies developed at a lower level.

1.7 STRATEGIC MANAGEMENT

Strategic management is a process through which managers (*a*) formulate and implement strategies geared to, (*b*) optimising strategic goal achievement, (*c*) given available environmental and internal conditions. This definition recognises that strategic management is geared to meet long-term goals, weighs important environmental factors, considers major internal features of the organisation and involves developing specific strategies. Other popular definitions of strategic management are given below.

NOTES

Definitions of Strategic Management

- It is a continuous process of effectively relating the organisation's objectives and resources to the opportunities in the environment (Schellen Berger and Boseman).
- It is a process of formulating, implementing and evaluating cross-functional decisions that enable an organisation to achieve its objectives (F.R. David).
- It is a steam of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives (Glueck and Jauch).

Elements of Strategic Management

The above definitions clearly reveal four important elements of strategic management and are as discussed below:

1. ***Strategic analysis:*** This is concerned with the strategic situation of the organisation. Here, the organisation looks into issues such as changes in the organisational environment and its likely impact on the organisation, assessment of its resources and strengths and weaknesses in the light of changes in environment. A vigilant and proactive organisation always tries to get ahead of competition through a constant re-examination of its position in the marketplace in terms fits products, services, strategies, etc.
2. ***Strategic choice:*** Strategic analysis provides a basis for strategic choice. This is basically concerned with the formulation of suitable courses of action, their evaluation and the choices between them. The relevant issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, how to avoid a hostile takeover, etc. Since an organisation has to utilise its resources judiciously, it must decide on choosing those alternative strategies that will benefit the firm most.
3. ***Strategy implementation:*** This is the action stage of strategic management. Implementation means mobilising employees to translate formulated strategies into concrete action. This step requires a firm to (*a*) establish annual objectives, (*b*) devise policies, (*c*) motivate employees, (*d*) allocate resources, (*e*) develop a strategy of supportive culture, (*f*) create an effective organisation structure, (*g*) channel marketing efforts, (*h*) prepare budgets, (*i*) develop and utilise information systems and (*j*) link employee rewards to organisational performance. Often, successful strategy implementation hinges upon a manager's ability to motivate people.
4. ***Strategy evaluation:*** This is the final stage in strategic management. Evaluation is required, because success today is no guarantee of success tomorrow. Success creates new and complex problems. So, managers need to constantly (*a*) review external and internal factors that form the basis for current strategies, (*b*) measure performance, and (*c*) take corrective steps. Ultimately, all strategies are subject to change because the environment in which they operate is constantly changing.

NOTES

Strategic Management Process

Strategic management basically aims at formulating and implementing effective strategies. Effective strategies, of course, are those that help a superior 'fit' between the organisation and its environment and the achievement of strategic goals (Andrews). Strategies necessarily need to change overtime to suit environmental changes. But to remain competitive, organisations develop those strategies that focus on core competence, develop synergy and create value for customers.

- ***Core competence:*** An organisation's core competence is something it does exceptionally well in comparison to its competitors. It reflects a distinct competitive advantage (like superior research and development, mastery of a technology, distribution channel, manufacturing efficiency or customer service) that provides the firm: (*a*) access to a variety of products/markets, (*b*) contributes greatly to customer benefits in the end products, (*c*) is an exclusive and inimitable preserve of the firm that is long-lasting and cannot be easily copied by competitors.
- ***Synergy:*** When organisational parts interact to produce a joint effort, that is greater than the sum of the parts acting alone, synergy occurs. Some call this, the 1 + 1 = 3 effect. In strategic management, managers are urged to achieve as much market, cost, technology and management synergy as possible, when arriving at strategic decisions (such as mergers, acquisitions, new products, new technology, etc.) When one product or service strengthens the sales of one or more other products or services, then market synergy occurs. Wal-Mart's new Supercentres and Super K marts that put a discount store and a grocery store under one huge roof (Crossroads, Mumbai; Spencer's in Chennai) are good examples of market synergy in action. Cost synergy can occur in almost every dimension of organised effort. When two or more products can be designed by the same engineers, produced in the same facilities, distributed through the same channels, or sold by the same sales persons, overall costs will be lower than if each product received separate treatment. In Europe today, banks and insurance companies are linking up in an effort to market a wide array of financial products that each would have trouble selling on its own *(Wall Street Journal)*. Technology synergy involves transferring technology from one application to another, thus opening up new markets. In management synergy also, a similar kind of technology transfer is needed. Management synergy would be achieved, for example, if a software product company with weak roots in training and education line, hires a new CEO with strong academic and training credentials. Ideally, the new CEO would transfer his technical skills to good effect.
- ***Value creation:*** Exploiting core competencies and achieving synergy helps organisations to create value for their customers. Value is the sum total of benefits received and costs paid by the customer, in a given situation. Ideally, the purpose of a strategy should be to create a lasting value that is greater than the cost of resources that are used to create the same.

Steps Involved in Strategic Management Process

The strategic management process includes the following steps:

1. ***Establishment of Mission, Vision and Strategic goals:*** The strategic management process begins by spelling out the firm's mission and objectives. The mission of a firm is the unique purpose that sets it apart from other

companies of its type and identifies the scope of its operations. McDonald's Mission is 'To be our customers' favourite place and way to eat'. Microsoft's Mission is 'We work to help people and businesses throughout the world to realize their full potential'. The mission describes the organisation as it currently operates. The vision statement decides the long term direction of the company. For example, Dupont's vision refers to being a 'dynamic science company that works towards a "better, safer and healthier life" for people.' This vision inspires innovation aimed at making the world better. Strategic goals evolve from the mission and vision of the organisation and they clarify the real purpose for which an organisation exists.

2. ***External Analysis:*** The firm's external environment is challenging and complex. Because of the impact the external environment has on performance, the firm must develop requisite skills to identify opportunities and threats existing in that environment. The external environment has three important parts: (*i*) the general environment (elements in the broader society that affect industries and their firms), (*ii*) the industry environment (factors that influence a firm, its competitive actions and responses and the industry's profit potential) and (*iii*) the competitive environment (in which the firm examines each major rival's future objectives, current strategies, assumptions and capabilities).

3. ***Internal Analysis:*** In order to exploit environmental opportunities to its advantage, a firm must have internal resources and capabilities. A systematic internal appraisal helps a firm find (*i*) where it stands in terms of its strengths and weaknesses, (*ii*) pick up opportunities that are in tune with its resource base, (*iii*) take steps to bridge any resource gaps and (*iv*) select appropriate areas that help consolidate its position in the industry. A major task of the strategists, while carrying out internal analysis, is to match the conditions of the external environment with the firm's internal strengths and weaknesses. If a firm can perform an activity better than its rivals, it then possesses a distinctive (or core) competence that helps the firm to build its own source of competitive advantage. In the final analysis, the choice of which strategy to pursue should be based on using and exploiting the firm's competitive advantage.

4. ***SWOT Analysis and Strategy Formulation:*** Once managers have analysed the external environment and the internal resources of the organisation, they will have the information that they require to assess the organisation's strengths, weaknesses, opportunities and threats. Such an assessment is normally referred to as a SWOT analysis. For example, an organisation's strengths might include professional management, positive cash flow and highly respected brands. Weaknesses might include lack of spare production capacity and the absence of reliable suppliers. Opportunities might include a vast unexplored market for a new product, a market niche that is currently undiscovered, a new technology that might strengthen the supply chain, etc. Threats might include the possibility that competitors will enter the underserved niche once it has been found to be rewarding. SWOT analysis helps managers summarise the basic facts from their external and internal analyses. Based on this summary, they can formulate the strategies that help a firm exploit the available opportunities by leveraging on its strengths.

NOTES

1.8 CORPORATE LEVEL STRATEGY FORMULATION

Corporate level strategy pertains to the organisation as a whole and the combination of business units and product lines that make up the corporate entity. It addresses the overall strategy that an organisation will follow. The process generally involves selecting a grand strategy and using portfolio strategy approaches to determine the types of businesses in which the organisation should be engaged. Grand strategy is the general plan of major action by which a firm intends to achieve its long-term goals. It provides basic direction for the strategic actions of a firm. Grand strategies fall into four general categories: (1) growth/expansion, (2) stability, (3) retrenchment and (4) combination.

Fig. 1.1. Strategic Alternatives

Growth/Expansion Strategy

Organisations generally seek growth in sales, market share or some other measure as a primary objective. When growth becomes a passion and organisation's motive is to seek sizeable growth, (as against slow and steady growth) it takes the shape of an expansion strategy. The firm tries to redefine the business, enter new businesses that are related or unrelated or look at its product portfolio, more intensely. Growth or expansion moves are made in order to survive in a competitive terrain. Growth options, when exploited properly, offer scale economies and permit best use of talent and push the organisation to commanding heights. Growth may be an exciting option for firms willing to go that extra mile and willing to burn cash on risky ventures. But before taking the call, managers must see whether growth is manageable or not. Growth must happen in sync with environmental demands.

Of course, a firm can have as many alternatives as it wants, by changing the mix of products, markets and functions. Thus, the growth opportunities may come internally or externally. Internal growth possibilities may be exploited through intensification or diversification. External growth options include mergers, takeovers and joint ventures.

Strategic Growth Options/Intensification

NOTES

According to Ansoff, there are four strategic growth options available to a firm.

	Current Products	New Products
Current Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Fig. 1.2. Igor Ansoff's Product/Market Expansion Grid

1. ***Concentration or Market Penetration:*** It is the strategy of a firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology. The firm tries to thoroughly exploit its expertise, in a delimited competitive arena and increases the sale of its existing products in the existing markets by:
   (*a*) Increasing sales to current customers (for example, buy toothpaste and take toothbrush free offers).
   (*b*) Wooing customers away from competitor products (for example, offer the Santro car at an attractive initial price to lure the potential buyers of Maruti car).
   (*c*) Converting non-users into users (for example, draw the rural folks to buy toothpaste, colour televisions, Tata-Sumo vehicle, etc.)

   Concentration reduces the amount of resources needed to increase market share or sales revenues and as such is a low-risk strategy. However, it is also a high-risk strategy, as it is like putting 'all eggs in one basket', and the firm may become a victim, in case of slowdown in the economy (say, heavy vehicle manufactures like Ashok Leyland, TELCO, etc). In most cases, however, firms that have pursued concentrated growth strategy have enjoyed exceptional returns (Infosys Technologies, McDonald's, Good year). The success of such a strategy can be traced back to the firm's use of superior insights into its technology, product and customer to obtain a sustainable competitive advantage (Pearce and Robinson).

2. ***Market Development:*** It consists of marketing existing products in new markets. The firm tries to achieve growth by finding new uses for the existing products and tap new customers on that basis (within the country or outside the country). The firm can add new channels of distribution to expand the customer reach of the product. It can also enter new market segments, by coming out with slightly different products for each price segment, undertaking cosmetic changes in colour, taste, packaging, etc. (For example, Hindustan Unilever's offerings in toilet soap, detergent power segments). Changes in media selection, promotional appeals and distribution could also serve the same purpose. DuPont's nylon provides a classic story of new-use expansion. Every rime, nylon became a mature product, DuPont found a new use. Nylon was first used in parachutes, then as a fibre for women's stockings; later, a major material in women's blouses and men's shirts; still later, it entered automobile tyres, seat upholstery, and carpeting (Kotler). The recent discovery that the use of aspirin may lower the incidence of heart attacks is expected to boost sales in the analgesic market, tremendously. Nestle expanded the market for its product 'Milkmaid' by advertising the new uses of the product, aggressively (ingredient for a variety of sweets and pastries) in India.

NOTES

3. ***Product Development:*** Product development strategy tries to achieve growth through new products in existing markets. The new products in this case, are not essentially new products, bur improved versions of an existing product or substitutes serving the same need, catering to the same market, as at present. This strategy is 'often adopted to attract satisfied customers to prolong the life cycle of current products or to take advantage of existing reputation or brand name. A new car style, a new formula of shampoo for oily hair, new soap for fairer complexion, a revised edition of a college textbook are examples of the product development strategy.
4. ***Innovation*:** Here, the organisation tries to develop new products or services and thereby makes similar existing products obsolete, unlike product development strategy, which extends an existing product's lifecycle. There could be radical innovations, where the company tries to replace existing products or technologies in an industry. In the case of incremental innovations, the firm tries to focus on new products or services that modify the existing ones. For example, compact disc technology has virtually replaced long playing vinyl records in the recording industry, and high-definition television is likely to replace regular television technology, soon. Apart from such radical innovations, firms also carry out incremental innovations to differentiate their products. One example is Toyota's multi-utility vehicle: Qualis. Although other Indian companies had similar products, Toyota more effectively combined the styling and engineering that resulted in increased demand for its product (a great hit compared to Sumo, Bolero etc., as per latest sales figures in 2000-2001). Technical and product innovations (changing appearance/performance of products of services) and process innovations (changing the way a product or service is manufactured, created or distributed) are also quite commonly used by growth-oriented firms. As a strategy, innovation could prove to be very costly because of high research, development and pre-marketing costs of converting a promising idea into a successful product.

Diversification Strategy

A single-product strategy is always a risky one. Because the firm has staked its survival on a single product (or a small basket of products like Colgate), the organisation has to work very hard to ensure the success of that product. If the product is not accepted by the market (like, taking a big call on Indica by TELCO) or is replaced by a new one (the challenge of Close-up from HUL to Colgate) the firm will suffer. Given the risk of a single product strategy, most large organisations today operate in several different businesses, industries or markets. Diversification describes the different businesses that an organisation is engaged in and the extent to which these businesses are related to one another. Diversification is said to minimise risks associated with confining the business to one or very few products. The company can enter new lines of business to pre-empt potential competitors or to gain superiority over competitors entering the market at an early stage. It can introduce new products, satisfying a variety of needs. This helps in consolidating its position in the industry. The company can put its resources and related capabilities to good effect. The existing businesses might have saturated a bit and the only way to grow could be through diversification, exploiting opportunities in the environment. Diversification, of course, is not a sure bet. Diversification may lead to neglect of old business. The managers may fail to understand the intricacies of new business as well, because they have entered the field without full knowledge and adequate preparation. To make matters worse, competitors may retaliate with full force, adversely impacting even the existing businesses. To be successful, diversification requires careful planning and meticulous preparation. The company must have deep pockets and strong staying power. Building competitive advantages takes time and involves a lot of money. The company must have relevant core competency in the field that it is trying to look at now. The chosen field must be attractive and the company should have capable managers to handle the associated risks in a competent way. The cost of entry should also be reasonable. To be safe, the company should screen and pretest the proposals carefully and proceed in a cautious manner. There are two types of diversification strategies: Horizontal and Vertical. Horizontal Diversification is further divided into two: namely concentric diversification and conglomerate diversification. Likewise, Vertical Diversification could come through forward integration or backward integration. Let us explain these in greater detail:

Horizontal Integration

Horizontal integration takes place when some firms expand by acquiring other companies in the same line of business (adding new products or services to the existing product or service line). Such acquisitions eliminate competitors and provide the acquiring organisation access to new markets. Horizontal integration could come, thus, through mergers and acquisitions. The purchase of one firm by another firm of approximately the same size is called a merger. It is called an acquisition when one of the organisations involved is considerably larger than the other. Most software companies use the mergers and acquisitions route to acquire complementary businesses, products or services linked by a common technology and common customers. The obvious purpose is to create and exploit synergies in marketing, operations, managerial competence, etc. At times, two firms may combine to exploit complementary core competencies (one firm that is strong in research and product development may merge with another that is strong in distribution).

***Concentric or related diversification*:** It occurs when an organisation diversifies into a related but distinct business. With concentric diversification, the new businesses can be related to existing businesses through products, markets or technology. The new product is a spin-off from the existing facilities, products and processes. For example, Philips, the electronics major, decided to diversify into related businesses such as cellular phones, telecommunication equipment, electronic components, etc., to exploit its core advantages in the form of related technology, strong distribution network, etc. IBM has used a concentric diversification strategy, right from the 60s onwards. In the early 60s, IBM concentrated on the mainframe computer business. Today, the company's products include small computers, terminals, communication equipment, etc.

Conglomerate or unrelated diversification: Conglomerate diversification takes place when an organisation diversifies into areas that are unrelated to its current business. The decision to diversify into unrelated areas is generally undertaken by firms in volatile industries that are subject to rapid technological change. The obvious purpose is to reduce risk. It is also assumed that by restructuring the portfolio of businesses, the firm would be in a position to create value. Similarity in products, technology or marketing knowledge between the two firms is not an issue here, the acquiring firm simply wants to make an attractive investment. Unrelated diversification was a very popular strategy in the 1960s and early 1970s. For example, the ITC's diversification into edible oils, hotels, financial services, etc., is a conglomerate diversification (likewise, NEPC group's foray into agro foods, textiles, paper, airlines,

NOTES

wind energy, tea plantations etc.; Ballarpur Industries unrelated diversification into chemicals, nylon fibre, leather, etc., in addition to paper; and Essar's foray into shipping, oil, sponge iron, marine construction, etc.) Conglomerates have failed, in most cases, because of various reasons: inadequate focus, failure to understand the business fully, competitive disadvantage compared to organisations that use related diversification.

Vertical Integration

Vertical integration takes place when one firm acquires another firm which is involved either in an early stage of the production process (backward or upstream) or a later stage of the production process (forward or downstream). Backward vertical integration occurs when the companies acquired supply the firm with products, components or raw materials. Reliance Industries, for example, started their business with textiles and went for backward integration to manufacture PFY and PSF, critical raw materials for textiles, PTA and MEG-raw materials for PSF and PFY, paraxylene – raw materials for PTA and MEG, and ultimately naptha for producing paraxylene. The company has also gone in favour of forward integration, by opening retail shops for marketing its textile products. The main reason for backward integration is to gain a firm grip over supply and quality of raw materials. Forward integration, on the other hand, helps a firm gain control over sales and prices of its existing products. However, increased risks are inherently present in both types of integration. It is not easy to share the additional burden and diverse responsibilities thrust upon managers in the changed scenario. The longer chain increases the costs of coordination and bureaucracy. At times, a technological innovation in the vertical channel may compel all of the vertically linked businesses to modify their operations. In a dynamic setting where changes in technology and demand are highly unpredictable, outsourcing (for suppliers and distributors) may be a better option (Wright).

Table 1.4

Benefits	Costs
• It eliminates or reduces the costs of buying and selling incurred when separate firms carry out various steps (transaction costs) of converting raw materials into finished goods. Most steel production is undertaken by integrated steel producers in plants that first produce pig iron from iron core and then, convert iron into steel. Linking the two stages of production at a single location reduces transportation and energy costs. Same is the case with pulp and paper production. • Vertically integrated firms can coordinate their operations in a better way. • It reduces uncertainty of relying on external suppliers or buyers. • It raises entry barriers to competitors by forcing them to integrate, too, at high investments. • It preserves the company's competitive edge by protecting its technologies.	• Vertical integration may lead a firm to over commit scare resources to a given technology, production process or other activity that could lock the firm into eventual obsolescence. • When things turn bad, high fixed costs may eat away profits. • It is not easy to mesh different capabilities and skill sets smoothly. • The firm becomes more susceptible to organised labour strikes. Vertical integration compounds the risk: problems at any one stage of production threaten production and profitability at all other stages. The strike that broke out at the General Motors brake plant in 1997 halted production of GM's auto assembly plants as well.

NOTES

Stability Strategy

A stability strategy involves maintaining the *status quo* or growing in a methodical but slow manner. The firm follows a safety-oriented, status quo-type strategy without bringing about any major changes in its present operations. The resources are put on existing operations to achieve moderate, incremental growth. As such, the primary focus is on current products, markets and functions, maintaining the same level of efforts as present. Organisations might follow a stability strategy for a variety of reasons:

- ***Why to rock the boat?*** If the company is doing reasonably well, managers may not like to take the risks or hassles associated with more aggressive growth.
- ***Why not stop for a while?*** Stability allows the firm to stop for a while, re-examine what has already been done and proceed continuously. An organisation that stretches its resources during a period of accelerated growth, may want to attain stability before it attempts further accelerated growth.
- ***Why to swallow risk?*** If managers believe that growth prospects are low, they may follow a stability strategy with a view to hold on to their current market share. Stability strategy, however, is not a 'do-nothing' strategy. To maintain current position, the organisation definitely needs to carry out marginal improvements in performance, in line with the changing trends.
- ***Where are the resources?*** Introducing new products, entering new markets undertaking major organisational changes, all require huge investments. Where there is an internal resource constraint, a stability strategy is preferred. If the organisation's strategic advantages lie in the current business and market, it pursues the stability strategy to exploit its competitive advantages fully.

Retrenchment Strategy

It is a corporate level, defensive strategy followed by a firm when its performance is disappointing or when its survival is at stake. When a firm is confronted with a precipitous drop in demand for its products and services, it is forced to affect across-the-board cuts in personnel and expenditures. Retrenchment strategy, as such, is adopted out of necessity, not by deliberate choice. In actual. practice, retrenchment may take one of the. following forms:

Divestment

When a company sells or 'spins off' one of its business units, it is engaging in divestment. Divestment usually takes place when the business unit is not doing well or when it no longer fits the company's strategic profile. Divestment may be necessary in a number of other situations as well—where the business unit drains resources from other profitable units; where the business unit is not as efficient as alternatives in the marketplace; where the unit's interdependence with other units is not synergistic; where the company needs funds urgently to focus on more profitable areas. At another level, divestment may be the only choice when the company wants to get out of businesses where it is not a major player. In all these cases, divestment involves dropping of products, markets, functions (leading to cost reductions as well as asset reductions) – redefining the business, as a whole.

NOTES

Divestment may take one of three forms: (*a*) Outright sale to another company, (*b*) Leveraged Buyout (LBO), and (*c*) Spin-off. A leveraged buyout occurs when a company's shareholders are bought out (hence, buyout) by the company's management and other private investors using borrowed funds (hence, leveraged). In the last case, the parent company creates a new company and then, distributes its shares to shareholders of the parent. Companies in India have followed divestment for various reasons: ITC divested ITC Classic Financial Services when the latter began bleeding heavily; Parle sold its brands including Thums Up to Coca Cola visualising stiff competition from MNC giants; Godrej Soaps spun off its consumer products division and transferred all its brands to the new unit; Glaxo divested its food division to Heinz after taking a decision to stick to its core pharmaceutical business.

Turnaround

A turnaround is designed to reverse a negative trend and bring the organisation back to normal health and profitability. It usually involves getting rid of unprofitable products, trimming the workforce, pruning distribution outlets, and finding other useful ways of making the organisation more efficient. If the turnaround is successful, the organisation may then focus on growth strategy.

Liquidation

This is a strategy to be followed as 'last resort'. When neither a turnaround nor a divestment seems feasible, liquidation is used. Liquidation involves selling or disposing of, all or part of, an organisation's assets. Liquidation is generally followed when (*i*) the future of a unit looks bleak in terms of sales, profitability, etc. (*ii*) the unit has unmanageable accumulated losses; (*iii*) some other firm is willing to buy the unit to avail tax benefits; (*iv*) it is not possible to revive the unit with the existing resources.

By selling assets, the term wants to avoid bankruptcy and secure a better deal for shareholders. Planned liquidation is a worthwhile option because the assets of the liquidating firm can be sold gradually, securing greatest possible return to shareholders.

Bankruptcy

It is a means whereby an organisation that is unable to pay its debts can seek court protection from creditors and from certain contract obligations; while it tries to regain financial health and stability (reorganisation bankruptcy). In case of a more serious one, liquidation bankruptcy, the liquidating firm agrees to distribute all assets to creditors, most of whom receive a small fraction of the amount they owed. If the firm can convince its creditors about the revival of the firm in the near future, a reorganisation bankruptcy comes into existence. (The Gujarat High Court gave the debt-ridden Arvind Mills, a breather by dismissing a petition filed by the lender banks for debts worth ₹ 2,634 crore—thus granting some time for the company to repay loans gradually, by selling off its assets and reorganising its operations.)

Combination Strategies

Large, diversified organisations generally use a mixture of stability, expansion or retrenchment strategies either simultaneously (at the same time in various businesses) or sequentially (at different times in the same business). For example, growth could be achieved by an organisation through acquisition of new businesses or divesting its unprofitable ventures. Depending on situational demands, therefore, an

NOTES

organisation can employ various strategies to survive, grow and remain profitable. In recent times, three more strategies have gained popularity namely, joint ventures, strategic alliances and consortia.

- ***Joint ventures:*** When two or more firms pool resources to accomplish a task that a firm could not accomplish or that can be done more effectively by joining, the result is a joint venture. Like a merger or acquisition, a joint venture is not a strategy but a way of implementing a strategy. It helps a firm undertake giant projects by spreading risks more efficiently (Thompson and Strickland). Examples include, the joint ventures between Thermax, Babcock and Wilcox; Maruti Udyog and Suzuki; TELCO and Hitachi Construction Company, etc.; in addition, the Tata's, the Birla's, the Oberoi's, the Kirloskar's and many software giants also have joint ventures with global partners from outside the country. To be successful, however, joint venture partners should be willing to share technology in the real sense, resolve cultural differences clearly and integrate operations at various locations in a more compact manner. In any case, 'joint ventures often limit the discretion, control and profit potential of partners, while demanding managerial attention and other resources that might be directed towards the firm's mainstream activities'.
- ***Strategic alliances:*** In a joint venture, the companies involved take an equity stake in one another. In strategic alliances, however, the partners contribute their skills and expertise to a cooperatively conceived and executed project for a specific period. Partners, during the said period, try to keep up with each other's know-how and learn from one another. Alliances could take the shape of a licensing agreement, too, where the licensor would transfer his property right over patents, trademarks, technical know-how etc., to a licensee for a specified time, in return for a royalty. Outsourcing is another useful approach to strategic alliances that helps firms gain a competitive advantage (especially in technology intensive fields such as software, telecommunications, electronics, biotechnology, etc.).
- ***Consortia:*** Consortia are interlocking relationships between businesses of an industry. It works more or less like a Japanese *Keiretsu*, involving up to 50 different firms that are joined around a large trading company or bank and are coordinated through interlocking directories and stock exchanges (such as Sumitomo, Mitsui, Mitsubishi, Sanwa).

How to Manage Corporate Strategies?

Once the grand strategy has been determined, *i.e.*, once the organisation has established the major action by which it seeks to achieve long-term objectives, a portfolio strategy is developed. Portfolio strategy pertains to the mix of business units and product lines that fit together in a logical manner to offer synergy and competitive advantage for the corporation. The concept is analogous to that of an individual trying to balance his investment portfolio by picking up some high-risk stocks, some low-risk stocks and perhaps, a few income bonds. In much the same way, diversified corporations like to have a balanced mix of business divisions called Strategic Business Units (SBUs). An SBU is a division of the organisation that has a unique business mission, product line, competitors and markets relative to other SBUs in the same corporation. It can be a single business or a collection of related businesses. Many companies set up SBUs, as separate profit centres, sometimes granting them virtual autonomy, while other companies have tight control over their SBUs, enforcing corporate policies and standards down to very low levels in the organisation. The portfolio strategy was originally developed by General Electric in 1971 to integrate its many different businesses. Since then, the Boston Consulting Group (BCG) has refined the approach for use by other organisations (Glueck).

NOTES

The BCG Matrix

The BCG matrix compares various businesses in an organisation's portfolio, on the basis of relative market share and market growth rate. Relative market share is determined by the ratio of a business's market share (in terms of unit volume) compared to the market share of its largest rival. Market growth rate is the growth in the market during the previous year relative to growth in the economy as a whole. The combinations of high and low market share and high and low business growth rate provide four categories for a corporate portfolio. (Hedley, Naylor)

Fig. 1.3. The BCG Growth-Share Matrix

- ***Stars:*** SBUs that are 'stars', have a high share of a high growth market and typically require large amounts of cash to support their rapid and significant growth. They have additional growth potential and so, profits should be ploughed back into this business for future growth and profits.
- ***Cash cows:*** SBUs that are 'cash cows' (provide lot of cash for the firm) have a high market share of a slowly growing market. As a result, they tend to generate more cash than is necessary to maintain their market position. Cash cows are often former stars and can be valuable in a portfolio because they can be 'milked' to provide cash for other riskier and struggling businesses.
- ***Question marks (problem child or wild cat):*** SBUs that are 'question marks' have a small share of a high growth market. The question mark business is risky, since there is already a market leader in that business. As such, it requires lot of funds to invest in plant, equipment and personnel, in order to keep pace with the fast-growing market. The term question mark is well conceived, because at every stage, the organisation has to think hard about whether to keep investing funds in the business (to turn it into a star) or to get out.
- ***Dogs:*** SBUs that are 'dogs' have a relatively small share of a low-growth market. They may barely support themselves, or they may even drain cash resources that other SBUs have generated. Usually, dogs are harvested, divested or liquidated (if turnaround is not possible).

After the SBUs of an organisation have been plotted on the growth-share matrix, the next step is to evaluate whether the portfolio is healthy and well-balanced. A balanced portfolio obviously, has a number of stars and cash cows and not too many question marks or dogs. Depending on the position of each SBU, four basic strategies can be formulated while building a balanced portfolio:

- Heavily invest in stars: High market share and high industry growth mean higher probability of future success.
- Maintain cash cows because they provide resources for future growth – investment in wild cats and stars.
- Use selective resource allocation for wildcats to convert them into stars.
- Liquidate or divest dogs that are not worth investing in to improve their positions.

NOTES

Business Level Strategy Formulation

Business level strategy deals with how a particular business competes. The principal focus is on meeting competition, protecting market share and earning profit at the business unit level. The strategies of growth, stability and retrenchment discussed above, are applicable at the business level as well as the corporate level, but they are accomplished through competitive actions rather than by the acquisition or divestment of other businesses. A useful approach for formulating business level strategies is based on Michael Porter's 'competitive analysis' and three general alternative business strategies that are derived from it.

Porter's Competitive Strategies

M.E. Porter studied a number of business organisations and proposed that business level strategies are the result of five competitive forces in the company's environment. According to him, competitiveness within an industry is determined by the following factors, namely: new entrants or new companies within the industry; products that might act as a substitute for goods or services; the ability of suppliers to control issues like cost of materials; the bargaining power that buyers possess within the industry; and the general level of rivalry or competition among firms within the industry. According to Porter, buyers, product substitutes, suppliers and potential new companies within the industry, all contribute to the level of rivalry among industry firms. Understanding the forces that determine competitiveness within an industry should help managers develop strategies that will enable individual companies within the industry to be more competitive. Porter suggested three generic strategies that managers might take up to make organisations more competitive.

- ***Differentiation strategy:*** It involves attempting to develop products and services that are viewed as unique in the industry. Successful differentiation allows the business to charge premium prices leading to above average profits. Differentiation can take many forms, for example, design or brand image (Rolex watches, Levis Jeans, Pepsi or Coca Cola; technology (Macintosh stereo components, Honda's vehicles, Hyster in lift trucks); customer service (Citibank, HDFC), unique channels (Tupperware), unique features (Mercedes-Benz) Cross writing instruments and quality (Xerox in copiers, Rolls Royce). Differentiation works best when the differentiating factor is both important to customers and difficult for competitors to imitate. If buyers are loyal to a company's brand, a differentiation strategy can reduce rivalry with competitors. Of course, when costs are too high, customers may choose less costly alternatives, even though they forego some desirable features. Also, customer tastes and needs can change, so businesses following a differentiation strategy must carefully evaluate customer's shifting preferences, from time-to-time.

NOTES

- ***Cost leadership:*** Cost leadership is a strategy that focuses on making an organisation more competitive by producing its products more cheaply than competitors. The logic behind this strategy is that by producing products more cheaply than competitors, organisations can offer products to customers at lower prices than the competitors and thereby, hope to increase market share. Nirma Chemicals was able to challenge the might of Hindustan Unilever by pursuing this strategy aggressively, without, of course, sacrificing quality. A low-cost strategy is not without risks. To be effective, the company in question should be the cost leader, not just one of several. Otherwise, two or more companies buying for cost leadership can push prices to unremunerative levels. The business, therefore, must have a cost advantage that cannot be easily imitated and it must stay abreast of new technologies that can upset cost calculations completely. Further, managers must still carry out product or service innovations that are very important to customers, lest competitors using a differentiation strategy woe customers away using product or service improvements to good effect.
- ***Focus:*** It is a strategy that emphasises making an organisation more competitive by targeting a specific regional market, product line or buyer group. The organisation can use either a differentiation or low cost approach, but only for a narrow target market. The logic of this approach is that an organisation that limits its attention to one or a few market segments can serve those segments better than organisations that seek to influence the entire market. For example, products such as Rolls-Royce automobiles, Titan jewellery watches, Cross pens are designed to appeal to a narrow segment of the market and serve the same well, rather than trying to cover the whole ground. The important risks are possibilities that the costs for the focused firm will become too great, relative to those of less focused one; differentiation too, will become less of an advantage as competitors serving broader markets embellish their products, and competitors will begin focussing on a group within the customer population being served by the firm with the focus strategy.

Porter found that many firms did not consciously pursue any one of these three strategies and were, therefore, struck in the middle of the pack with no strategic advantage. Without a strategic advantage, the business earned below-average profits and therefore, was not in a position to compete successfully.

Functional Level Strategy Formulation

Functional strategies are formulated by specialists in each area of a business, such as marketing, production, finance, human resources, research and development. Functional strategies outline the action plans that must be put into practice to execute business level strategy. Business level and functional level specialists must coordinate their activities to ensure that the strategies pursued by them are consistent and lead to the achievement of overall goals.

- ***Research and development strategy:*** Businesses cannot grow and survive without new products. It is the role of R&D specialists to generate new product ideas, nurture them carefully and develop them fully into commercially viable propositions. Where innovation proves to be a costly exercise, imitation could also be tried as a fruitful option. Many Japanese electronics companies were quite successful in copying American technology and by avoiding R&D costs, improved their competitive strength significantly (Certo and Peter).

- ***Operations strategy:*** This strategy outlines the steps to keep costs under check and improve operational efficiency. The focus is on arriving at decisions regarding plant layout, plant capacity, production processes, inventory management, etc.
- ***Financial strategy:*** It deals with financial planning, evaluating investment proposals, securing funds for various investments and controlling financial resources. Thus, raising funds, acquiring assets, allocating funds to operations, using funds efficiently, etc., are all part of this strategy.
- ***Marketing strategy:*** It deals with strategies relating to product, pricing, distribution and promotion of company's offerings. Important issues here cover type of products, prices, distribution channel and the use of promotional tool and sales force, etc.
- ***Human resource strategy:*** HR strategy deals with hiring, training, assessing, developing, rewarding, motivating and retaining the number and types of employees required to run the business effectively. Internal (union contracts, productivity indices, labour turnover, absenteeism, accidents, etc.) and external factors (labour laws, sons of the soil, reservation, equal employment opportunity, employment of children and women, etc.) need to be carefully evaluated while formulating HR strategies.

Constraints and Strategic Choice

Viewed collectively, the R&D strategy should encourage innovation; marketing should stress brand loyalty and reliable distribution channels; production should maintain long production runs, cost reduction and routinisation; finance should focus on cash flows and positive returns; and HR department should develop strategies for retaining and developing a stable workforce. Of course, organisations do come across constraints while formulating functional level strategies in several forms namely, how to finance the proposals; what kind of risk to be taken; how to combine strong production skills of the company with its own weak marketing skills; how to keep suppliers and channel partners happy and how to encounter competitive retaliation, etc.

Strategy Implementation

Strategy implementation is the process of translation of strategies, policies into action through the development of programmes, budgets and procedures. It is typically conducted by middle and lower level management but reviewed by top management. However, programmes and procedures are simply more detailed plans for the eventual implementation of strategy. Unless the corporation is appropriately organised, adequately staffed and activities are properly directed, these operational plans fail to deliver the good. To be effective, a strategy must be implemented through the right organisation structure and appropriate management practices. In addition, management must also ensures that there is progress towards objectives according to plan, by instituting a rigorous process of control over important activities. The following figure would help in understanding the process of strategy implementation.

NOTES

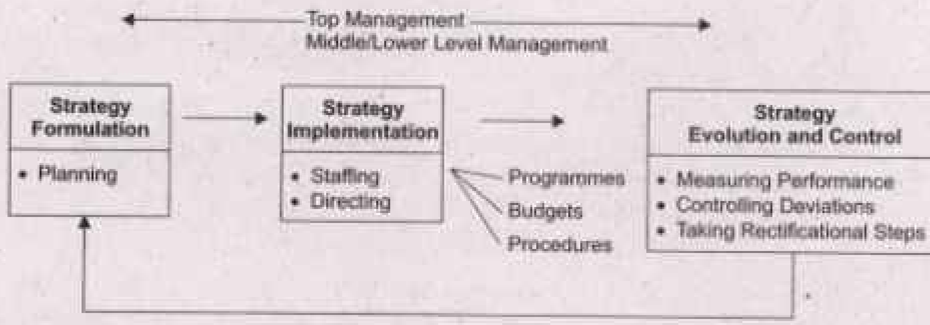

Fig. 1.4. Strategy Formulation and Implementation Process

Organising

In a classic study of large American corporations (DuPont, General Motors, Sears Roebuck, Standard Oil), Chandler concluded that structure follows strategy (Strategy and Structure, MIT Press, 1962). Changes in corporate strategy have invariably led to changes in corporate structure. Chandler found that most corporations begin with a centralised organisation structure. As they add new product lines and create independent distribution networks, the centralised structure is discarded by the organisations in favour of a decentralised structure that permits the creation of semi-autonomous product divisions. Burns and Stalker also found that mechanistic structures (centralised decision- making and bureaucratic rules) seem to be appropriate for organisations operating in stable environments. However, organic structures, (decentralisation and flexible procedures) in contrast, seem to be appropriate for organisations operating in a constantly changing environment. The research conducted later on, also supports Chandler's proposal that an appropriate organisation structure is necessary to meet changes in corporate strategy. The firm 'should, therefore, work to make its structure congruent with its strategy.

Staffing

Effective strategy implementation calls for utilisation of human resources fully. For implementing growth strategies, new people should be recruited and given requisite training. Retrenchment strategies call for a sound basis for firing people, *i.e.*, seniority, performance, absenteeism, etc. In order to translate strategy into action, the services of capable and committed people are necessary. To this end, management should institute proper performance appraisal systems which permit people to compare their performance with others and to find out where they stand. These systems also help management to identify 'star' performers easily and reward then adequately. Perspiration does not go far without a little bit of inspiration.

Directing

People should be motivated to implement new strategies in desired ways. It is not sufficient merely to have people who can do the job. It is necessary to have people who want to do the job, the way it needs to be done. In addition to traditional motivational techniques, managers should also make use of modern techniques in order to inspire people to peak performance.

Motivational Techniques

NOTES

The traditional motivational techniques are based on a reward-punishment psychology and involve the use of performance appraisals and performance-based incentive programmes. These approaches, including MBO indicate that specific results are best achieved by clearly outlining realistic goals and then, suitably rewarding those managers who achieve them. They are overly reliant on money as the primary motivator, while overlooking other factors that might be truly motivating to many managers. According to Morse and Martin, motivating the organisation to implement strategy requires the following:

- ***Supportive culture:*** The successful implementation of strategy must take into account the history of an organisation and dominant values or culture that exists. The corporate culture is a system of shared beliefs and values that the people within the corporation hold.

  Some of the critical dimensions of culture are:

  - *Clarity of direction:* How well the company's goals and plans for achieving them are known, understood, and found to be motivating throughout the organisation;
  - *Decision-making structure and processes:* Whether the culture is decision-oriented or decision-avoidant and whether decisions are made on the basis of sound information or 'seat of the pants' intuition;
  - *Management style:* Whether too little or too much participation in making decisions exists at each level of the company;
  - *Integration of effort:* Whether teamwork, sharing, and smooth meshing of activities accurately describes the culture or the opposite;
  - *Performance orientation:* Whether people feel accountable for end results and whether rewards are related to performance or not;
  - *Compensation:* Whether it is equitably, fairly administered and motivational or not;
  - *Human resource development:* How much this characterises the culture;
  - *Organisational vitality:* That drive to perform and that sense of urgency and desire to be a winner which some organisations have and others do not;
  - *Risk taking:* Whether it is encouraged or punished; and
  - *Finally, competitive image:* Whether company views itself as faster, sharper and better than the competitor, or vice versa.

Every company should try to measure these dimensions of culture and determine what kind of culture and sub-cultures best support the company's strategy. Senior executives should determine the desired culture, considering the short-term requirements of the company.

- ***Short-term motivational environment:*** Whereas a company's culture affects strategy implementation over a long period, the short-term motivational environment affects strategy implementation, today. The short-term environment reflects the immediate mood of the company's employees and contributes to the way they face immediate problems. Building such an environment involves actions similar to public relations activities: (*i*) communication programmes; (*ii*) morale-building conferences; (*iii*) visibility of charismatic leaders; (*iv*) use of awards, language, symbols, gestures, etc.

NOTES

- ***Performance management:*** The traditional motivators (MBO, performance appraisal, etc.) should be logically and firmly linked to what is called an integrated performance management process. To this end, detailed budgets and programmes should be drawn. Individuals should also know, exactly what piece of the organisation structure they are accountable for and what goals and objectives they must attain this year to stay on plan. Performance management ensures that rewards and sanctions result from a measure of good or poor performance. It links human resource planning with the firm's strategy formulation and performance appraisal processes so as to guide the future efforts of the company.
- ***Individual motivators:*** In addition to the traditional motivating techniques, the organisation should also provide for individual motivators for achieving results, competently. Over-reliance on bonuses and incentives may not fully motivate individual managers in today's world. Top management should, therefore, fully understand the individual differences and devise an appropriate motivational strategy. Though, it is difficult to categorise individual motivators, some of the important ones may be stated thus:
  - *Mastery:* The act of mastering a new skill or to gain control over a challenging problem is most motivating to many individuals.
  - *Approval:* Lack of approval can hamper and constrict the performance of talented and bright managers.
  - *Risk and adventure:* High visibility positions having risk and adventure are mostly preferred by managers possessing entrepreneurial talents.
  - *Security:* In order to perform effectively and efficiently, managers need to feel that there is little at risk with respect to their careers.
  - *Power and influence:* Organisational positions that enable managers to gain power and control over human as well as non-human resources are highly motivating.

Strategic Control and Assessment

Strategic control, the last step of the strategic management process, is monitoring and evaluating the strategy management process as a whole, in order to make sure that it is operating properly. The focus is clearly on activities involved in environmental analysis, organisational direction, strategy formulation and strategy implementation ensuring that all steps of the strategy management process are appropriate, compatible and functioning properly. There are three basic steps to the strategic control process (Roush et al):

- ***Measure performance:*** Strategic audits are used to find what is actually happening in the organisation. Both qualitative and quantitative tools are employed for this purpose. According to S. Tilles, the qualitative measurement looks into five questions: (*i*) Is the strategy internally consistent? (*ii*) Is it consistent with its environment? (*iii*) Is it appropriate, given organisational resources? (*iv*) Is it too risky? (*v*) Is the time horizon of the strategy appropriate?

  Quantitative tools such as return on investment (the relationship berween the amount of income generated and the amount of assets required to operate the organisation); *z* score (an analysis that numerically weighs and sums five measures that are working capital/total assets; retained earnings/total assets;

NOTES

earning before interest and taxes/total assets; market value of equity/book value of total liabilities and sales/total assets—to find whether the company in question is likely to go sick and become bankrupt) and shareholders' audit, etc., are used to measure organisational performance.

- ***Compare performance to goals and standards:*** Here, management builds a case for concluding whether the, performance is according to the predetermined standards, in respect of certain key areas. At General Electric; the following eight types of standards are set for comparing performance at a later stage: profitability, market position, productivity, product, leadership, personnel growth, employee attitude, social responsibility, and standards reflecting balance between short-range and long-range goals.
- ***Corrective action:*** If the actual performance is not in line with predetermined standards set for the purpose corrective action is necessary. In such a case, every attempt is made to modify the enterprise's strategy and/or implementation so that the organisations' ability to accomplish its goals will be improved.

1.9 BUSINESS POLICY

Definition of Business Policy

Business Policy defines the scope of spheres within which decisions can be taken by the subordinates in an organisation. It permits the lower level management to deal with the problems and issues without consulting top level management every time for decisions.

Business policies are the guidelines developed by an organisation to govern its actions. They define the limits within which decisions must be made. Business policy also deals with acquisition of resources with which organizational goals can be achieved. Business policy is the study of the roles and responsibilities of top level management, the significant issues affecting organisational success and the decisions affecting organisation in long-run.

Features of Business Policy

An effective business policy must have following features:

1. **Specific:** Policy should be specific/definite. If it is uncertain, then the implementation will become difficult.
2. **Clear:** Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.
3. **Reliable/Uniform:** Policy must be uniform enough so that it can efficiently followed by the subordinates.
4. **Appropriate:** Policy should be appropriate to the present organisational goal.
5. **Simple:** A policy should be simple and easily understood by all in the organisation.
6. **Inclusive/Comprehensive:** In order to have a wide scope, a policy must be comprehensive.
7. **Flexible:** Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenario.
8. **Stable:** Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

NOTES

Difference between Policy and Strategy

The term "policy" should not be considered as synonymous to the term "strategy". The **difference between policy and strategy** can be summarised as follows:

1. Policy is a blueprint of the organizational activities which are repetitive/routine in nature. While strategy is concerned with those organisational decisions which have not been dealt/faced before in same form.
2. Policy formulation is responsibility of top level management. While strategy formulation is basically done by middle level management.
3. Policy deals with routine/daily activities essential for effective and efficient running of an organisation. While strategy deals with strategic decisions.
4. Policy is concerned with both thought and actions. While strategy is concerned mostly with action.
5. A policy is what is, or what is not done. While a strategy is the methodology used to achieve a target as prescribed by a policy.

1.10 SUMMARY

- Strategy is designed to help firms gain a competitive advantage over rivals. Competitive advantage comes from a firm's unique ability to perform activities more distinctively or more effectively than rivals. Tactics are the action plans or specific, step-by-step methods by which strategies are executed.
- Strategic planning tries to equip a firm with capabilities, needed to confront future uncertainties by taking a holistic view of the firm's external as well as internal environment. The importance of strategic planning has grown substantially in recent years due to rapid technological advances, emergence of new products, free market forces, changes in government policies, etc. Strategic planning offers a clear roadmap for the firm. It helps a firm choose its own 'niche' area and deploy its resources in the best possible manner.
- Strategic management process outlines the steps by which management converts a firm's values, mission and objectives into a workable strategy. It consists of a series of inter-related steps: First, the firm outlines its mission, *i.e.*, its reason for existence. Then, the long-term objectives in terms of profitability, productivity, competitive position, employee development, social responsibility, etc., are outlined. Second, the firm tries to look outside, to identify the opportunities and threats present in the environment. Third, depending on its own unique organisational capabilities, the firm tries to identify its focus areas. Fourth, strategies at corporate level, business level and functional level are formulated. Several strategic alternatives are considered here, with a view to match the firm's internal strengths with that of external opportunities. Fifth, the most suitable strategy is picked up (that helps the firm, reach its goals using its resources in the best possible way). Sixth, the chosen strategy is implemented carefully. To this end, a sound organisational structure, motivational climate, supportive organisational culture, etc., are created. Finally, the strategy is assessed, to find whether the chosen long-term goals are met or nor. If something goes wrong, rectificational steps are initiated. Apart from rectifying things, learning from past mistakes is also emphasised.

1.11 REVIEW QUESTIONS

NOTES

1. Define strategic planning. State the important benefits of strategic planning.
2. Define 'strategy'. Draw the distinction between (*a*) strategies and tactics; (*b*) strategies and policies, clearly.
3. Define Strategic management. What are the elements of strategic management? What is the role of CEO in strategic decisions?
4. Identify and briefly describe the grand or master strategies that grow out of the strategic planning process.
5. What is the difference between a single product strategy, a related diversification strategy and an unrelated diversification strategy?
6. Describe the three major generic strategies available at the, corporate level and explain the sub-categories within each. For each generic strategy, give an example of an organisation that appears to be pursuing that strategy.
7. Outline the major components of the strategic management process. Explain why engaging in strategic management is likely to be beneficial for an organisation.
8. Distinguish between:
   (*a*) Horizontal and Vertical Integration
   (*b*) Conglomerate and Concentric Diversification
   (*c*) Product and Market Development
   (*d*) Joint Venture and Strategic Alliance.
9. What are the three activities or capabilities that a firm should possess to support a (*i*) low-cost leadership strategy (*ii*) differentiation-based strategy?
10. Explain in detail, how SWOT analysis can be used to formulate strategy?
11. Explain the role of strategies at the functional level. Describe the correlation between functional strategies and distinctive competence.
12. Outline the process of Strategy Implementation.
13. Define Strategy Review and Control. Why is it necessary as a final stage in strategic management?

NOTES

UNIT 2: BUSINESS POLICY AND STRATEGIC MANAGEMENT

STRUCTURE

2.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to understand the following:

- Learn what business policy and strategy is all about;
- Know the framework and importance of strategic management;
- Know the strategic management process;
- Have an understanding of corporate visions and mission;
- Learn how strategy operates at different levels of the organisation;

Without a strategy the organization is like a ship without a rudder.

Joel Ross and Michael Kami

Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action. ***Peter Drucker***

2.2 INTRODUCTION

This chapter introduces the concept of business policy and strategic management. With the increased competition, the management of business has acquired strategic dimension. An professionals, including the Chartered Accountants, working towards growth of their businesses must possess sound knowledge of strategic management. Business policy and strategic management are highly intertwined.

NOTES

2.3 BUSINESS POLICY AS A DISCIPLINE

The origins of business policy can be traced back to 1911, when Harvard Business School introduced an integrative course in management aimed at the creation of general management capability. This course was based on interactive case studies which had been in use at the school for instructional purposes since 1908. The course was intended to enhance general managerial capability of students. However, the introduction of business policy in the curriculum of business schools/management institutes came much later. In 1969, the American Assembly of Collegiate Schools of Business, a regulatory body for business schools, made the course of business policy, a mandatory requirement for the purpose of recognition. During the next few decades, business policy as a course spread to different management institutes across different nations and become an integral part of management curriculum. Basically, business policy is considered as a capstone, integrative course offered to students who have previously been through a set of core functional area courses. The term 'Business Policy' has been traditionally used though new titles for the course have begun to be introduced in recent years.

According to William F Glueck, development in business policy arose from the developments in the use of planning techniques by managers. 'Starting from day-to-day planning in earlier times, managers tried to anticipate the future through preparation of budgets and using control systems like capital budgeting and management by objectives. With the inability of these techniques to adequately emphasize the role of future, long-range planning came to be used. Soon, long-range planning was replaced by strategic planning, and later by strategic management, a term that is currently used to describe the process of strategic decision making.

Business policy, as defined by Christensen and others, is "the study of the functions and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organisation and shape its future. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organisational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstance.

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

2.4 MEANING AND THE NATURE OF MANAGEMENT

To understand strategic management to be studied later, we need to have a basic understanding of the term management. The term 'management' can be used in two major contexts.

NOTES

(a) It is used with reference to a key group in an organisation in-charge of its affairs. In relation to an organisation, management is the chief organ entrusted with the task of making it a purposeful and productive entity, by undertaking the task of bringing together and integrating the disorganised resources of manpower, money, materials, and technology into a functioning whole.

An organisation becomes a unified functioning system when management systematically mobilises and utilises the diverse resources. The survival and success of an organisation depend to a large extent on the competence and character of its management. Management has to also facilitate organisational change and adaptation.

(b) The term is also used with reference to a set of inter-related functions and processes, to a field of study or discipline in social sciences and to a vocation or profession. The functions and processes of management are wide-ranging but closely inter-related. They range all the way from design of the organisation, determination of the goals and activities, mobilisation and acquisition of resources, allocation of tasks and resources among the personnel and activity units. They also include adoption of certain techniques, tools and methods for carrying on activities, through articulation of skills and efforts of organisational personnel in a unified manner and installation of communication and control systems to ensure that what is planned is achieved.

A wide range of definitions of management exist in the literature on management. Here we shall cite the definitions of a few theorists:

Peter Drucker: Management is a function, a discipline, a task to be done, and managers practise this discipline, carry out the functions and discharge these tasks.

Dalton McFarland: Management is the process by which managers create, direct, maintain and operate purposive organisations through systematic, co-ordinated and co-operative human effort.

Management is an influence process to make things happen, to gain command over phenomena, to induce and direct events and people in a particular manner. Influence is backed by power, competence, knowledge and resources. Managers formulate their goals, values and strategies, to cope with, to adapt and to adjust themselves with the behaviour and changes of the environment.

2.5 WHAT IS STRATEGY?

A typical dictionary will define the word strategy as something that has to do with war and ways to win over enemy. In business organisational context the term is not much different. Businesses have to respond to dynamic and often hostile external forces for pursuit of their mission.

The very injection of the idea of strategy into business organisations is intended to unravel complexity and to reduce uncertainty of the environment Strategy seeks to relate the goals of the organisation to the means of achieving them. Strategy is the game plan management is using to take market position, conduct its operations, attract and satisfy customers, compete successfully, and achieve organisational objectives.

To the extent the term strategy is associated with unified design and action for achieving major goals, gaining command over the situation with a long-range perspective and securing a critically advantageous position. Its implications for corporate functioning are obvious.

We may define the term 'strategy' as a long range blueprint of an organization's desired image, direction and destination what it wants to be, what it wants to do and where it wants to go.

Following other definitions are also important to understand the term:

NOTES

Igor H. Ansoff: The common thread among the organization's activities and product-markets that defines the essential nature of business that the organisation was or planned to be in future.

William F. Glueck : A unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved.

Strategy is consciously considered and flexibly designed scheme of corporate intent and action to achieve effectiveness, to mobilise resources, to direct effort and behaviour to handle events and problems, to perceive and utilise opportunities, and to meet challenges and threats to corporate survival and success.

Strategy is meant to fill in the need of organisations for a sense of dynamic direction, focus and cohesiveness. Objectives and goals alone do not fill in the need. Strategy provides an integrated framework for the top management to search for evaluate and exploit beneficial opportunities, to perceive and meet potential threats and crises, to make full use of resources and strengths, to offset corporate weaknesses and to make major decisions in general. Top management operates in an environment of partial ignorance and uncertainty.

Strategies are formulated at the corporate, divisional and functional level. Corporate strategies are formulated by the top managers. They include the determination of the business lines, expansion and growth, vertical and horizontal integration, diversification, takeovers and mergers, new investment and divestment areas, R & D projects, and so on. These corporate wide strategies need to be operationalized by divisional and functional strategies regarding product lines, production volumes, quality ranges, prices, product promotion, market penetration, purchasing sources, personnel development and like.

However, strategy is no substitute for sound, alert and responsible management. Strategy can never be perfect flawless and optimal. It is in the very nature of strategy that it is flexible and pragmatic; it is art of the possible; it does not preclude second-best choices, trade-offs, sudden emergencies, pervasive pressures, failures and frustrations. However, in a sound strategy, allowances are made for possible miscalculations and unanticipated events.

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

The biggest portion of a company's current strategy flows from previously initiated actions and business approaches that are working well enough to merit continuation and newly launched managerial initiatives to strengthen the company's overall position and performance. This part of management's game plan is deliberate and proactive, standing as the product of management's analysis and strategic thinking about the company's situation and its conclusions about how to position the company in the marketplace and tackle the task of competing for buyer patronage.

But not every strategic move is the result of proactive plotting and deliberate management design. Things happen that cannot be fully anticipated or planned for. When market and competitive conditions take an unexpected turn or some aspect of a company's strategy hits a stone wall, some kind of strategic reaction or adjustment is required. Hence, a portion of a company's strategy is always developed as a reasoned response to unforeseen developments. But apart from adapting strategy to changes in the market, there is also a need to adapt strategy as new learning emerges about which pieces of the strategy are working well and which aren't and as management hits upon new ideas for improving the strategy. Crafting a strategy thus involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy.

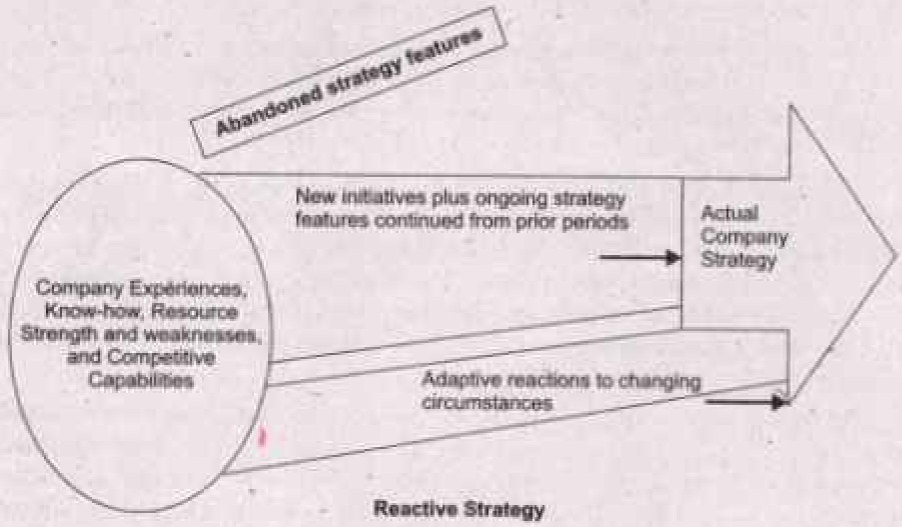

Fig. 2.1. A compnay's Actual Strategy is Partly Planned and Partly Reactive

2.6 CORPORATE STRATEGY

Corporate strategy is basically the growth design of the firm; it spells out the growth objective – the direction, extent, pace and timing of the firm's growth. It also spells out the strategy for achieving the growth. Thus, we can also describe corporate strategy as the objective-strategy design of the firm. To arrive at such an objective-strategy design is the basic burden of corporate strategy formulation.

In corporate strategy, the set of goals has a system of priorities; the combination, the sequence and the timing of the moves, means and approaches are determined in advance, the initiative and responses have a cogent rationale behind them, are highly integrated and pragmatic; the implications of decisions and action programmes are corporate wide, flexible and contingent.

In general, a corporate strategy has the following characteristics:

- It is generally long-range in nature, though it is valid for short-range situations also and has short-range implications.
- It is action oriented and is more specific than objectives.
- It is multipronged and integrated.
- It is flexible and dynamic.
- It is formulated at the top management level though middle and lower level managers are associated in their formulation and in designing sub-strategies.

NOTES

- It is generally meant to cope with a competitive and complex setting.
- It flows out of the goals and objectives of the enterprise and is meant to translate them into realities.
- It is concerned with perceiving opportunities and threats and seizing initiatives to cope with them. It is also concerned with deployment of limited organisational resources in the best possible manner.
- It gives importance to combination, sequence, timing, direction and depth of various moves and action initiatives taken by managers to handle environmental uncertainties and complexities.
- It provides unified criteria for managers in function of decision making .

2.6.1 Nature, Scope and Concerns of Corporate Strategy

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

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

2.6.2 What does Corporate Strategy Ensure?

Corporate strategy in the first place ensures the growth of the firm and ensures the correct alignment of the firm with its environment. It serves as the design for filling the strategic planning gap. It also helps build the relevant competitive advantages. Masterminding and working out the right fit between the firm and its external environment is the primary contribution of corporate strategy. Basically the purpose of corporate strategy is to harness the opportunities available in the environment, countering the threats embedded therein. How does corporate strategy actually accomplish this task? It is by matching the unique capabilities of the firm with the promises and threats of the environment that it achieves this task.

It is obvious that responding to environment is part and parcel of a firm's existence. The question is how good or how methodical is the response. This is where strategy steps in. Strategy is the opposite of adhoc responses to the changes in the environment-in competition, consumer tastes, technology and other variables. It amounts to long-term, well thought-out and prepared responses to the various forces in the business environment.

2.7 THE DYNAMICS OF COMPETITIVE STRATEGY

NOTES

Strategic thinking involves orientation of the firm's internal environment with the changes of the external environment. The competitive strategy evolves out of consideration of several factors that are external to the firm as shown in the figure - Context in which competitive strategy is formulated.

The economic and technical components of the external environment are considered as major factors leading to new opportunities for the organisation and also closing threats. Similarly the broader expectation of the society in which the organisation operates is again an important factor to determine the competitive strategy. The strengths and weaknesses of organisations are the internal factors, which determine the corporate strategy. It is to be analysed and find out in which functional area such as marketing, R & D, operations, etc., the organisation has superiority over the competitors. The strength is to considered in the context of the opportunities arising in the external environment. The personal values of the key implementers also play major roles in formulating the competitive strategy.

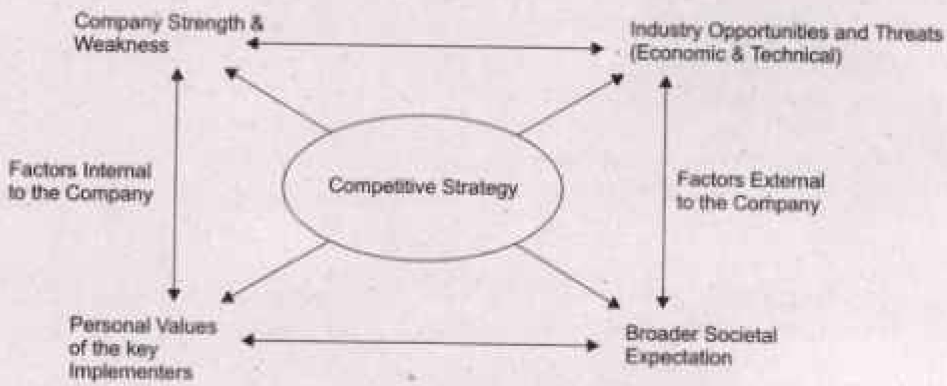

Fig. 2.2. Context in wlich competitive strategy is formulated

2.8 STRATEGIC MANAGEMENT

In a hyper competitive marketplace, companies can operate successfully by creating and delivering superior value to target customers and also learning how to adapt to a continuously changing business environment. So to meet changing conditions in their industries, companies need to be farsighted and visionary, and must develop long-term strategies. Strategic planning, an important component of strategic management, involves developing a strategy to meet competition and ensure long-term survival and growth. The overall objective of strategic management is two fold:

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

The present organisational operations are highly influenced by the increasing rate of change in the environment and the ripple effect created on the organisation. Changes can be external to the firm or it may be change introduced to the firms by the managers. It may manifest in the blurring of industry and firm boundaries, driven by technology, deregulation, or, through globalisation. The tasks of crafting, implementing and executing company strategies are the heart and soul of managing a business enterprise.

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

NOTES

No matter how well the strategic processes have been designed and implemented, success depends on how well each department performs its customer-value-adding activities and how well the departments work together to serve the customer. Value chains and value delivery networks have become popular with organisations that are sensitive to the wants and needs of consumers. Ultimately the aim of strategic management is to save the company's business products, services and communications so that they achieve targeted profits and growth.

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

2.8.1 Framework

The basic framework of strategic process can be described in a sequence of five stages as shown in the figure - *Framework of strategic management.* The five stages are as follows:

Stage one – Where are we Now? (Beginning): This is the starting point of strategic planning and consists of doing a situational analysis of the firm in the environmental context. Here the firm must find out its relative market position, corporate image, its strength and weakness and also environmental threats and opportunities. This is also known as SWOT (Strength, Weakness, Opportunity, Threat) analysis. You may refer third chapter for a detailed discussion on SWOT analysis.

Stage two – Where are we Want to Be? (Ends): This is a process of goal setting for the organisation after it has finalised its vision and mission. A strategic vision is a roadmap of the company's future – providing specifics about technology and customer focus, the geographic and product markets to be pursued, the capabilities it plans to develop, and the kind of company that management is trying to create.

An organisation's Mission states what customers it serves, what need it satisfies, and what type of product it offers.

Stage three – How Might we Get There? (Means): Here the organisation deals with the various strategic alternatives it has.

Stage four – Which Way is Best? (Evaluation): Out of all the alternatives generated in the earlier stage the organisation selects the best suitable alternative, in line with its SWOT analysis.

Stage five – How Can we Ensure Arrival? (Control): This is an implementation and control stage of a suitable strategy. Here again the organisation continuously does situational analysis and repeats the stages again.

NOTES

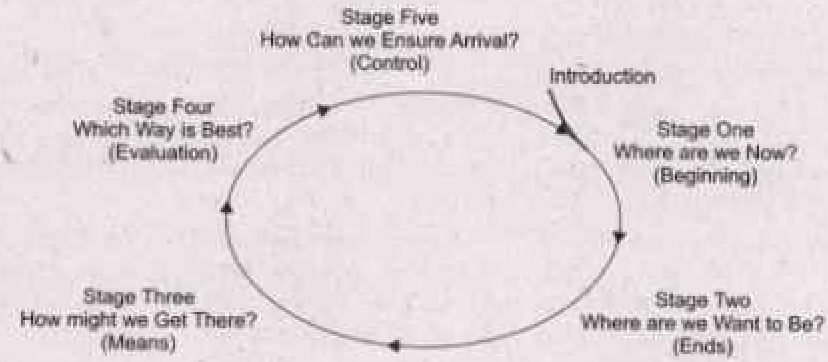

Fig. 2.3. Framework of Strategic Management

2.8.2 Importance of Strategic Management

Strategic planning and implementation have become must for all organisations for their survival and growth in the present turbulent business environment. 'Survival of fittest 'as propagated by Darwin is the only principle of survival for organisation, where 'fittest' are not the 'largest' or 'strongest' organisation but those who can change and adapt successfully to the changes in business environment. Many organisational giants have also followed the path of extinction failing to manage drastic changes in the business environment. Also business follows the war principle of 'win or lose', and not necessarily win-win situation arises in business world. Hence the organisation has to build its competitive advantage over the competitors in the business warfare in order to win. This can be done only by following process of strategic management – strategic analysis, formulation and implementation. The major benefits of strategic management are:

- Strategic management helps organisations to be more proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control there own destiny in a better manner. It helps them in working within vagaries of environment and shaping it instead of getting carried away by its turbulence or uncertainties.
- Strategic management provides framework for all the major business decisions of an enterprise such as decisions on businesses, products, markets, manufacturing facilities, investments and organisational structure. It provides better guidance to entire organisation on the crucial point – what it is trying to do.
- Strategic management is concerned with ensuring a good future for the firm. It seeks to prepare the corporation to face the future and act as pathfinder to various business opportunities. Organisations are able to identify the available opportunities and identify ways and means as how to reach them.
- Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.
- Over a period of time strategic management helps organisation to evolve certain core competencies and competitive advantages that assist in its fight for survival and growth.

2.9 STRATEGIC DECISION MAKING

NOTES

Decision making is a managerial process and function of choosing a particular course of action out of several alternative courses for the purpose of accomplishment of the organisational goals. Decisions may relate to general day-to-day operations. They may be major or minor. They may also be strategic in nature. Strategic decisions are different in nature than all other decisions which are taken at various levels of the organisation during day-to-day working of the organisations. The major dimensions of strategic decisions are given below:

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

2.10 STRATEGIC MANAGEMENT MODEL

Identifying an organisation's existing vision, mission, objectives, and strategies is the starting point for any strategic management process because an organisation present situation and condition may preclude certain strategies and may even dictate a particular course of action. Every organisation has a vision, mission, objectives, and strategy, even if these elements are not consciously designed, written, or communicated. The answer to where an organisation is going can be determined largely by where the organisation has been.

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 could require a change in the firm's mission.

Therefore, strategy formulation, implementation, and evaluation activities should be performed on a continual basis, not just at the end of the year or semi-annually. The strategic management process never really ends.

NOTES

The strategic management process can best be studied and applied using a model. Every model represents some kind of process. The model illustrated in the *Figure: Strategic management model* is a widely accepted, comprehensive. This model like any other model of management does not guarantee sure-shot success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. Relationships among major components of the strategic management process are shown in the model.

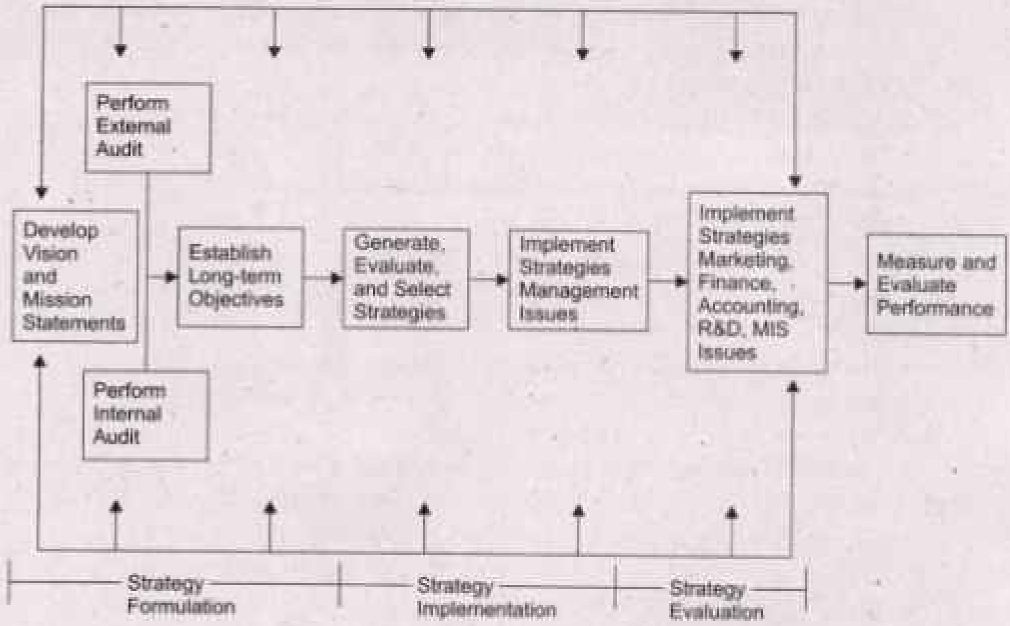

Fig. 2.4. Strategic Management Model

The strategic management process is not as cleanly divided and neatly performed in practice as the strategic management model suggests. Strategists do not go through the process in lockstep fashion. Generally, there is give-and-take among hierarchical levels of an organisation. Many organisations conduct formal meetings semi-annually to discuss and update the firm's vision/mission, opportunities/threats, strengths/ weaknesses, strategies, objectives, policies, and performance. Creativity and candour from participants are encouraged in meeting. Good communication and feedback are needed throughout the strategic management process.

Application of the strategic management process is typically more formal in larger and well-established organisations. Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Smaller businesses tend to be less formal. Firms that compete in complex, rapidly changing environments, such as technology companies, tend to be more formal in strategic planning. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic management concepts. Greater formality in applying the strategic management process is usually positively associated with the cost, comprehensiveness, accuracy, and success of planning across all types and sizes of organisations.

2.11 VISION, MISSION AND OBJECTIVES

NOTES

Amongst the various steps in the strategic management model we will restrict discussion to vision, mission and objectives in this chapter.

How can you lead if you do not know where are you going?

George Newman, The Conference Board

Management's job is not to see the company as it is ...... but as it can become.

– John W Teets, CEO, Greyhound Corporation

2.11.1 The Vision

Very early in the strategy making process, a company's senior managers must wrestle with the issue of what directional path the company should take and what changes in the company's product-market-customer-technology focus would improve its current market position and future prospects. Deciding to commit the company to one path versus another pushes managers to draw some carefully reasoned conclusions about how to try to modify the company's business makeup and the market position it should stake out.

Top management's views and conclusions about the company's direction and the product customer-market-technology focus constitute a strategic vision for the company. A strategic vision delineates management's aspirations for the business, providing a panoramic view of the "where we are going" and a convincing rationale for why this makes good business sense for the company. A strategic vision thus points an organisation in a particular direction, charts a strategic path for it to follow in preparing for the future, and molds organisational identity. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction. For instance, Henry Ford's vision of a car in every garage had power because it captured the imagination of others, aided internal efforts to mobilize the Ford Motor Company's resources, and served as a reference point for gauging the merits of the company's strategic actions.

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

The three elements of a strategic vision:

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

NOTES

Some examples of Vision are:

- ***ICAI:*** *World's leading accounting body, a regulator and developer of trusted and independent professionals with world class competencies in accounting, assurance, taxation, finance and business advisory services.*
- ***Reliance Industries:*** *Through sustainable measures, create value for the nation, enhance quality of life across the entire socio-econmic spectrum and help spearhead Indian as a global leader in the domains where we operate.*
- ***TATA Power:*** *To be the most admired and responsible Integrated Power Company with international footprint, delivering sustainable value to all stakeholder.*
- ***TATA Motors:*** *To be a world class corporate constantly furthering the interest of all its stakeholders.*
- ***Hindustan Unilever:*** *Unilever products touch the lives of over 2 billion people every day – whether that's through feeling great because they've got shiny hair and a brilliant smile, keeping their homes fresh and clean, or by enjoying a great cup of tea, satisfying meal or healthy snack.*

The four pillars of our vision set out the long-term direction for the company – where we want to go and how we are going to get there:

- *We work to create a better future everyday.*
- *We help people feel good, look good and get more out of life with brands and services that are good for them and good for others.*
- *We will inspire people to take small everyday actions that can add up to a big difference for the world.*
- *We will develop new ways of doing business with the aim of doubling the size of our company while reducing our environmental impact.*
- *We've always believed in the power of our brands to improve the quality of people's lives and in doing the right thing. As our business grows, so do our responsibilities. We recognise that global challenges such as climate change concern us all. Considering the wider impact of our actions is embedded in our values and is a fundamental part of who we are.*

How to Develop a Strategic Vision

- The entrepreneurial challenge in developing a strategic vision is to think creatively about how to prepare a company for the future.
- Forming a strategic vision is an exercise in intelligent entrepreneurship.
- Many successful organisations need to change direction not in order to survive but in order to maintain their success.
- A well-articulated strategic vision creates enthusiasm for the course management has charted and engages members of the organisation.
- The best-worded vision statement clearly and crisply illuminates the direction in which organisation is headed.

2.11.2 Mission

According to Glueck & Jauch mission is answer to the question 'what business are we in' that is faced by corporate-level strategist. Analysis shows that in actual practice many business firms fail to conceptualise and articulate the mission and

NOTES

business definition with the required clarity. And such firms are seen to fumble in the selection of opportunities and the choice of strategies. Firms wedded to the idea of strategic management of their enterprise cannot afford to be lax in the matter of mission and business definitions, as the two ideas are absolutely central to strategic planning.

Why organisation should have mission?

- To ensure unanimity of purpose within the organisation.
- To provide a basis for motivating the use of the organisation's resources.
- To develop a basis, or standard, for allocating organisational resources.
- To establish a general tone or organisational climate, for example, to suggest a business like operation.
- To serve as a focal point for those who can identify with the organisation's purpose and direction, and to deter those who cannot form participating further in the organisation's activities.
- To facilitate the translation of objective and goals into a work structure involving the assignment of tasks to responsible elements within the organisation.
- To specify organisational purposes and the translation of these purposes into goals in such a way that cost time, and performance parameters can be assessed and controlled.

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

Mission should contain elements of long-term strategy as well as desired outcomes they often basic values and the philosophy of the organisations that is perceived by the senior managers at the senior level who write them. A good mission statement should be of precise, clear, feasible, distinctive and motivating. It should indicate major components of strategy. Following points are useful while writing mission of a company:

- One of the roles of a mission statement is to give the organisation its own special identity, business emphasis and path for development – one that typically sets it apart from other similarly situated companies.
- A company's business is defined by what needs it trying to satisfy, by which customer groups it is targeting and by the technologies and competencies it uses and the activities it performs.
- Technology, competencies and activities are important in defining a company's business because they indicate the boundaries on its operation.
- Good mission statements are highly personalized – unique to the organisation for which they are developed.

Some examples of Mission are:

✦ ***Reliance Industries:***

- *Create value for all stakeholders*
- *Grow through innovation*
- *Lead in good governance practices*
- *Use sustainability to drive product development and enhance operational efficiencies*

NOTES

- *Ensure energy security of the nation*
- *Foster rural prosperity*

- ***TATA Power:*** *We will become the most admired and responsible Power Company delivering sustainable value by:*
  - *Operating our assets at benchmark levels.*
  - *Executing projects safely, with predictable benchmark quality, cost and time.*
  - *Growing the Tata Power businesses, be it across the value chain or across geographies, and also in allied or new businesses.*
  - *Driving Organisation Transformation that will make us have the conviction and capabilities to deliver on our strategic intent.*
  - *Achieving our sustainability intent of 'Leadership with Care', by having leading and best practices on Care for the Environment, Care for the Community, Care for the Customers and Shareholders, and Care for the People.*
- ***TATA Motors:***
  - **Shareholders:** *To consistently create shareholder value by generating returns in exess of Weighted.*
  - *Average Cost of Capital (WACC) during the upturn and at least equal to Weighted Average Cost of.*
  - *Capital (WACC) during the downturn of the business cycle.*
  - **Customers:** *To strengthen the Tata brand and create lasting relationships with the customers by working closely with business partners to provide superior value for money over the life cycle.*
  - **Employees:** *To create a seamless organisation that incubates and promotes innovation, excellence and the Tata core values.*
  - **Vendor and Channel Partners:** *To foster a long-term relationship so as to introduce a broad range of innovative products and services, that would benefit our customers and other stakeholders.*
  - **Community:** *To proactively participate in reshaping the country's economic growth. To take a holistic approach towards environmental protection.*

What is Our Mission? And What Business are we in?

The well-known management experts, Peter Drucker and Theodore Levitt were among the first to agitate this issue through their writings. They emphasised that as the first step in the business planning endeavour every business firm must clarify the corporate mission and define accurately the business the firm is engaged in. They also explained that towards facilitating this task, the firm should raise and answer certain basic questions concerning its business, such as:

- What is our mission?
- What is our ultimate purpose?
- What do we want to become?
- What kind of growth do we seek?
- What business are we in?
- Do we understand our business correctly and define it accurately in its broadest connotation?
- Do we know our customer?

- Whom do we intend to serve?
- What human need do we intend to serve through our offer?
- What brings us to this particular business?
- What would be the nature of this business in the future?
- In what business would we like to be in, in the future?

NOTES

At the time these two experts raised this issue, the business managers of the world did not fully appreciate the import of these questions; those were days when business management was still a relatively simple process even in industrially advanced countries like the US. It was only in subsequent years that captains of industry all over the world understood the significance of the seemingly simple questions raised by Drucker and Levitt.

The corporate mission is an expression of the growth ambition of the firm. It is, in fact, the firm's future visualised. It provides a dramatic picture of what the company wants to become. It is the corporation's dream crystallised. It is a colourful sketch of how the firm wants its future to look, irrespective of the current position. In other words, the mission is a grand design of the firm's future.

Mission amplifies what brings the firm to this business or why it is there, what existence it seeks and what purpose it seeks to achieve as a business firm. In other words, the mission serves as a justification for the firm's very presence and existence; it legitimises the firm's presence.

Mission is also an expression of the vision of the corporation, its founder/leader. To make the vision come alive and become relevant it needs to be spelt out. It is through the mission that the firm spells out its vision.

It represents the common purpose, which the entire firm shares and pursues. A mission is not a confidential affair to be confined at the top; it has to be open to the entire company. All people are supposed to draw meaning and direction from it. It adds zeal to the firm and its people. A mission is not a fad – it is a tool to build and sustain commitment of the people to the corporation's policies. A mission is not rhetoric – it is the corporation's guiding principle.

A mission does not represent a specific target. At the same time it is not all euphoria either. It represents the whole thrust of the firm. To quote Thomas Watson, Jr., former chairman of IBM, "The basic philosophy, spirit, and drive of an organisation have far more to do with its relative achievements than technological or economic resources, organisational structure, innovation and timing. It also expresses the core values and beliefs of the firm".

Every organisation functions through a network of aims. Mission is the foundation from which the network of aims is built. The mission serves as a proclamation to insiders and outsiders on what the corporation stands for. A mission, however, is not a PR document; while it legitimises the corporation's existence and role in society, its main purpose is to give internal direction for the future of the corporation.

According to Peter Drucker, every organisation must ask an important question *"What business are we in?"* and get the correct and meaningful answer. The answer should have marketing or external perspective and should not be restated to the production or generic activities of business. The table given below will clarify and highlight the importance of external perspective.

NOTES

What business are we in?

Company	Production-oriented answer	Marketing-oriented answer
AT&T	We operate a long-distance telephone company.	We provide multiple forms of reliable, efficient and inexpensive telecommunication services.
Indian Oil	We produce oil and gasoline products.	We provide various types of safe and cost-effective energy.
Indian Railways	We run a railroad.	We offer a transportation and material handling system.
Eastman Kodak	We make cameras and film.	We help preserve beautiful memories.
Revlon	In the factory, we make cosmetics.	In the drugstore, we sell hope.

Understanding Mission and Purpose: The mission is a statement which defines the role that an organisation plays in the society. The organisations also have some purpose that is anything that an organisation strives for. Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission and purpose. We can described mission as "a statement which defines the role that an organisation plays in the society", and purpose as "anything which an organisation strives for". In business policy, both 'these terms are either used jointly or singly. Since both mission and purpose go hand in hand, they can be used together while maintaining the basic difference between them. Mission strictly refers to the particular needs of the society, for instance, its information needs. Purpose relates to what the organisation strives to achieve in order to fulfil its mission to the society. A book publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner.

2.11.3 Objectives and Goals

Business organisation translates their vision and mission into objectives. As such the term objectives are synonymous with goals, however, we will make an attempt to distinguish the two. Objectives are open-ended attributes that denote the future states or outcomes. Goals are close-ended attrtbutes which are precise and expressed in specific terms. Thus the goals are more specific and translate the objectives to short term perspective. However, this distinction is not made by several theorists on the subject Accordingly, we will also use the term interchangeably.

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

All organisations have objectives. The pursuit of objectives is an unending process such that organisations sustain themselves. They provide meaning and sense of direction to organisational endeavour. Organisational structure and activities are designed and resources are allocated around the objectives to facilitate their achievement. They also act as benchmarks for guiding organisational activity and for evaluating how the organisation is performing.

NOTES

Objectives with strategic focus relate to outcomes that strengthen an organisations overall business position and competitive vitality. Objective to be meaningful to serve the intended role must possess following characteristics:

- Objectives should define the organisation's relationship with its environment.
- They should be facilitative towards achievement of mission and purpose.
- They should provide the basis for strategic decision-making.
- They should provide standards for performance appraisal.
- Objectives should be understandable.
- Objectives should be concrete and specific.
- Objectives should be related to a time frame.
- Objectives should be measurable and controllable.
- Objectives should be challenging.
- Different objectives should correlate with each other
- Objectives should be set within constraints.

2.12 STRATEGIC LEVELS IN ORGANISATIONS

A typical large organisation is a multidivisional organisation that competes in several different businesses. It has separate self-contained divisions to manage each of these. There are three main levels of management: corporate, business, and functional. General Managers are found at the first two of these levels, but their strategic roles differ depending on their sphere of responsibility.

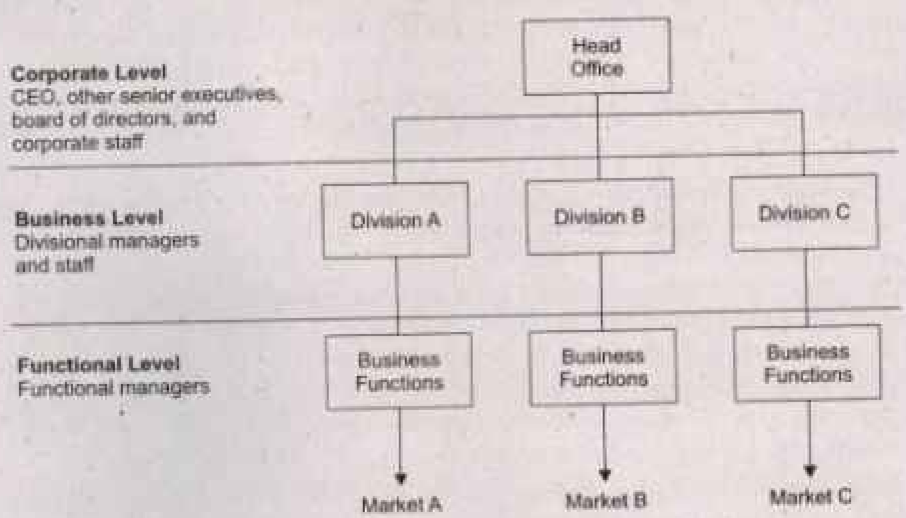

Fig. 2.5. Levels of Strategic Management

An organisation is divided into several functions and departments that work together to bring a particular product or service to the market. If a company provides several different kinds of products or services, it often duplicates these functions and creates a series of self-contained divisions (each of which contain, its own set of functions) to manage each different product or service. The general managers of these divisions then become responsible for their particular product line. The over-riding concern of general managers is for the health of the whole company or division under

NOTES

their direction; they are responsible for deciding how to create a competitive advantage and achieve high profitability with the resources and capital they have at their disposal.

The corporate level of management consists of the chief executive officer (CEO), orher senior executives, the board of directors, and corporate staff. These individuals occupy the apex of decision making within the organisation. 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 organisation. This role includes defining the mission and goals of the organisation, 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 organisation.

Consider Godrej as an example. Godrej is active in a wide range of businesses, including soaps, insecticides, edible oil, furniture, Information Technology, and real estate. The main strategic responsibilities of its Group Chairman, Adi Godrej, are setting overall strategic objectives, allocating resources among the different business areas, deciding whether the firm should divest itself of any of its businesses, and determining whether it should acquire any new ones. In other words, it is up to Adi Godrej to develop strategies that span individual businesses; his concern is with building and managing the corporate portfolio of businesses to maximize corporate profitability.

It is not his specific responsibility to develop strategies for competing in the individual business areas, such as financial services. The development of such strategies is the responsibility of the general managers in these different businesses or ***business level managers***.

Besides overseeing resource allocation and managing the divestment and acquisition processes, corporate-level managers provide a link between the people who oversee the strategic development of a firm and those who own it (the shareholders). Corporate-level managers, and particularly the CEO, can be viewed as the guardians of shareholder welfare. It is their responsibility to ensure that the corporate and business strategies that the company pursues are consistent with maximizing shareholder wealth. If they are not, then ultimately the CEO is likely to be called to account by the shareholders.

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. Thus, whereas corporate-level general managers are concerned with strategies that span individual businesses, business-level general managers are concerned with strategies that are specific to a particular business.

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 organisational activity, whereas general managers oversee the operation of a whole company or division. Although they are not responsible for the overall performance of the organisation, functional managers nevertheless have a major strategic role: to develop functional strategies in their area that help fulfil the strategic objectives set by business- and corporate-level general managers.

Functional managers provide most of the information that makes it possible for business- and corporate-level general managers to, formulate realistic and attainable strategies. Indeed, because they are closer to the customer than the typical general manager is, functional managers themselves may generate important ideas that subsequently may become major strategies for the company. Thus, it is important for general managers to listen closely to the ideas of their functional managers. An equally great responsibility for managers at the operational level is strategy implementation: the execution of corporate and business-level plans.

Characteristics of Strategic Management Decisions at Different Levels

Characteristic	Level of Strategy		
	Corporate	Business	Functional
Type	Conceptual	Mixed	Operational
Measurability	Value judgements dominant	Semi quantifiable	Usually quantifiable
Frequency	Sporadic or Periodic	Periodic or sporadic	Periodic
Relation to present activities	Innovative	Mixed	Supplementary
Risk	Wide range	Moderate	Low
Profit Potential	Large	Medium	Small
Cost	Major	Medium	Modest
Time horizon	Long range	Medium range	Short range
Flexibility	High	Medium	Low
Cooperation required	Considerable	Moderate	Little

2.13 SUMMARY

- With the increased competition, the management of businesses have acquired strategic dimensions. We initiate to explain the meaning of strategy. A company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customer, compete successfully and achieve organisational objectives. This chapter elucidates business policy as a discipline in management. It presents a framework for understanding strategic decision making.
- Corporate strategy is also discussed which is basically a growth design of the firm. It serves as the measure for filling the strategic planning gap. Later we learned the concept of dynamics of competitive strategy which involves several factors from external environment.

NOTES

- Strategic management refers to the managerial process of forming strategic vision, setting objectives, crafting a strategy, implementing and executing strategy. In the chapter, we have also discussed the concept of strategic decision making and strategic management model. Amongst the various steps in the strategic management model we emphasized on the vision, mission, objectives and goals in the chapter.
- Later, the three strategic levels in an organisation are explained. Managers formulate and implement strategies at corporate level, business level and functional level.

2.14 REVIEW QUESTIONS

1. What is strategy?
2. Explain meaning and the nature of management?
3. What does corporate strategy ensure?
4. Explain importance of strategic management.
5. Explain the basic framework of strategic process.
6. How to develop a strategic vision?
7. Explain the strategic levels in organisations.

UNIT 3: STRATEGIC MANAGEMENT IN NON-PROFIT ORGANISATIONS

NOTES

STRUCTURE

3.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to :

- Understand different categories of non-profit organisation;
- Discuss the mission, objectives and goals of non-profit organisations;
- Analyse the process of strategy formulation and implementation of non-profit organisations;
- Discuss various popular strategies of non-profit organisations;
- Explain the strategic evaluation and control in non-profit organisations;
- Identify the measures to control the constraints.
- Analyse the need for environment scanning for formulation of strategies;
- Study the social and cultural environment in order to find out the business appropriateness;

NOTES

- Analyse the economic environment in order to find out the influence of income and expenditure pattern;
- Discuss the technological environment to find out the appropriateness of the technology;
- Explain the influence of the political environment on the business;
- Discuss the industry analysis in order to find out the growth of the industry.

3.2 INTRODUCTION

Traditionally, studies in strategic management have dealt with profit makrng business organisations engaged in manufacturing and/or service. They neglected the non-profit organisations. The basic concepts of strategic management discussed in the earlier chapters are applicable to profit and non-profit organisations. All organisations formulate the MOST, *i.e.*, Mission, Objectives, Strategies and Tactics. In fact, they analyse their environments – internal and external, formulate strategies analyse and select the appropriate strategies, implement the strategies and evaluate and control the strategies. However, there are distinct differences between profit and non-profit organisations.

William F. Glueck defined the term environmental analysis as, "the process by which strategists monitor the economic, governmental/legal, market/competitive, supplier/technological, geographic and social setting to determine opportunities and threats to their firms." "Environmental diagnosis consists of managerial decisions made by analysing the significance of data (opportunities and threats) of the environmental analysis".

3.3 CATEGORIES OF NON-PROFIT OGANISATIONS

Non-profit organisations can be basically classified into two groups, viz., (*i*) private non-profit organisations, and (*ii*) public non-profit organisations. Significant differences among profit organisations and non-profit private organisations are presented in Fig. 3.1.

	Profit Organisations	Non-Profit/Private Organisations
Ownership	Private	Private
Funding	Sales revenue	Membership fee, contributions from public and/or private sources, sales of products services.
Types	Single proprietorship, partnership, corporation	Floated by members
Activities	Production and/or Marketing of goods and/or services	Educational, charitable, social service Health service, foundation, cultural, religious, and recreational
Main objective	Profit maximisation	Serive maximisation

Fig. 3.1. Differences between Profit and Non-Profit/Private Organisations

Significant differences between business and non-profit government organisations are presented in Fig. 3.2.

Though, the public organisations like central government, state governments and local governments are also included under non-profit organisations, typically the term non-profit includes private non-profit organisations such as hospitals, private universities, private colleges, recreational societies, etc. Public utilities like transportation corporation, water supply corporations, dairy corporations are in a grey area somewhere between profit and non-profit organisations. Non-profit organisations assumes importance as the society particularly the low-income people depend on these organisations. Further, they provide services, which cannot be provided by the profit-making organisations.

1. **Types of Non-Profit Organisations:** The different types of non-profit organisations include:
   (*i*) Private educational institutions like private universities, colleges, and schools
   (*ii*) Charities.
   (*iii*) Social service organisations.
   (*iv*) Health service organisations like Sri Venkateswara Institute of Medical Sciences.

	Business	**Public Non-Profit Organisations**
Main Objective	Profit	Public servive
Economic Objectives	Profit required bankruptcy possible	No profit required bankruptcy unlikely
Structure	Frequently decentralised	Usually a centralised bureaucracy
Accountable to	Shareholders	Representative of the people
Control of Strategy	Management	Representatives of the people
Scope of Activity	Unlimited, no monoply	Limited, State monopoly
Major Source of Funds	Shareholders, banks, financial companies	Government Taxation

Fig. 3.2. Significant Differences between Business and Public (Government) Organisations

   (*v*) Foundations
   (*vi*) Cultural organisations.
   (*vii*) Religions organisations like Tirumala-Tirupati Devasthanams and Shirdi Sai Samsthanams.
   (*viii*) Social organisations.

Importance of Source Revenue

The sources of revenue is one of the important factors which differentiates the profit organisations and non-profit organisations. The profit organisations mainly depend upon the revenue of sales of goods and/or services. Their sources of income is the customer who buys and uses the product and/or service, and who pays for it when received. Profit results when the revenue is more than the costs of producing and distributing the product. Profit is the main measure of the corporation's effectiveness.

NOTES

The non-profit organisations depends on membership dues, assessments, donations, funding from sponsor agencies, subscriptions to the periodicals published by the organisations. Thus, revenue for these organisations comes from a variety of sources.

Strategic Issues in Non-profit Organisations

Strategic management is applicable for both profit-making organisations and non-profit organisations. Now, we discuss various issues of strategic management concerning to non-profit organisations. These issues include: formulation of mission, goals and objectives, environmental analysis, strategy formulation and implementation, and strategic control.

3.4 MISSION, OBJECTIVES AND GOALS

Even, non-profit organisation should have mission, objectives, and goals.

1. **Mission:** Formulation of well-defined mission is important to non-profit organisations to have a clear direction. In fact, the major non-profit organisations formulate mission. According to Peter F. Drucker, "the best non-profits devote a great deal of thought to defining their organisation's mission."

   The non-profit organisations while fonnulating the mission should consider the questions like: What is our business? Or what are our activities? Who is the customer? Or who are our clients? What does our customer (or client) consider the value? As Hesselbein explained, "more than any one thing, that made the difference. Because when you are clear about your mission, corporate goals and operating objectives flow from it."

   As an example, the mission statement of one non-profit medical institute is:

   "Our mission shall be the promotion of human knowledge within the field of the basic sciences (principally in the field of medical research and medical education) and the effective application thereof for the benefit of mankind."

   The mission statement of a management educational institute is:

   The establishment of a full-fledged management institute as an international centre of excellence for education, research and consultancy in all the areas of management.

2. **Objectives and Goals:** The non-profit organisations based on their mission statement, should formulate objectives and goals. But many non-profit organisations fail in this regard. Profit organisations can easily measure their production, sales, turnover, profits, market share, etc. But the non-profit organisations cannot have such clear goals. The reasons for the absence of clarity in goals are:

   (*i*) Many goals of the non-profit organisations are value-laden.

   (*ii*) Non-profit goals often involve important trade-offs.

   (*iii*) Goals may often be deliberately vague, broad and general like. "Protect our environment," "or provide high quahty education".

   Goals in non-profit organisations are often vague because leadership is subject to frequent changes and it leads to change in direction.

   Goals may sometimes not reflect the needs of the organisation's customers/clients as much as they reflect the wishes of the organisations financial donors. Some non-profit organisations, may not turn down substantial donations, if the donors insists that the funds be used for a purpose other than the basic mission of the organisation. In view of these observations, though, it is difficult to formulate goals compared to that in business firms, non-profit organisations should formulate goals. Formulation of objectives and goals will help the organisation to have a clear direction.

The non-profit organisations may formulate objectives and goals by considering the interests of all the stakeholders. They should bring balance among the conflicting interests of different stakeholders. The organisations can define specific, if not quantifiable objectives and goals. Methods of determining cost-benefit ratios and standards are essential. The standards like expenditure per client, norms for defining a deserving client may be determined. Such standards act as a surrogate performance measure when profit figures are not applicable.

The goals of the non-profit health organisation include:

(*i*) Community services like health, educational and environmental protection.

(*ii*) A centre for prevention of ill health, community problems.

(*iii*) Education for the community regarding health, sanitation, cleanliness, consumerism, etc.

(*iv*) Training and education of volunteers who will carry out the mission of the organisation like instructors, medical practitioners, religious priests, etc.

(*v*) Providing facilities for physicians, teachers, etc.

Determining the goals of a temple or church is equally perplexing. The goal to provide: (*i*) worship facilities, (*ii*) religious education, (*iii*) evangelical effort, (*iv*) missionary effort, (*v*) opportunities for members to fulfill social and psychological needs, (*vi*) fund raising for charitable organisations, (*vii*) contribution to the identification and solution of societal problems, (*viii*) contribution to the develoment of educational and health facilities like Sri Satya Sai Central Trust, (*ix*) revival of the ruined temples like Tirumala Tirupati Devasthanams. Figure 3.3 shows the objectives and goals of a management institute.

Objectives: To pursue the stated mission, the Institue strives to achieve the following objectives.

(*i*) To train young students add the value, develop their competency and inculcate professionalism among them in order to prepare appropriate managers and entrepreneurs for Eritrean economy.

(*ii*) To undertake research studies with a view to provide inputs to the policy makers of the Government, and business.

(*iii*) To organize management development and training programmes with a view to equip practicing managers with latest skills and techniques of management profession.

(*iv*) To organize seminars and conferences in order to disseminate the advances managerial knowledge to the practicing managers.

(*v*) To provide consultancy services with a view to solve the managerial and operational problems of Eritrean business.

(*vi*) To undertake any related activities to pursue the mission.

Strategies: To pursue the above mentioned objectives, the following strategies are formulated.

(*i*) Strengthening teaching facilities like curriculum revision, preparation of qualitative course material and teaching aids.

NOTES

(ii) Human resource development. It includes the development of junior staff through Ph.D., programmes of linkage Universities.

(iii) Secondment of senior faculty.

(iv) Support the library in the process of procurement of books and journals.

Goals: Our goals during the 1997-98 Academic year are:

(i) Educate the students towards their M.B.A. degree with conceptual, practical skills and knowledge.

(ii) Modify the curriculum incorporating the courses relevant to Eritrean business.

(iii) Carryout the research studies in the areas of

(a) Human Resource Management and

(b) International marketing

(iv) Provide Tutorial classes for the government offices who are pursuing certificate course in management of the Open University UK.

(v) Provide consultancy servives

(vi) Organisation of National and Internationl Seminars and Conferences.

(vii) Conduct Management Development and Training Programmes.

Fig. 3.3. Objectives and Goals of a Management Institute

3.5 STRATEGY FORMULATION AND IMPLEMENTATION

Strategy formulation is more or less the same in non-profit organisations compared to that of profit organisations. In general most of the organisations attempt to satisfy specific social needs. The strategies of non-profit organisations complement the strategies and services of governmental agencies. For example, the strategies of Ministry of Health, Government of India and the non-profit health organisations strategies are more or less similar. They include: providing medical and health facilities to the people, development of hospitals and health clinics, development of doctors and para-medical personnel etc. Some non-profit organisations have the distinct strategies. However, they are comparable with the corporate strategies. Fig. 3.4 shows the growth strategies for churches.

One of the nation's largest churches is Willow-creek Community Church in South Barrington, illinois, a Chicago suburb. Although the church was founded only in 1974, it now has over thirteen thousand parishioners. Its founder and pastor, Bill Hybels, adopted the growth strategy, based on business fundamentals. He originally went door to door asking people why they did not attend church. From this market research, he began to offer services that catered to the needs of his "customers". For instance, he holds full services on Wednesday evenings because some working parents prefer to spend Sundays with their children. And for those unable to attend any of the services, he provides his sermons on cassette tapes.

Another huge religious institution following a growth strategy in Houston's Second Baptist Church. With a Sunday morning attendance of twelve thousand, the church complex covers 32 acres. In 1984, however, the church was simply a conventional church on a large plot of land. Its incoming pastor, H.Edwin Young, was familiar with the demographics of the area: thousands on young families and single people new to Houston. He sold his vision of a growing church to his congregation and persuaded them to pledge over $1 million needed for new physical facilities while the church borrowed over $26 million for additional construction costs.

Pastor Young dispatched church members to study office management techniques at Xerox, and IBM and parking and people skills at Disney World. He varied religious services to fit particular needs. In addition to the traditional Sunday morning service, there is a Sunday evening servive that caters to a mostly singles crowd; and on Wednesday nights, separate services are offered, one traditional and one with religious rock music.

Today, computers regulate mood lighting during church services; shuttle buses bring late comers in from outlying parking decks; parking attendants empty the churches numerous parking lots every Sunday in half an hour; billboards and television ads invite people to visit this "Fellowship of Excitement", an information desk, is staffed with cheerful beginning at 6.00 A.M.; and a restaurant offers two types of menus; "saints" for those who prefer a low-caloric meal and "sinners" for those who desire richer food.

Fig. 3.4. Growth Strategies for Churches

NOTES

Sometimes, the strategies of non-profit organisations particularly government agencies differ from those of corporate strategies. One of the important reasons for the difference is the presence of greater political constraints upon their strategic choices. Most of the decisions in public organisations are to be approved by the ministers, parliaments or the legislative assemblies. These bodies politicalise the strategic decisions by their public visibility in the press. The rules, regulations, procedures and formalities of public organisations complicate the process of strategy formulation.

1. **Constraints on Strategic Management:** Though, there are some common features of the strategic management in profit and non-profit organisations, non-profit organisations are different from profit-making organisations. There are a number of characteristics peculiar to the non-profit organisations that constrain their behaviour and affect their strategic management. Newman and Wallender list the following five constraining characteristics:
   (*i*) Service is often intangible and hard to measure. This problem is compounded by the existence of multiple service objectives developed in order to satisfy multiple sponsors.
   (*ii*) Client influence may be weak. Often the organisation has a local monopoly, and payments by customers may be a very small source of funds.
   (*iii*) Strong employee commitment to profession or to a cause may undermine their allegiance to the organisation employing them.
   (*iv*) Resource contributors – notably fund contributors and government – may intrude upon the organisation's internal management.

   Stakeholder Constraints on Public Organisations are shown in Fig. 3.5

   In view of these constraints, the strategic management process for any given situation will be different in a non-profit organisation than in a profit making organisation.

NOTES

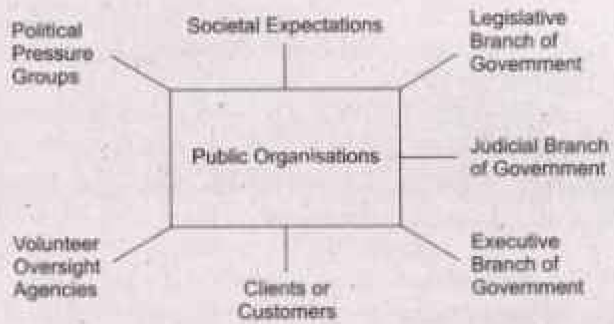

Fig. 3.5. Stakeholder Constraints on Public Organisations

2. **Impact of Constraints on Strategy Formulation:** The above mentioned constraints affect the long-range planning and decision-making. The complications arise in strategy formulation are:
   - **(i) Goal Conflicts Interfere with Rational Planning:** Divergent goals and objectives are likely as the non-profit organisations typically lacks a single and clear-cut goal. Different interests of the sponsors may prevent the management from formulating the goals. The low influence of the clients permits the organisation to have diversified values and goals to occur. This goal conflicting situation interfere with rational planning of the organisation.
   - **(ii) An Integrated Planning Focus Tends to Shift from Results to Resources:** There is almost no net bottom line as non-profit organisations tend to provide services that are hard to measure. Therefore, planning is concerned with the resource inputs than the service outcomes.
   - **(iii) Ambiguous Operating Objectives Create Opportunities for Internal Politics and Goal Displacement:** The combination of vague objectives and resource concern give a room for more self interest than the organisational interest. There is a scope to ignore the clients as the organisation concentrates on satisfying the sponsors than the clients. Even the Board of the Trustees are selected on the basis of their ability to mobilise funds rather than managerial experience. These factors result in goal displacement and creation of politics.
   - **(iv) Professionalisation Simplifies Detailing Planning but Adds Rigidity:** The professional employees contribute to the detailed planning. But the systematic and scientific operations as applicable to business organisations are applied by the professionals to the strategic planning. This adds rigidity.
3. **Impact of Constraints on Strategy Implementation:** The constraining characteristics affect the organisation structure and job design of the non-profit organisation. The complications are:
   - **(i) Decentralisation is Complicated:** Decentralisation and delegation of decision-making authority is complicated due to the absence of clear cut goals and hard to measure output *i.e.*, service. Therefore, the decision-making is centralised. Further, the defensive centralisation is necessary to avoid the objections of the sponsors.
   - **(ii) Linking Pins for External-Internal Integration become Important:** As indicated earlier, the non-profit organisations excessively depend upon the external sources for funds particularly the sponsors, and donors. Some employees should act as linking pins between the internal operations and

external sponsors. Some organisations employ public relations officers or fund raising officers.

(iii) Job Enrichment and Executive Development: Job enrichment and executive development may be restrained by professionalism. Employment of Professionals at various levels will restrain job enrichment as it is viewed as encroachment into the authority of the next higher level professional.

3.6 POPULAR STRATEGIES OF NON-PROFIT ORGANISATIONS

The general objective of non-profit organisations is to satisfy an ultimate need of a segment of a general public. The organisation expands its activities, if the revenue is more than the cost. In contrast, the organisations reduces its activities, if the expenses are more than the revenue. Some organisations change their missions in order to attract new sponsors and carry out activities different from the existing ones. But more organisations rejects such donations and they stick to their missions. Such organisations impose pressure on their members to increase membership contributions and enable the organisations to carry out their activities, successfully. Three popular strategies are: (1) Strategic piggybacking, (2) inter-organisational linking, and (3) Linkage with a profit making organisation.

1. **Strategic Piggybacking:** The term strategic piggybacking is coined by Neilsen. This term refers to the development of a new activity for the non-profit organisations for the purpose of generating funds needed to makeup the deficits in the budget. The new activity is taken up primarily to subsidise the primary service activities. Further, the new activity may be somewhat related to the existing activities even, indirectly. Top management invests in new, safe cash cows to fund its current cash-hungry stars, question marks and stars, in an inverted use of portfolio analysis.

   Edward Skloot, President of the New York Consulting firm New Ventures suggests that a non-profit organisation have five resources before beginning a revenue-earning activity. They are:

   (i) *Something to sell:* The organisation should see whether it can find a market for its goods or services.

   (ii) *Critical mass of management talent:* There must be enough people available to nurture and sustain an income venture over the long haul.

   (iii) *Trustee support:* Trustees may actively or passively resist commercial involvement, if they do not like earned-income ventures.

   (iv) *Entrepreneurial attitude:* Management must be able to combine an interest in innovative ideas with business like practicality.

   (v) *Venture capital:* Engaging a joint venture with a business organisation can provide necessary funds to initiate the activities as well as marketing and management support.

2. **Inter-Organisational Linkage:** A major strategy often employed by non-profit organisations to increase their ability to serve clients efficiently or to acquire resources is developing cooperative ties with other organisations. Non-profit hospitals increasingly use this strategy as a way to cope up with raising costs or declining revenues. Through the co-operation with other hospitals, services can be purchased and provided more efficiently than if done alone.

3. **Linkage with a Profit-Making Organisation:** The strategy of developing a linkage with a profit making organisation is an effective one as it solves the problems of shortage of funds, marketing of services and management of non-profit organisations. This strategy is more popular in educational institutions in India. Educational institutions, particularly business schools adapt this strategy. They get funds, manpower like guest lectures, employment for their graduates etc. This strategy solves the problem of funds throughout the life time (or at least until the financial position of the profit making organisation is sound) of the non-profit organisation.

3.7 STRATEGIC EVALUATION AND CONTROL

Strategic evaluation and control is rather very difficult as the objectives and goals are unclear. For example, the efficiency of hospitals can be measured in a number of ways. They are:

(*i*) number of patients treated
(*ii*) number of patients cured
(*iii*) number of medical doctors
(*iv*) number of total staff
(*v*) number of beds, etc. These controls may not be effective without formulating goals clearly.

Similarly the efficiency of educational institutions can also be measured in a number of ways. They are:

(*i*) number of and level of courses the institutions is offering,
(*ii*) number of and level of staff
(*iii*) number of students registered
(*iv*) number of students successfully completing their courses every year
(*v*) number of students getting placements, etc. These standards are also not effective unless the goals are clearly stated.

Obviously, control is more difficult, when goals are not clear or when goals are conflicting. Some non-profit organisations have literally no goals.

However, the strategies of non-profit organisations may be evaluated in one aspect. This approach to evaluation in the absence of quantifiable objectives, is being cost-aware and concentrating upon making the operation efficient, *i.e.*, to achieve the same output with less input. However, if the organisation does not have objectives/goals, the importance of a budget-based organisation is determined by the size of its staff and the size of its budget.

1. **Impact of the Constraints on Evaluation and Control:** There are two problems caused by the constraints discussed earlier. They are:
   (*i*) **Rewards and Penalties have Little or no Relation to Performance:** When the objectives and goals are unclear or conflicting, the results expected are vague. Under such situations, judgement about performance is subjective. Performance is judged either intuitively or on the basis of those small aspects of a job that can be measured. Therefore, the rewards and punishments have little or no relation to performance.
   (*ii*) **Control the Inputs Heavily Rather than Output:** The non-profit organisations may control the in puts heavily rather than out put, as inputs can be measured than output as stated earlier. Therefore, more emphasis may be laid on controlling costs and expenses.

3.8 MEASURES TO CONTROL THE CONSTRAINTS

NOTES

The non-protlt organisation can deal with the complications arising from the constraints to some extent through the following measures.

(i) **Select a Dynamic and Forceful Leader:** The leader should be selected based on values to be used in decision-making, enough power to make important choices, be influential to make the others to accept his/her decisions. The leader can formulate appropriate mission, objectives and goals and raise to approach that the decisions are pushed from top to the down. Therefore, the lower level managers should adapt the approaches of 'play it safe,' 'await the guidance', etc.

(ii) **Develop a Mystique:** The non-profit organisation integrated toward efficient goal accomplishment by developing a 'mystique' that dominates the enterprise and attracts the likely sponsors. The shared value about the important mission by the employees and sponsors can serve to motivate unusually high performance and client satisfaction. Once established, the mystique sets the character and values to decision-makers and others are expected to follow.

(iii) **Generate Rules and Regulations:** The non-profit organisations suffer from the absence of objectives and goals and concentrating on the sponsors rather than clients. Hence, the top management should formulate rules and regulations so that the employees will pay enough attention towards the clients.

(iv) **Appointment of a Strong Board:** Appointment of a strong board of trustees will help the organisation in funds raising, formulation of mission and objectives. Then the employees can concentrate on the clients. The board can concentrate on strategic issues as well as on the operational issues like hiring, directing and developing the budget.

(v) **Establishment of Performance-based Budgets:** Establishment of performance-based budgets is the fifth approach in dealing with complications of non-profit organisations. This approach is to institute an information system that ties measurable objectives to budget line items. One such system is planning, programming and budgeting system. It includes five steps:

(a) Specify objectives as clearly as possible in quantitative measurable terms.

(b) Analyse the actual output of the non-profit organisation in terms of the stated objectives.

(c) Measure the cost of the particular programme.

(d) Analyse the alternatives and search for those that have the greatest effectiveness in achieving the objectives.

(e) Establish the process in a systematic way, so that it continues to occur over time.

Business Environmental Factors

Business environmental factors are broadly divided into external environmental factors and internal environmental factors. External environmental factors that affect the business include Social and Cultural factors (S), Technological factors (T), Economic factors (E), Political/Governmental factors (P), International factors (I) and Natural factors (N) (STEPIN). Internal environmental factors influence/affect the business from within. They include: human resource management, trade unions, organisation structure, financial management, marketing management, production management, management/leadership styles, etc.

NOTES

External environmental factors are further divided into micro external factors and macro external environmental factors. Micro external environmental factors include: competitors, customers, market intermediaries, suppliers of raw materials, bankers and other suppliers of finance, shareholders, and other stakeholders of the business firm.

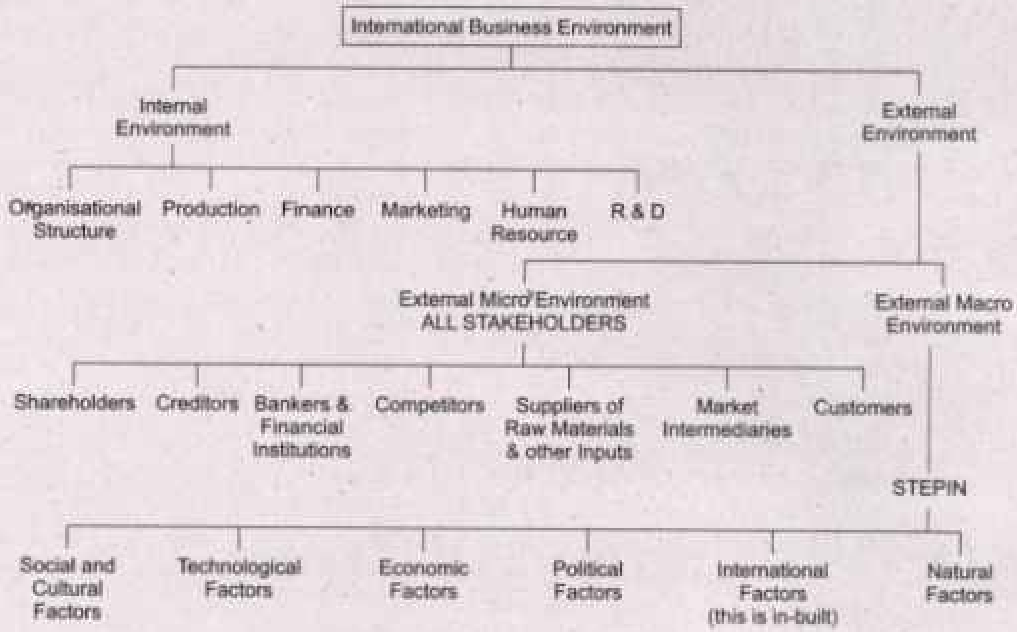

Fig. 3.6. Business Environment

External macro environmental factors include: social and cultural factors, technological factors, economic factors, political and governmental factors, international factors and natural factors. In recent times environmental protection has received greater attention in order to protect people, animals, plants and to maintain ecological balance. The analysis of internal environmental factors indicates the strengths and weaknesses of the business firm while the analysis of micro external and macro external environmental factors indicate the opportunities provided by the environment to the business. The strengths, weaknesses, opportunities and threats (SWOT) analysis helps to formulate strategies for the business firm.

Strategic Management and Environmental Analysis

Strategic management involves three levels of analysis, *viz.*, the organisation's macro environment/general environment, the industry in which the organisation operates, and the organisation itself. We will discuss the first two levels in this chapter and the third level in the next chapter. Every company operates within a complex network of external environmental forces both international and national.

Need for Environmental Analysis and Diagnosis

NOTES

Environmental analysis is the process by which strategists monitor the environmental factors to determine opportunities for and threats to their firms. Analysis also involves studying each factor minutely to find its nature, function and relationship. Strategic manager essentially searches for opportunities and threats, their sources and their impact on the business. Environmental diagnosis consists of managerial decisions made by assessing the significance of the data (opportunities and threats) of the environmental analysis. A strategist examines the relationship between the company's strategy and the environment. Then, he/she forecasts the future environment and compares the strategy with the future environment. If there are gaps, he/she reformulates the strategy after revising the business mission and objectives. Otherwise, he/she will continue with the present strategy as presented in Fig. 3.7.

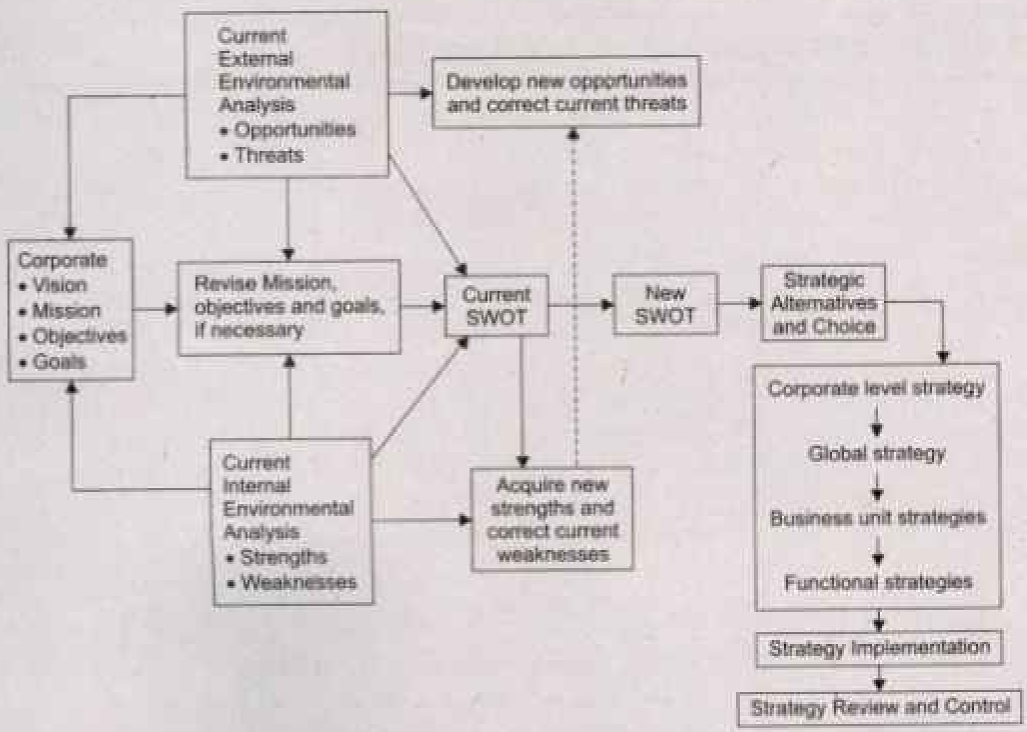

Fig. 3.7. Strategic management process

Systematic environmental analysis and diagnosis are necessary due to the following reasons:

(*i*) Environmental factors are prime influences of strategy change.

(*ii*) They help to determine what factors in the environment present threats to the organisation's present strategy and objective accomplishments.

(*iii*) Environmental analysis and diagnosis provide the time to the strategist to forecast opportunities and to plan to respond aptly to these opportunities.

(*iv*) Environmental analysis and diagnosis help strategists develop an early warning system to prevent threats to develop strategies which can convert a threat into an opportunity.

(*v*) They help to determine what factors in the environment present opportunities for optimal utilisation of resources and achievement of objectives effectively.

NOTES

(vi) They also help in identifying the inherent risks involved in utilising the opportunities as, normally, risks are involved in any opportunity.

(vii) They help the managers to achieve the organisational objectives effectively than other organisations.

(viii) Systematic analysis and diagnosis enables the managers to predict the future and to have enough time for other activities. This minimises the time pressure of the managers on the unanticipated events.

Thus, these reasons clearly state that environmental analysis and diagnosis are essential for effective strategic management. The external, environment consists of international environment and general (national) environment. Now, we discuss, the international environment.

3.9 INTERNATIONAL ENVIRONMENT

Kenichi Ohmae attempts to show that two major phenomena of the 1990s have highlighted forces at work that are knocking down borders, creating as it were, a truly global market place with its agents governed by pure self-interest and not ideology or culture. Now, a theory of cross-border affinities, of analyses that try to demolish the reality of nation-states has emerged.

Trend Towards Globalisation

The trend towards internationalisation and globalisation has emerged around the world. Consequently, the concept of global village has emerged. Nations have evolved economic policies around self-reliance and export-oriented business development. In other words, the economies have been tending towards development of their competences and strengths in certain areas of production of goods and rendering services. Thus, they plan to be self-reliant. Then, the economies find the opportunities to develop export-oriented business. Further, the economies opened their business to the rest of the globe. These changes have also been taking places in the erstwhile Socialistic/Communist countries. Thus, the business in different countries has become business in a global village. These factors resulted in the close and direct impact of international environment on the national business firms.

Nature of Globalisation: Globalisation refers to the process of integration of the world into one huge market. This type of unification calls for removal of all trade barriers among economies. At the organisational level, globalisation means: (i) the organisation commits itself heavily with several manufacturing locations around the world and offers products and/or services in several countries and (ii) ability to compete in domestic markets with foreign competitors.

A multinational company (MNC) or a transnational company (TNC) operates in more than one country, gains production, technology, marketing, financial, human resources and R&D advantages – in its costs and reputation over the domestic competitors.

Why do Companies go Global?

Companies go global due to the fo llowing reasons:

(i) Rapid shrinking of time and distance across the globe owing to the significant development of transportation and telecommunication facilities.

(ii) Inadequacy of and low purchasing ability in the domestic markets.

(iii) The short span of product life-cycle in the domestic market.

(iv) To have diversified portfolio of markets.

(v) To secure reliable and cheap inputs like raw material, finance and human resources.

(vi) Due to political stability in some countries and political disturbances in other countries.

(vii) To reduce high transportation costs.

(viii) To set up plants close to the raw material.

NOTES

Stages of Globalisation: There are four stages of globalisation. Companies at the first stage of globalisation have only passive dealings with foreign individuals and organisations. In the second stage, companies deal directly with their overseas interests. In the third stage, a company's international interests shape its overall make-up in an important way. In the final stage, the company sees its activities as essentially multinational as opposed to domestic.

Impact of International Environment on Domestic Business

Global environment consists of international political environment, policies of various governments, level of technology, social and cultural factors, level of economic development of different countries, level of industrial development, etc., has its impact on the business organisations of the domestic country. The impact is discussed hereunder.

(i) ***Configuring anywhere in the world:*** An MNC can choose the location of its plants or business units in different countries on the basis of availability of raw material, consumer markets, availability of cheap labour, etc. Thus, an MNC competes with the domestic company for inputs as well as selling the output.

(ii) ***Interlinked and interdependent economies:*** Economic policy of most of the nations is to develop the countries through inter-linkage and interdependence. Therefore, domestic industries also develop inter-linkage and interdependency with the foreign companies.

(iii) ***Minimisation of trade and tariff barriers:*** The recent trend towards globalisation in most of the nations in the world resulted in minimisation of trade and tariff barriers. Consequently, the protection provided to the home industry has been withdrawn. Therefore, the domestic industry is affected by the quality, price and convenience of the foreign products and services.

(iv) ***Effect on related industries and ancillary units:*** Globalisation may render many companies sick and defunct. This effect is more in case of ancillary industrial units and small scale industrial units compared to large scale industrial units. Globalisation of Indian economy in 1991 affected badly many ancillary industrial units.

(v) ***Infrastructural resources and inputs at international prices:*** The prices of infrastructural resources like banking, transportation and telecommunications and inputs like raw materials and human resources adjust at international prices. In other words, prices of these factors, which were lower before globalisation would increase due to increase in demand for the same.

NOTES

(*vi*) ***Increasing trend towards privatisation:*** Governments in many countries recently started withdrawing their capital from public sector industrial units and/or privatising these units after globalisation.

(*vii*) ***Entrepreneur and his unit have a central economic role:*** The trend of shifting the business from the bureaucrat to the entrepreneur has started consequent upon globalisation of business.

(*viii*) ***Mobility of skilled resources:*** The traditional factors of production *viz.*, land, labour, capital and organisation are no more immobile. Globalisation has resulted in the inflow of these factors into the potential developing countries.

(*ix*) ***Market side efficiency:*** Integration of global markets implies that costs, quality, processing time and terms of business become dominant competitive drivers.

(*x*) ***Formation of regional blocks:*** A final corollary to globalisation is the formation of trade blocks like North American Free Trade Area (USA, Canada and Mexico), European Economic Community and South Asian Preferential Trading Agreements. These regional blocks provide the opportunities to the business from within and creates threats to the business from other areas.

Now, we shall discuss the macro internal environmental factor. We start our discussion with social and cultural factors.

3.10 SOCIAL AND CULTURAL FACTORS

Social and cultural factors in various countries of the globe affect business. These factors include attitude of the people to work, attitude to wealth, family, marriage, religion, education, ethics, human relations, social responsibilities, etc.

Cultural Attitude and Business

Dressing habits, living styles, eating habits and other consumption patterns, priority of needs are dictated/influenced by culture of the land. Some Chinese and most of the Indians do not consume beef. Thailand Chinese believe that consumption of beef is improper and Indian (particularly Hindus) believe that eating beef is a sin as they believe cow is sacred *(Kamadhenu)*. The eating habits vary widely. Chinese eat fish stomachs and bird's nest soup, Japanese eat uncooked sea food, Iraqis eat dried, salted locusts and snakes while drinking. The French eat snails, Americans and Europeans eat mostly non-vegetarian food. Indian eat mostly vegetarian food. It was surprising to the rest of the world to know that there were pure vegetarians in India. However, the foreign culture regarding food has been adapted very openly. *Indian food items like Chapati, Masala dosa and Hyderabadi biryani* have become popular in Europe and the USA whereas pizzas have become popular in India.

In fact, the culture around the world has been evolving as global culture.

IN INDIA, PIZZAS ARE NOW THE FLAVOUR OF THE SEASON

Chicken tikka masala may be ruling the roost in Britain, but in curry country – India – pizzas are the flavour of the month. Take, for example, Neelam Mehta. Whenever she hears the question "What's for dinner, mum?" after she comes home from her Delhi office, her answer is often the same: "Pizza". "It's the easiest thing to do. Just pick-up the phone and order. I don't have to sweat it out in the kitchen at the end of the day," said Mehta, an Indian exporter with two teenage sons. Ever since India threw open its economic doors in the early 1990, a host of global pizza chains including Pizza Hut, run by Yum! Brands Inc., and Domino's Pizza have been fighting for a slice of the country's growing pizza market.

NOTES

Behavioural Factors Affecting Business

Cultural factors influence human behaviour. Cultural difference in various countries result in variation in human behaviour, consumer behaviour and behaviour of other stakeholders. Variation in behaviour can be ascertained through the social stratification of a country. Business should consider the behavioural patterns of social groups in hiring, marketing and in selecting suppliers of inputs and market intermediaries. Behavioural patterns can be studied based on ascribed group membership and acquired group memberships. Ascribed group membership is based on genders, age, family, caste, community, ethnic, racial and nation of origin. Acquired group membership is based on religion, political affiliation, professional and social associations. These memberships influence human behaviour of a society.

Behaviour based on Group Membership

Certain societies like USA reward people based on performance while other societies like Malaysia reward people based on ethnic group in addition to performance. Attitude towards female employment vary from country to country. Egalitarian societies do not discriminate employment of people based on sex whereas Arabian countries discourage females from seeking employment. Family membership is paramount rather than individual's achievements or traits – in certain societies like India, China and Southern Italy.

Impact of Culture on Consumer Behaviour

Culture influences the behaviour of the consumer though valid generalisations have not yet been developed. Montrose, Sommers and Jerome Kernan have made a beginning in this direction. They identify the value orientations that underline market behaviour as falling in six categories:

(1) Egalitarian or elitist; (2) prone to lay stress on accomplishment or on inherited attributes; (3) expected material or non-material rewards; (4) evaluating individuals or products in terms of objective norms or of subjective standards; (5) focused on the distinctiveness of the parts (intensiveness); and (6) oriented towards personal rather than toward group's gain. The U.S. consumer tends to have the attributes described by the first term in each pair. British attitudes tend to fall on the opposite side. A number of examples illustrate the significance of these differences.

"When performance orientation is coupled with a predisposition to be intensive – *i.e.*, to perceive many separate and distinct needs to be acted upon as well as a

NOTES

variety of ways in which these needs can be served – the probability of accepting new contingencies as real is greater than when an extensive value orientation prevails. Americans see more separate and distinct activities plus more separate and distinct products which can be used in their performance than do Canadians, Australians or Britons. Such a diposition supports their market for gadgets, the great array of household appliances accessories.

CULTURE-BASED MARKET SEGMENTATION

A medium-sized Swedish engineering company manufactured fire-fighting equipment, but was incurring losses. In 1983 a new marketing director was appointed. After four years of work, turnover rose from £3 million to £10 billion and profitability was restored, mainly on the basis of a complete reappraisal of markets and marketing policy.

The marketing director found that the company had been dealing with about 100 country markets, but many produced orders only in small quantities, and these too intermittently. In total, the orders were a surprisingly small proportion of the turnover, but were just as costly and time-consuming to service as orders from the larger, steadier markets.

A careful process of selection showed that if the company concentrated more extensively on 50 markets, its chances of progress would improve, and of these 50, some 10 which looked the most promising were selected for constant and increasing attention; for example, visits were planned with increasing frequency. The company found that this core of key markets provided an almost ideal ratio, because only five or six countries accounted for 75 per cent of trade. A contraction of business in those few countries could prove very harmful. Recognising important national differences among the 10 key markets, with local issues and customer contracts, by reducing the total number of markets, but retaining those with significant trade, the company improved its profit performance.

Ageing Populations

Population ageing is constituted by a shift in the distribution of a country's population towards greater ages. An increase in the population's mean or median age, means a decline in the fraction of the population composed of children, or a rise in the fraction of elderly people.

Ageing population has seen an increase in many advanced countries as well as in some developing countries where advanced medical and health facilities are available. In addition, the babyboom generation (people born in the 20-year period after World War II) in some countries like USA, UK and Australia continues to age. Added to this, the reduced birth rates in advanced countries and some developing countries like India and China has contributed to the ageing population.

Population ageing is a highly generalised process; it is most advanced in the most highly developed countries. Among the countries currently classified by the United Nations as more developed (with a population of 1.2 billion in 2005), the median age of the population rose from 29.0 years in 1950 to 37.3 in 2000 and it is estimated to rise to 45.5 by 2050. The corresponding figures for the world as a whole were 23.9 years for 1950, 26.8 for 2000 and 37.8 for 2050. Japan is one of fastest ageing countries in the world. There will be 9.3 people under the age of 20 for every person older than 65 by 2025. The ageing population would result in increased demand for medical care, pharmaceutical products and social security and decline in the demand for existing products like motor cycles, luxury cars and luxurious white goods.

NOTES

Career Orientation of Women

Increase in career orientation of women particularly after globlisation has provided wider opportunities for fast foods and ready-made food industry, white goods, luxurious housing, automobile and the like. This trend is significant in India, China, Malaysia and Middle-East countries.

IN SUMMARY THE FOLLOWING FACTORS ARE TO BE SCANNED TO ASSESS THE SOCIAL AND CULTURAL ENVIRONMENT:

Demographic factors such as:

- population size and distribution
- age distribution
- education levels
- income levels
- ethnic origins
- religious affiliations
- gender distribution

Attitudes towards:

- materialism, capitalism, free enterprise
- individualism, role of family, role of government, collectivism
- role of church and religion
- consumerism
- environmentalism
- importance of work, pride of accomplishment

Cultural structures including:

- diet and nutrition
- housing conditions
- dressing habits
- work habits and work-culture
- punctuality

3.11 TECHNOLOGICAL ENVIRONMENT

Technological changes enabled business to take up the shape of transnational business through the concept of global business. International business, in fact, gained significance due to the amazing advancements in technology.

Technological environment has significant and direct influence on business in general and international business in particular. Technology is application of knowledge. J.K. Galbraith defines technology as "a systematic application of scientific or other organised knowledge to particular tasks." Technology advanced phenomenally during the past 50 years.

Technology changes are taking place at a faster rate. In fact, it brings changes in the society, economy and politics. Technology affects all walks of life, all countries and the entire globe. As stated by Alvin Toffler, "Technology feeds on itself. Technology makes more technology possible." Thus, technology is self-reinforcing. Technology brings the globe closer. Technology flows from the advanced countries to the developing world through the multinational corporations (MNCs), joint ventures, technological alliances, licensing and franchising.

NOTES

Influence of Technology

Technology influences the way we live, we cook (electric rice cooker), we drink water (filtered and mineral water), communicate (telephone, fax, e-mail, videoconferencing, e-mail chatting, etc.), prepare for a class or a case, design or read a newspaper through the Internet, get marriage alliances (through the Internet), (computer aided), produce, sells (e-commerce), satellite networks electronic fund transfers, lasers, fibre optics, unmanned factories, miracle drugs, new diagnostic methods, new studies in technology like eye scanning for the password and using the remote for car will be changing our lives.

Technology and International Competition

Nations develop economically when they translate science into useful technology and in turn create wealth from innovations. Innovation is the useful adaptation of science or knowledge including invention of new products or processes. Invention is creation of entirely new things. A few companies or people invent but many companies adapt scientific knowledge to generate wealth by application and commercialisation.

Major inventions or discoveries do not remain private property for longer period. The inventions or innovation process and global competitiveness are two determinants of a nation's wealth. Japan concentrates on process innovation in automobiles, steel, telecommunication and microelectronics. Germany concentrates on innovations in chemicals, pharmaceuticals, automotive engineering, medical instruments and machine tools. Italy concentrates on innovations in textiles and leathers.

Scanning of Technological Environment

The level of technology is not the same in all the countries. Advanced countries enjoy the fruits of the latest technology while the developing nations face the consequences of obsolete or outdated technology. Therefore, MNCs have to understand technology, analyse it before entering the foreign markets. MNCs have to procure technological environmental information regarding:

- The level of technology of the industry in the home country.
- The level of technology of the industry in the proposed host country.
- Compatibility of the home country's technology with the host country's technology.
- If technology is not compatible, then select the appropriate technology for the host country, if possible. If not, select the host country's technology that suits the home country's technology.
- Study the compatibility of the technology to the culture of the host country including tastes and preferences of the host country's customers.
- Study the host country's Government policies regarding technology transfer.
- Study the modes of technology transfer like joint ventures, technological alliances, etc.
- Study the impact of technology on the environment of the home country including the laws pertaining to environmental pollution.

Technology and Globalisation

The Industrial Revolution resulted in large-scale production. The recent technological revolution took it further to the production of high quality products at lower costs. This forced the domestic companies to enter foreign countries in order to find markets for their products. Thus, technology is one of the important causes for globalisation.

Information Technology and Globalisation

As indicated earlier, information technology redefined the global business through developments like Internet, websites, e-mail, cyberspace, information super highways, Computer Aided Design (CAD), Computer Aided Production (CAP) and online transactions brought significant development in the global business. These facilities, according to M.J. Xavier, help the global companies in:

- Reducing the size of inventories
- Reducing delivery time
- Reducing unproductive waiting time
- Reducing the incidents of stock-outs and lost sales
- Responding to market changes at a faster rate
- Reducing rush orders
- Cutting down over production
- Reducing unnecessary movements of forwarding and back-tracking
- Reducing paper work and wasteful processes
- Planning production levels accurately
- Reducing/avoiding physical movement of employees, suppliers and customers.

MNCs have to understand and analyse more of economic environment of the foreign countries for strategy formulation.

Hence, we now discuss the economic environmental factors of the global countries.

IN SUMMARY THE FOLLOWING TECHNOLOGICAL FACTORS NEED TO BE ASSESSED

- Efficiency of infrastructure, including: roads, ports, airports, rolling stock, hospitals, education, healthcare, communication, etc.
- Industrial productivity
- New manufacturing processes
- New products and services of competitors
- New products and services of supply chain partners
- Any new technology that could impact the company
- Cost and accessibility of electrical power

3.12 ECONOMIC ENVIRONMENT

The economic environment of various countries directly influences international business. In fact, international economic environment and global business interact with each other. Global economy has undergone a sea change during the last 50 years.

The change revolutionary has been after 1990. The results of these changes are emergence of global markets, establishment of World Trade Organisation, emergence of global business houses and global competitors rather than local competitors.

NOTES

Economic Systems

Economic systems is an organisation of institutions established to satisfy human needs/wants. There are three types of economic systems, *viz.*, Capitalism, Communism and mixed. Economic systems are based on resource allocation in the system. They are market allocation in case of capitalistic, command/central allocation in case of communist and mixed allocations in case of the (Key questions to scan technological environment are given below.

Key Questions of Technological Environment

- What are the technologies within the corporation?
- Which technologies are utilised in the firm's business? Products? Components and Parts?
- How critical is each technology to each of these products and business?
- Which of these technologies are shared among different products and businesses?
- Which technologies are contained in purchased parts and materials?
- Which of these external technologies might become critical and why ? Will they remain available outside the firm?
- What was the evolution of these technologies over time? In which companies were these technological changes initiated?
- What is the likely evolution of these technologies in the future?
- What have been the firm's investments in critical technologies over time?
- What were the investments and investment patterns of its leading technological competitors? Historical? Planned?
- What has been the investment in the product and in the process side of these technologies? For the firm and for its competitors? Design? Production? Implementation and service?
- What is the subjective ranking of different firms in each of these technologies?
- What are the firm's business and products?
- What is the cost and value-added structure of these parts, components, products, and businesses?
- What has been the historical, financial and strategic performance of the business, and what are the implications of these trends? Interms of cash generation and earnings characteristics? Investment requirements? Growth? Market position and market share?
- What are the applications of the firm's technologies?
- In which technologies applications does the firm currently participate and why? In which does the firm not participate and why?

- How attractive is each of these applications as an investment opportunity in terms of its market growth, its potential for profit Improvement and/or its potential for increasing technological leadership?
  - — Underlying growth characteristics?
  - — Evolution of customer needs and requirements?
  - — Current and emerging market segments; segment growth rates?
  - — Competitive positioning and likely strategies of key competitors?
- How critical are the firm's technologies to each of these applications?
- What other technologies are critical to the external applications?
- How do the technologies differ in each of these applications?
- What other technologies are critical to the external applications?
- What are the competing technologies in each application? What are the determinants of substitution dynamics?
- What is and will be the degree of technological change in each of these technologies?
- What are the applications that the firm should consider entering?
- What should be the priorities of technological resource investment?
- What technological resources are required for the firm to achieve its current business objectives?
- What should be the level and rate of corporate technology investments?
- Which technological investments should be curtailed or eliminated?
- What additional technologies will be required in order to achieve the current corporate business objectives?
- What are the implications of technologies and business portfolios for corporate strategy?

Mixed economic system. In fact, there are no example of pure Capitalistic or Communist economics. All actual systems are mixed economic systems of varied degrees of market allocations and command allocations.

Capitalistic Economic System: Under this system, customer allocates resources. Customers' choice for product/services decide what will be produced by whom. This economic system provides for economic democracy, thus giving the customer, his choice for products/services.

Mixed Economic System: Under this economic system, major factors of production and distribution are owned, managed and controlled by the state. The purpose is to provide the benefits to the public sector, agrarian reforms, control over private wealth, regulation of private investment and national self-reliance.

The trend that is taking place in the globe today is the move towards privatisation, *i.e.*, move towards market allocation. U.K. France, Holland and India, *for example,* have reduced their command sector after 1990.

Communistic Economic System: In this economic system, private property and property rights to income are abolished. The State owns all the factors of production and distribution. It provides less scope for foreign investment and business.

NOTES

COMMUNISM AND McDONALD'S

After a long negotiations between McDonald's and Soviet officials, the former entered Russian market in 1990. Moscow city council was a partner of McDonald's in the Russian Joint Venture. But McDonald's faced severe shortages in supply of building materials to build the restaurant as these requirements were not included in the central plan. The company was not provided with sufficient supply of wheat flour, sugar, mustard either due to non-inclusion in the central plan or due to inability of Soviet manufacturers to deviate from their standard output or due to the strict control that Soviet manufacturers should sell to the Soviet companies. Another problem was that certain products like iceberg lettuce, pickled cucumbers and the Russet Burbank potatoes used for McDonald's French fries were not produced or consumed in Russia. McDonald's educated Soviet farmers and cattle ranchers on how to grow and raise the products it needed.

McDonald's did not face any problem in respect to employees and customers and advertising. Russian television covered the event; it became almost impossible to accommodate the customers for the first time in January 1990 even though the Moscow's restaurant was biggest in the world. Customers favoured it though it was five times costlier than the normal local meal. Despite the crisis in 1998, McDonald's grew in Russia and had 73 stores by the end of 2001. McDonald's success in Russia enabled it to enter China and also become successful there.

Countries Classified by Income

The World Bank categorised economies into one of the following groups according to the per capita gross national income in 1999.

Low Income countries	US$ 755 or less
Lower Middle Income countries	US$ 756 to US$ 2,995
Upper Middle Income countries	US$ 2996 to US$ 9,265
Higher Income countries	US$ 9,266 or more

Macroeconomic Issues Affecting Business Decisions

Various macroeconomic issues like economic growth, inflation, balance of payments and transition to market economics affect business decisions.

1. **Economic Growth:** The high economic growth rate of the countries lift the quality of life of their citizens in addition to providing an opportunity of expanding market share to international business firms. The stagnation or decline in economic growth of countries result in intense competition among the companies to retain their market share and/or to increase their market shares. The stagnation in global economy in 2001 and 2002 led to aggressive competition among the international business firms.

   Managers of the multinational companies are interested in knowing the future economic growth rates of various countries in order to select the markets either to enter or concentrate or to commit more resources to the market. According to the Organisation of Economic Cooperation and Development (OECD), global economic recession in 2001 was highest in the last 20 years and European Union started recovering after this recession at a faster rate than that of Japan. However, China and India recorded continuous growth rates of around 7 per cent and 6 per cent respectively. Manager of multinational companies should know the growth rates of different countries on a continuous basis in order to avert the possible failures and enhance their market shares.

NOTES

2. **Inflation:** Inflation is another important factor that affects the market share of international business firms. Inflation affects rates, as the demand for money is high due to higher prices. Banks increase interest rates in order to attract deposits and governments raise interest rates with a view to combat inflation. Inflation also affects exchange rate of the domestic currency in terms of various foreign currencies. Inflation weakens the domestic currency and thereby makes exports dear and imports cheap.

   Inflation forces people to spend their incomes immediately as happened in Brazil in the early 1990s when the inflation was rising at the rate of 1 per cent per day. High inflation affects exporting firms adversely and importing firms favourably. The rate of inflation has been declining since 1990. It came down from 4 per cent in early 1990s to 2.5 per cent in 2000 in advanced countries. International business managers have to continuously monitor inflation rates in order to manage cash flows in such a way that the adverse affects of inflation are kept at a minimum as managed by Pizza Hut in Brazil during 1990s.

3. **Balance of payments:** Balance of payments position of a country is an outcome of international business and also affect the future of the international business. Export and import trade in goods and services affects current account position and flow of capital affects the capital account position. Excessive import of goods, services and capital over exports result in negative balance of payments. Continuous negative balance of payments will lead to currency instability and control over imports and incentives to boost exports.

   Excessive imports over exports also lead to external debt from foreign countries and international financial agencies. Heavily indebted countries in the world are Brazil ($238.0 billion), Mexico ($ 150.3 billion), China ($149.8 billion), Argentina ($146.2 billion) and Indonesia ($150.3 billion). Most of these countries have GDP higher than the external debt. Many African countries have external debt in excess of GDP. Many foreign investors pumped money into Argentina as the currency was pegged to U.S. dollar even when the economy was in recession in 1996. Argentina kept spending heavily and this resulted in Argentina's default to the tune of US $155 billion in external debt – the largest default by any country in history.

   Managers of multinational companies should monitor the balance payments positions of the countries where they operate in order to take preventive measures rather than becoming a part of the debt trap or its adverse effects as happened in the Asian crisis.

4. **Economic Transition:** Many former Communist/command economies and mixed economies are undergoing transition to market economies due to the failure of central planning and public sector to generate economic development. The collapse of the former USSR and the breaking of Berlin wall and foreign exchange crisis in India in 1991 and opening up of China towards extensive international trade paved the way for increased globalisation of business. This process enhanced the interest of the multinational companies in carrying out business in many parts of the world and conversion of many national companies in various countries into multinational companies.

Economic Transition includes:

- Liberalising economic activities, prices and market operations along with reallocating resources to their most efficient use.
- Dispensing with licensing system and regulated markets.
- Developing indirect, market-oriented instruments for macro-economic stabilisation.

NOTES

- Achieving effective enterprise management and economic efficiency usually through privatisation.
- Imposing hard budget constraints which provide incentive to improve efficiency.
- Creation and establishment of institutional legal framework to secure property rights, the rule of law and transparent market entry regulations.

As indicated earlier, many countries initiated transformation from different economic systems like Communism/Socialism and mixed economies to market economies and they are in different stages of the transformation process. Most of these countries came across with various disabling factors such as:

- Opposition to liberalisation, privatisation and globalisation due to the vested interests of various groups and political parties.
- Ineffective enforcement of laws, rules and regulations due to the underground and virtual economy.
- Prevalence of corruption and illegal activities.
- Freezing of market transformation resulted in financial instability, low growth or reverse growth of the economy.

Many countries that faced these problems during the initial stages of transformation eventually overcame these problems. And some of the countries are in the process of overcoming these problems. Countries those overcame these problems experience the following environment or situation factors in the transformation process.

- Spread of benefits of market economy.
- Strong fiscal position in terms of increase in government income.
- Increase in confidence in banks and other financial institutions.
- Growth in industrialisation, employment and output.
- Increase in credibility and financial position of the government.
- Improvement in goverment's financial ability to finance and administer social safety net.
- Early recovery and adjustment to the market economic situations.
- Steady progress towards open and liberal markets.
- Development of market-friendly environment.
- Growth in foreign and domestic investment, further industrialisation, increase in employment, output, living standards and quality of life of the people.

Opportunity to MNCs

The process of liberalisation and transition provided significant opportunities to the multinational corporations to enter most of the countries of the world either by locating their manufacturing facilities or extending their markets or both. Privatisation helps multinational companies to acquire the public sector companies in the liberalised economies. Thus, MNCs are the immediate and greatest beneficiaries of liberalisation, privatisation and globalisation of world economies.

Transition Process

Transition processes vary from country to country. Russia changed both economic and political systems simultaneously. As such, the country faced severe consequences during its early stage of the process. Now, the country is comparatively comfortable in the transition process as the administrative constraints disappeared. In contrast, China opted for only economic transformation by strongly holding its political system of totalitarianism. China's economic growth rate is higher than that of other countries. India is the largest democracy in the world and it opted for economic transformation from mixed economy to market economy. India's economic growth rate is also significant compared to that of many countries in the world, though; it is a little bit less than that of China.

Economic vs Social Issues in Transition

Though the transition has set trends for economic growth of at least some countries and the economic future of other countries seems to be bright, the contribution of transition to the social issues, widening gap between rich and poor, poverty, child care, medical facilities and HIV/AIDS would be the future challenges to the world.

These problems would be paramount in lower-income countries in general and lower-income African countries in particular unless certain measures are taken immediately; it would affect the cause of humanity unable to reap the economic benefits of transition to market economy.

Indian Economic Environment

There are three distinct economic philosophies, *viz.*, Capitalism, Socialism and Communism. Economic environment refers to all those economic factors which have a bearing on the functioning of a business. Economic environment and business are mutually interdependent. In fact, the dependence of the business on the economic environment is more. The important economic factors that constitute the economic environment are:

(*a*) Growth strategy

(*b*) Economic system

(*c*) Economic planning

(*d*) Industry

(*e*) Agriculture

(*f*) Infrastructure

(*g*) Financial and fiscal sectors

(*h*) Removal of regional imbalances

(*i*) Price and distribution controls

(*j*) Economic reforms

(*k*) Population

(*l*) Per capita and national income.

India is one of the major economies in the world. India has developed her economy in different areas. The important facets of Indian economic environment (Fig. 3.8) are discussed hereunder:

(*a*) **Industrial Policy:** Industrial policy is the most important document which indicates the relationship between the government and business. The Industrial Policy Resolution previously laid emphasis on industrial development through the development of public sector. Industrial policy, 1991 was a major departure from the earlier policies. The significant objectives of this policy were: Self reliance, to build on the many-sided gains already made,

NOTES

removing regulatory system and other weaknesses, link the Indian economy to the global markets so that we acquire the ability to pay for imports, and to make us less dependent on aid, increasing competitiveness of industries for the benefit of the common man and ensuring running of public sector undertakings on business lines and to reduce their losses.

Fig. 3.8. Facets of Indian Economic Environment

(*b*) **Industrial Licensing:** Abolition of industrial licensing for many projects except those specified (13 in number), irrespective of levels of investment is worthwhile. These specified industries will continue to be subject to compulsory licensing for reasons related to security, strategic concerns, social reasons, problems related to safety, overriding environmental issues, manufacturing of products of hazardous nature and articles of elitist consumption.

(*c*) **Foreign Investment:** It has been decided to provide approval for direct foreign investment upto 51 per cent foreign equity in high priority industries requiring large investments and advanced technology. There shall be no hurdles in this process. This group of industries is generally known as the "Appendix-I Industries" and are areas in which FEMA companies have already been allowed to invest on a discretionary basis.

(*d*) **Foreign Technology Agreements:** Government of India now, provides automatic approval for technology agreements related to high priority industries within specified parameters, in order to inject the desired level of technological dynamism in Indian industry. Other industries can also avail similar facilities, if the agreements do not require free foreign exchange. Indian entrepreneurs can negotiate the terms of technology transfer. The hiring of foreign technicians and foreign testing of indigenously developed technologies do not, now, require prior clearance.

(*e*) **Public Sector:** The objective of the government before opening the Indian economy to the rest of the globe had been to establish socialistic pattern of society. This objective made the government to give top priority for public sector to develop industrial sector in the country. Public sector played a dominant role by establishing industries in the areas of public utilities, infrastructure; development banks, capital goods industries, core and key industries and industries requiring huge capital resources.

NOTES

In fact the government nationalised commercial banks, insurance industry and coal mines to achieve its objectives. Public sector was made responsible to achieve the objectives of the government like creation of employment opportunities, balanced regional development, providing infrastructural facilities and acting as a model employer. Public sector has played a crucial role in the country in the direction of these objectives. But, the public sector, in view of its conflicting dual roles of profit making and service rendering, could not do justice to any of these two objectives. Serious problems observed were: insufficient growth of productivity, poor project management, overmanning, absence of continuous technological up-gradation, inadequate attention to R&D and human resource development. These factors led to the disinvestment and privatisation of public sector in addition to liberalisation of the economy.

The most likely areas for public sector, in the future will be as follows:

(*a*) Essential infrastructure and services.

(*b*) Exploration and exploitation of oil and mineral resources.

(*c*) Technology development and building of manufacturing capabilities in areas which are crucial in the long-term development of the economy and where private sector investment is inadequate.

(*d*) Manufacturing of products where strategic considerations predominate such as defence equipment.

(*f*) **Monopolies and Restrictive Trade Practices:** The Monopolies and Restrictive Trade Practices Act, 1969 had two objectives before 1991. They were:

(*i*) Regulation of monopolies and prevention of concentration of economic power and (*ii*) Prohibition of monopolistic, restrictive and unfair trade practices.

The economic liberalisation of 1991, aimed at achieving high productivity, competitive advantage to the domestic industry in the international market and economies of scale led to the amendment of the Act in 1991. The objectives of the amended Act are:

(*i*) Controlling monopolistic trade practices, and

(*ii*) Regulating restrictive and unfair trade practices.

(*g*) **Foreign Trade:** It was widely recognised during the 1990s that the internationalisation of business, export-oriented industrial growth and self-reliance in the development of competencies were the highly essential factors for rapid economic development of the developing countries. Some countries believe in import substitution whilst majority of the countries believe in mutual dependence of the world nations for production and consumption. India recognised the significance of export and import trade for its development. This was quite evident in the new economic policy of 1991.

(*h*) **Privatisation:** The word privatisation has been receiving much attention in business and government all over the world. Privatisation techniques have already been tried in countries like Great Britain, China, U.S.A., Turkey, Brazil, Eritrea, Mexico and Japan. The process of privatisation has already been started in India through disinvestment of government's shareholdings in public sector. The process of privatisation should be accelerated for effective functioning of public sector and rapid industrial growth. In fact, Government of India recognised the need for privatisation for rapid and efficient industrial growth.

NOTES

(*i*) **Small Scale Industries:** It was argued that 'small is beautiful' It was further believed that small is efficient, innovative and productive. Further, government viewed that small scale sector solves the problems of the country like unemployment, and regional imbalance. Consequently, the government provided huge financial and non-financial facilities to this sector. But the government realised that this sector failed to a greater extent in playing its role and is a misfit in the market economies. Given below table shows the SWOT analysis of this sector. It is clear from this given table that the protection and assistance of the government to this sector is reduced at least in the magnitude, if not in direction.

(*j*) **Financial Sector:** The financial sector consists of commercial banks, development banks, mutual funds, unorganised financial sector institutions, custodial service institutions, stock exchanges, underwriting and capital issue houses. The economic liberalisation brought significant changes in financial sector. The important ones among them are:

– Permission for Non-Resident Indians (NRIs) to enter the Indian stock market;

– Establishment of the Securities and Exchange Board of India;

– Setting up of the Investment Information and Credit Rating Agency of India (IICRA) and

– Establishment of Credit Rating Information Services of India Ltd. (CRISIL).

Small Sector: The SWOT Analysis	
Strengths	• Flexibility in production volumes and design changes • Faster decision-making • Lower labour costs • Lower overheads
Weaknesses	• Often lack of management, marketing or financial skills • Technological obsolescence • Poor financing • Lack of marketing strength
Opportunities	• Large companies are outsourcing more to reduce their own costs • Promising export markets • Higher investment limits mean companies can expand and modernise • Big companies can take a larger equity stake in small ones
Threats	• With concessions disappearing, inefficient units will die • With de-reservation, competition will come from large companies • With import liberalisation, competition will come from MNCs and cheap inputs • Smaller, less aggressive companies will suffer.

(*k*) **Infrastructure:** The infrastructural facilities improved significantly in India. But, India ranks very poorly in global competitiveness. This is a not welcome sign to invite foreign investment in a big way.

(*l*) **Income Levels:** The high growth rate of income indicates the level of economic development of the country. National income in India increased from ₹ 1,10,685 crores in 1980-81 to ₹ 2,00,265 crores in 1993-94. The per capita income increased from ₹ 1,630 in 1980-81 to ₹ 2,255 in 1993-94. The slow growth of per capita income compared to that of national income is due to higher growth rate of population.

NOTES

(*m*) **Five-Year Plans:** Five-year plans were introduced from 1951-52 with a view to develop the economy on planned lines. The targets regarding national income were achieved during the First, Sixth and Seventh Five-Year Plans. Agricultural sector, industrial sector and service sectors were developed during the different five year plans.

(*n*) **Agricultural Sector:** Agricultural sector is a major component of our economic environment. The agricultural sector has been developed by means of green revolution and white revolution. Agricultural productivity ranks second in rice and wheat in the world. India achieved self sufficiency in agricultural output. This development paved the way for the development of agro-based industries.

(*o*) **Consumers:** Inflation and economic flux causes sweeping changes in consumer buying patterns. As consumers perceive that more money is buying them less, many people are adopting the much publicised 'buy now, save later' motto at the expense of future security.

Economic factors have a direct impact on the potential attractiveness of various company strategies. The various important economic variables that often represent opportunities and threats for companies include: monetary policy of the Reserve Bank of India, share prices, interest rates, tax rates and policies, employment trends, price variations, etc. They are presented given below.

Key Economic Variables that often Represent Opportunities and Threats for Companies

- Shift to a service economy in India
- Level of development of commercial banks
- Level of growth of development banks
- Level of availability of credit
- Saving philosophy and trends
- Level of disposable income
- Propensity of people to spend
- Interest rates
- Inflation rates
- Economies of scale
- Money market rates
- Government budgets
- Gross National Product trends
- Consumption patterns
- Unemployment trends
- Worker Productivity Levels
- Value of Rupee in terms of other currencies
- Stock market trends
- Foreign countries' economic conditions

NOTES

– Import/Export factors
– Demand shifts for different categories of goods and services
– Income differences by region and consumer groups
– Price fluctuations
– Monetary policies
– Fiscal policies and tax policies and rates
– Industrial and licensing policies
– Agricultural policies
– Labour policies
– Policies of various trading blocks like SAARC, EEC, NAFTA
– Policies towards joint ventures

IN SUMMARY THE FOLLOWING ECONOMIC FACTORS NEED TO BE SCANNED

➢ GDP per capita
➢ Economic growth
➢ Unemployment rate
➢ Inflation rate
➢ Consumer and investor confidence
➢ Inventory levels
➢ Currency exchange rates
➢ Merchandise trade balance
➢ Financial and political health of trading partners
➢ Balance of payments
➢ Future trends

3.13 POLITICAL ENVIRONMENT

Political Ideologies

Political ideology is the body of complex ideas, theories and objectives that constitute a sociopolitical programme. Most of the countries at present are political by pluralistic as different people have various ideologies. Political ideologies of the people in the same country vary widely due to the variations in culture, ethnic groups, tribal groups, community groups, religious groups and the economic groups. These variations influence the people to form different political parties. Managers in multi-political party environment find it difficult to articulate the company's interest and formulae, its mission in order to balance them with the ideology of the political parties.

Democracy

The ideology of pure democracy aims that all citizens should be equal politically and legally, should enjoy freedom and participate in the political process. Pure democracy is not practically implemented and as such countries practice different forms of representative democracy, where citizens elect representatives to make decision on their behalf. Characteristics of contemporary and representative democracy include:

NOTES

- Freedom of opinion, expression, press and freedom to organise.
- Freedom of electing the representative by voting.
- Limited terms for elected officials.
- An independent and fair judicial system with higher regard for individual rights and property.
- A non-political bureaucracy and defence infrastructure.
- An accessibility to the decision-making process .

Totalitarianism

Totalitarianism is extreme to democracy and is of two types *viz.*, theocratic and secular. Religious leaders also assume the roles of political leaders and rule the country in theocratic totalitarianism, as is the case in Iran. One or a group of leaders or a single political party without aligning with any religion assume the power and rule the country with military force under secular totalitarianism as in case of Cambodia, Afghanistan before Taliban rule and Iraq under Saddam Hussein rule. Totalitarianism is also categorised as fascism, authoritarianism and communism. Fascism and authoritarianism are non-existent at present. Communism is also viewed as secular totalitarianism where political and economic systems virtually go together. Many former communist countries like Russia, Sweden and Estonia moved towards different degrees of capitalism and democracy. However, China, Vietnam and North Korea continue to be communist countries.

However, political and economic uncertainty prevails in those countries that shift from communism to capitalism and democracy due to their transition. These uncertainties cause problems to international business firms.

Political environmental factors also influence the operations of international business firms enormously. The influence of the political system of a country influences the business from multiple angles, *viz.*, deciding, promoting, fostering, encouraging, sheltering, directing and controlling the business activities. The success and growth of international business depend upon stable, dynamic, honest, people participative, secured political system in a country.

Countries with stable political system enjoyed the successful business operations. The USA is the best example for political stability and dynamism. Hence, business people prefer to locate their business operations in the USA. According to John Kenneth Galbraith, no country with a stable and honest Government has not had a reasonably satisfactory state of economic progress. The Government, in addition to being stable should also be efficient. Tanzania had a stable government during 1965 and 1985 with Nyerere as the head of the Government. He resigned in 1985 leaving a near-ruined country behind him. Zaire had similar experience with Mobutu and Zambia with Kenneth Kaunda.

John Kenneth Galbraith argues that, in all the advanced countries, "the early emphasis was not on capital investment but on political and then on cultural development. In USA, West Europe and more recently in Japan, a secure political context was stressed in both thought and action on economic development; it was considered the first requisite for economic progress."

In addition to the stable and dynamic governments, the political environment includes the policies and characteristics of political parties, the nature of the constitution and government system.

NOTES

Some countries do not differ from other countries regarding the philosophies of the political parties, some other countries differ radically. Some countries are highly bureaucratic in decision making regarding foreign investment, technology imports, etc., while some other countries have simple and quick decision-making mechanisms with their democratic approach.

The characteristics of bureaucratic and communistic countries include:

- Limitations, controls and curbs on private enterprises.
- Rule of the trade is state trading and counter trading.
- Many restrictions on imports and foreign capital both inflow and outflow.
- Restrictions on international/multinational corporations.

The trend has changed even in communistic countries. They have been progressively shifting towards liberalisation, privatisation and globalisation (LPG). As many as 8,500 public sector enterprises were brought under the umbrella of private sector in over 80 countries up to 1991. The erstwhile communist countries including the former USSR countries and the China are in the direction from Marx to the Market.

The political philosophy of the developing countries shifted from self-sufficient to self-reliant. As such they compete among themselves to woo foreign capital, technology and managerial expertise.

The political philosophy of most of the governments seem to be broadly one of convergence.

However, they differ widely in imposing restrictions and regulations, scope, trade policies, procedures, taxes, custom duties, incentive systems, etc.

Political Relations and International Business

Political friendship/friendly diplomatic relations result in the growth of bilateral or multilateral trade. *For example,* the friendly diplomatic relations between India and the former USSR helped not only the Indian companies but also the MNCs operating in India to have close business linkages with the former USSR. Similarly, the friendly diplomatic relation between Pakistan and the USA helped Pakistan companies to have close business linkages with the USA.

Hostilities between countries also affect the international business among the companies of these countries. Arab countries did not prefer to carry on business with the business firms of Israel. These countries preferred business relations with those countries which boycott Israel. Hence, countervailing laws were adopted in USA to prevent the US companies from complying with this boycott.

In USA, the firms follow the policy of 'maintenance of arm's length' with the competing firms. But in other countries, particularly in Europe and India, they come to an agreement among themselves regarding price, product design, division of markets, etc. This difference is mostly due to the fact that, the US market is large enough to accommodate any number of firms to operate independent of competing firms. But the size of the European countries is very small and the firms cannot enjoy large scale economies. Therefore, European firms divide the market among themselves either in terms of products, geographical areas or customers in order to have large scale economies.

Level of Economic Development and Political Stability: South Africa and Italy are economically developed countries. South Africa has been facing internal and external problems and Italy has been facing labour problems and internal dissension.

Vietnam is politically stable but economically developing country. This is due to varied regional, ethnic, language, religious issues problems.

NOTES

Political Risks: International business firms face political risks as and when there are changes in government policies and/or changes in political parties in power. Risks are based on the host government's actions like confiscation, expropriation, nationalisation, domestication and creeping expropriation.

- **Confiscation:** The process of nationalisation of a property without compensation is called confiscation. Chinese government's seizure of US property in 1949 when Chinese Communist party took power is an example of confiscation.
- **Expropriation:** Expropriation is the process of nationalisation of a property with compensation. Indian Government nationalised commercial banks with compensation in July 1969.
- **Nationalisation:** Nationalisation is the process of shifting the ownership of private property from private individuals or institution to the Government. Burma nationalised entire foreign trade. Poland and Czech Communists nationalised 100 per cent of their economy.
- **Domestication:** In domestication, foreign business firms relinquish control and ownership in favour of domestic investors either partly or fully. For example, Indian Leaf Tobacco Development Company Ltd., in India, Pepsi, General Motors and Barclays Bank in South Africa.
- **General Instability Risk:** These risks are due to social, political, religious unrest in the host country like the recent coup in Fiji and problems due to Muslim rebels in Philippines.
- **Operation Risk:** These risks are due to the imposition of controls on the foreign business operation (like production levels, marketing, finance and human resource) by the host government.

Indicators of Political Instability

Political instability can be viewed from the social unrest, attitudes of nationals and policies of host governments.

- **Corruption:** Corruption and bribery become acute and prevalent not only among bureaucrats but also among politicians during the early stages of political instability.
- **Social Unrest:** Social unrest is caused by clashes between or among community groups, religious groups and ethnic groups. For example, Christian-Muslim conflict in Lebanon, Hindu-Muslim conflict in India, White-Black conflict in the USA, the civil war between Serbs and Croats in 1991 in Yugoslavia, ethnic conflict between Christian in Armenia and Muslims in neighbouring Azerbaijan, etc.
- **Attitudes of Nationals:** The negative attitude of nationals towards foreign business and foreigners is a greater risk. These negative attitudes include exploitation, colonialism, repatriation, non-employment to foreigners, etc.
- **Policies of the Host Government:** Host Government's policies affect the operation of international business firms directly and internally or externally. For example, Janata Government in India asked Coca-Cola to leave the country in 1977 due to the policy of discouraging multinationals. The dispute

between Chile and Argentina made Argentina to restrict exports (including the foreign companies operating in the country like General Motors, Peugeot and Renault) to Chile. The Enron Corporation's experience is another example.

NOTES

Strategies to Minimise Political Risks

Political risks cannot be completely eliminated. However, they can be minimised by contributing to the change of the attitudes of the people and government of the host country like stimulation of the host country's economy, employment of nationals, sharing ownership, being civic minded, political neutrality, behind-the-scenes lobby, observation of political mood and reduction of exposure.

Stimulation of the Local Economy: The foreign company can stimulate the economic development of the host country by investing in their priority areas/portfolios. Further, the foreign company may encourage the local companies by purchasing the raw materials and other inputs from the latter, assist the local companies in technological aspects, using the local companies as ancillary units, etc. *For example,* IBM is the foreign company allowed to sell switchboards in France.

Similarly, the foreign company can stimulate the host economy by being export oriented. *For example,* AT&T entered France with an agreement with Generale de Electricity of France to produce digital switches and export to the USA.

Employment of Nationals: Most foreign companies feel that the people of developing countries are lazy, unintelligent, unmotivated, and less educated. As such foreign companies hire the people from advanced countries and do not employ the local people.

Multinational companies can minimise political risks by employing, developing and promoting the local people.

Sharing ownership: If the multinational company owns the entire capital by itself, it magnifies political risks. Hence, it is suggested that the foreign companies should allow the domestic investors to invest and share the ownership by converting the company into a public limited company. In fact, some countries have imposed a condition that the foreign companies can enter the domestic country only with the participation of local investors. Eritrea is an example in this case. Ownership can be shared through joint ventures. Ford chose to merge its automobile operations in South Africa with Anglo American by reducing its share to a minority position of 40 per cent.

Being Civic Minded: US based MNCs sometimes encounter the 'Ugly American' label abroad. The MNCs in addition to doing business in foreign countries, should be good corporate citizens there. MNCs may help the foreign countries in different ways like constructing schools, hospitals, roads, water reservoirs, etc. Du Pont supplied 1.4 million water jug filters to eight African countries. H.J. Heinz spent US$ 94,000 to fund infant nutrition studies in China. IBM donated computer equipment and expertise worth $ 60,000 to Costa Rica.

Political Neutrality: It is criticised that the MNCs actively involve themselves in political affairs of developing countries. It is suggested that the MNCs should not involve in political affairs or disputes among the local groups of the host countries from the point of view of long-run interests. Brazilian companies *for example,* do not get involved in the political activities of Central American countries.

Behind-the-Scene Lobby: Firms attempt to influence political decisions to help out the host countries. Mobil corporation issued newspaper advertisements urging US to sell missiles to Saudi Arabia. Pizza Hut came to China's rescue when the US mushroom industry asked for a quota against imports from China.

NOTES

IN SUMMARY THE FOLLOWING POLITICAL FACTORS NEED TO BE SCANNED:
• Political climate – amount of government activity • Political stability and risk • Government debt • Budget deficit or surplus • Corporate and personal tax rates • Payroll taxes • Import tariffs and quotas • Export restrictions • Restrictions on international financial flows

Legal Environment

Laws of the land directly affect the international business wherever they operate. Therefore, international business managers should be aware of the legal systems and laws that are in-force in various foreign countries in addition to their home country as well as host country. Different forms of laws like common laws, civil laws, contract laws and theoretical laws and the degree of independence of the judiciary system vary from country to country. However, the countries in transition from Communism to market economy, mixed economic to market-economy and different types of totalitarianism to democracy and capitalism may not have perfect business laws. Therefore, international business managers should perform their activities cautiously.

Protection of Intellectual Property

The output of intellectual activity like an invention, a screenplay, computer software, chemical formula for a new drug and the like are intellectual properties of those involved. Patents, copyrights and trademarks establish ownership rights over intellectual property rights. Patent provides exclusive rights to the inventor of a new product or process for a particular period to produce and market the product/process. Copyrights provide exclusive rights to the authors, publishers, composers and the like to publish and market their works. Trademarks are designs, icons, names used by the producers and marketers to differentiate their products/services from those of others. These trademarks are officially registered and become exclusive rights of the manufacture's who register them. Protecting intellectual property rights across the globe is a problem due to the volume of the task, cultural differences across the globe and limitations of various governments in enforcing the laws. World Trade Organisation is enforcing the intellectual property regulations. Governments in various member countries of the World Trade Organisation have been either formulating new laws or amending the existing laws in order to protect the intellectual property rights.

Product Safety and Product Liability

Products must adhere to certain safety standards as prescribed by product safety laws. Firms and its executives hold responsibility under product liability when injury, death or damage is caused by usage or consumption of product. These laws and standards are more comprehensive in USA compared to other countries. Differences

NOTES

in coverage of these laws among the countries result in variation in competitive advantage as well as non-uniformity of ethical standards to and among countries. Thus, the countries with less comprehensive product safety and product liability laws provide an opportunity to the business to reduce its cost and possess more competitive advantage than their counterparts in those countries, where the laws are more comprehensive.

Labour Laws: Labour legislations are enacted in various countries, mostly based on the resolutions of the International Labour Organisation. These legislations prescribe the minimum wages, trade union activities, employee-employer relations, collective negotiations, recruitment and employment practices, stipulations regarding working conditions, employee benefits, regulations and modalities of prevention and settlement of industrial disputes. However, MNCs force most of the governments to play an indifferent role with respect to implementation of labour laws. MNCs enter those countries where the cost of human resource is less in order to acquire competitive advantage through low labour costs. However, these practices sometimes result in exploitation of labour in developing countries.

IN SUMMARY THE FOLLOWING LEGAL FACTORS NEED TO BE SCANNED

- Minimum wage laws
- Environmental protection laws
- Worker safety laws
- Labour laws
- Copyright and patent laws
- Anti-monopoly laws
- Sunday closing laws
- Municipal licences
- Laws that favour business investment

3.14 NATURAL ENVIRONMENT

Natural environment consists of ecological factors and climatic conditions that affect business. Topography of the region, rivers, climatic conditions, humidity, wheather conditions, etc., influence the business directly and indirectly. For example the output and quality of products in cotton textile industry are affected by the humidity in the weather. Similarly availability of water influences the soft drinks industry as well as brewery and mineral water industry.

In addition to affecting location strategies, the natural factors affect cost strategies, investment strategies, green-marketing strategies and quality strategies of different industries. Maintenance of pollution free environment, companies need to invest heavily on erecting additional machinery and equipment. Similarly certain climatic conditions favour the maintenance of high quality of output while other climatic conditions disfavour the quality of the product. Further the hilly geographical territories create problems for construction and maintenance of infrastructural facilities like roads, railway lines and telecommunication facilities. Therefore, companies have to scan natural environment to find out opportunities provided by and the threats posed by natural environment and to craft appropriate strategies.

Climate change is widely regarded as one of the most serious challenges the world faces with consequences that go far beyond its effects on the environment. Climate change has reached a tipping point in global awareness. Therefore, the companies need to maintain appropriate measures with regard to the challenges of climate change and its aftermath affects.

3.15 THE INDUSTRY ENVIRONMENT

Industry is a group of firms producing (or rendering) the same or similar products (or services) which depend on others for inputs. The strategies of the firm will be affected by the attractiveness of the industry in which it chooses to do business and its relative competitive position within that industry. The important factors of this environment include:

Market, customer, demographic factors, geographic factors and competition.

The Market Environment

The market environment consists of all factors and groups having impact on the demand for the firm's products and/or services, competitors, etc. The factors influencing the firm's market environment include:

- Product design, configuration, demand, packing, uses, lifecycle, etc.
- Place of the market, special features of the market, etc.
- Place also includes customer related factors like customer taste, preference, needs, perceptions, values, bargaining abilities, satisfaction, dealers, distributors, wholesalers, retailers, etc.
- Price of the product, payment terms and conditions, special offers, discount, competitor's price, price of the substitute and complementary products etc.
- Promotional factors like expenditure and effectiveness of advertising, personal selling and sales promotion of the firm and competing firms.

Customer

The significant factor of the marketing environment is the customer. The strategists are mostly concerned with the customers of the firm and their needs and desires. In fact, the customer has become king to the strategists in the country with the liberalisation of the economy in 1991. The strategists are interested in not only the present customers but also the potential and future customers.

According to Lawrence R. Jauch and William F. Glueck, strategists include three factors as part of their industry analysis of customer sector, *viz.*, buyer identification, demographic factors and geographic locations of markets.

Buyer Identification: Markets nonnally indicate three distinct classes of customers. Different factors affect each class of customers in making their purchase decision as presented in Fig. 3.9. Strategists identify the nature of these customers and their utilities in order to avoid threats of loss of customers and to find or create opportunities for themselves to find new customers or to sell more to existing ones.

NOTES

Factors Influencing Different Types of Buyers

Consumers

- Availability
- Convenience
- Credit
- Price
- Quality
- Reputation
- Variety
- Warranty/Guarantee

Retailers and/or Wholesalers

- Competitive product
- Consumer recognition
- Product availability
- Product line breadth
- Product turnover
- Profit potential
- Promotional and merchandising support
- Supply dependability

Industrial and/or Institutional Buyers

- Cost vs Profitability
- Financing
- Legal conformity
- Price
- Product information
- Product line
- Product performance
- Source availability
- Technical assistance

Fig. 3.9. Factors Influencing Different Types of Buyers

Demographic Factors

The demographic factors that influence the industry analysis include:

(*i*) Changes in population size and structure;

(*ii*) Age shifts in the population; and

(*iii*) income distribution and changes of the population.

Geographic Factors

The strategists should also analyse the geographic environment to know the opportunities and threats as part of analysing customer sector. The strategist should think of extending the market to new locations.

Supplier: Suppliers provide material, capital and the likes to a firm. The strategist should analyse the supplier changes in the environment like price of the material, continuous supply of material, providing material on credit, etc. Michael Porter summarised this environment as follows:

(*i*) The power of the supplier to raise prices. The farther away the supplier is, the greater is his power.

(*ii*) The power of the supplier to raise the prices is less, if the buying firm is monopolist or oligopolist.

(*iii*) The power of the supplier to raise prices is greatest when the buyer is not an important customer or when the supplier can have forward linkage.

The power of the buyer can also affect the cost of suppliers. The power of the buyer can be maximum when (*i*) the buyer's firm is concentrated (*ii*) the buyer represents a significant portion of the supplier's business and (*iii*) if the buyer can virtually integrate backward.

Alternatively, the buyer's power would be minimum when (*i*) the buyer's firm is competitive (*ii*) the cost of switching to a substitute is high, (*iii*) the supplier's product is especially a vital part of the production process and (*iv*) the supplier can virtually integrate forward.

In addition to analysing the bargaining power of supplier and buyer, the strategist must analyse the environment to examine: (*i*) availability and cost of raw materials and sub-assemblies, (*ii*) availability and cost of energy, (*iii*) availability and cost of financial resources and (*iv*) availability and cost of labour.

NOTES

Competitors

The strategist analyses the demand for and supply of the product that the firm produces. Further, he examines the level and nature of competition the firm faces and will face. Factors to be examined regarding competition are: (*i*) entry and exit of major competitors, (*ii*) substitutes and complements for current products and services and (*iii*) major strategic changes by current competitors.

Barriers to entry or exit determine the entry or exit. Michael Porter contends that the following factors must be appraised with respect to their impact on barriers to entry in an industry.

(*i*) Product differentiation;

(*ii*) Economies of scale;

(*iii*) Absolute cost advantages;

(*iv*) Access to marketing channels; and

(*v*) Likely reaction of current firms.

According to Porter, the following are the barriers to exit from an industry:

(*i*) Managerial valves prevent it, (*ii*) Other products or services are related to exit candidates, (*iii*) Costs are sunk in assets (*iv*) direct exist costs are high and (*v*) Indirect costs may reduce exit behaviour. Key questions about competitors are given below:

1. What are our major competitors' strengths?
2. What are our major competitors' weaknesses?
3. What are our major competitors' goals, objectives and strategies?
4. How are our major competitors most likely to respond to current economic, social, cultural, demographic, geographic, political, governmental, technological and competitive trends affecting the industry?
5. How vulnerable are our major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful counter attack by our major competitors?
7. How are our products or services positioned relative to our major competitors?
8. To what extent are new firms entering and old firms leaving the industry?
9. What key factors have resulted in the present competitive position in the industry?
10. How have the sales and profit rankings of major competitors in the industry changes over recent years? Why have these rankings changed that way?
11. What is the nature of supplier and distributor relationship in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

The Concept of Driving Forces

Industry conditions change because important forces driving industry participants (competitors, customers, suppliers) alter their actions, the driving forces in an industry are the major underlying causes of changing industry and competitive conditions. Several different factors can affect an industry powerfully enough to act as driving forces. The important among them are:

- Changes in the long-term industry growth rate;
- Changes in who buys the product and how they use it;

NOTES

- Product innovation;
- Technological change;
- Marketing innovation;
- Entry or exit of major firms;
- Diffusion of technical know-how;
- Increasing globalisation of the industry;
- Changes in cost and efficiency;
- Emerging buyer preferences for a differentiated instead of a commodity product;
- Regulatory influences and government policy changes;
- Changing societal concerns, attitudes, life-style; and
- Reduction in uncertainty and business risk.

Competitor Analysis

Studying the actions and behaviour of close competitors is essential. Unless a company knows what competitors are doing, it ends up "flying blind" into battle. Therefore, successful strategists take great pains in scouting competitors – understanding their strategies, watching their strategies, watching their actions, sizing up their strengths and weaknesses and trying to anticipate what moves they will make next. This activity includes the following actions:

1. Identifying competitor's strategies: Strategists can get a quick profile of key competitors by studying where they are in industry, their strategic objectives and their basic competitive approaches.
2. Evaluating who the industry's major players are going to be.
3. Predicting competitor's next moves.
4. Pinpointing the key factors for competitive success: Key success factors spell the difference between profit and loss and ultimately between competitive success and failure. A key success factor can be a skill or talent, a competitive capability or a condition a company must achieve, it can relate to technology, manufacturing, distribution, marketing or organisation resources.
5. Drawing conclusions about overall industry attractiveness. Whether an industry is relatively attractive or unattractive depends on several situational considerations.

Types of Key Success Factors

Technology-Related KSFs

- Scientific research expertise (important in such fields as pharmaceuticals, medicine, space exploration, other "high-tech" industries)
- Production process innovation capability
- Product innovation capability
- Expertise in a given technology

Manufacturing-Related KSFs

- Low-cost production efficiency (achieve scale economies, capture experience curve effects)
- Quality of manufacture (fewer defects, less need for repairs)

- High utilisation of fixed assets (important in capital intensive/high fixed-cost industries)
- Low-cost plant locations
- Access to adequate supplies of skilled labour
- High labour productivity (important for items with high labour content)
- Low-cost product design and engineering (reduces manufacturing costs)
- Flexibility to manufacture a range of models and sizes take care of custom orders

NOTES

Distribution-Related KSFs

- A strong network of wholesale distributors dealers
- Gaining ample space on retailer shelves
- Having company-owned retail outlets
- Low distribution costs
- Fast delivery

Marketing-Related KSFs

- A well-trained, effective sales force
- Available, dependable service and technical assistance
- Accurate filling of buyer orders (few back orders or mistakes)
- Breadth of product line and product selection
- Merchandising skills
- Attractive styling/packing
- Customer guarantees and warranties (important in mail-order retailing, big ticket purchases, new product introductions)

Skills-Related KSFs

- Superior talent (important in professional services)
- Quality control know-how
- Design expertise (important in fashion and apparel industries)
- Expertise in a particular technology
- Ability to come up with clever, catchy ads
- Ability to get newly developed products out of the R&D phase and into the market very quickly

Organisational Capability

- Superior information systems (important in airline travel, car rental, credit card, and lodging industries)
- Ability to respond quickly to shifting market conditions (streamlined decision-making, short lead times to bring new products to market)
- More experience and managerial know-how

Other Types of KSFs

- Favourable image/reputation with buyers
- Overall low cost (not just in manufacturing)
- Convenient locations (important in many, retailing businesses)
- Pleasant, courteous employees
- Access to financial capital (important in newly emerging industries with high degrees of business risk and in capital-intensive industries)
- Patent protection

Michael Porter's Approach to Industry Analysis

According to Michael Porter, the business while analysing the environment should be concerned more with the intensity of competition is determined by various potential entrants, suppliers, industry competitors, rivalry among existing firms, buyers, substitutes etc.

The collective and interactive, "strength of these forces determine the ultimate profit potential in the industry, where profit potential is measured in terms of long run return on invested capital."

Strategists can identify opportunities and threats in each of these competitive forces and rate their strength as high or medium or low force. No force is regarded as an opportunity. However, the business firms in the long run can change the threats into either opportunities or neutral forces through their strategies. But they have to craft their strategies in the short run within the limitation of these forces.

For example, a soft drink company in India could currently rate as follows:

Force	Rate	Comments
Rivalry	High	Coca-Cola and Pepsi cola.
Threat of potential entrants	Low	Industry reached maturity stage, sales growth is slow
Threat of substitutes	Low	Other soft drinks do not provide flavour close to Coca-Cola or Pepsi Cola
Bargaining power of the buyers	Low	Large number of buyers with negligible share in the total sales
Bargaining power of the suppliers	Medium	Coca-Cola and Pepsi Cola make large quantities of buying of sugar, water and carbon dioxide.
Development seconds market	Medium	Development of second market for books like www.amazon.com and cars
Threat of other stakeholders	Medium	Agitation against Coca-Cola and Pepsi Cola environmental concern, ingredients of the products are on 'high.'

The soft drink industry is currently at high level of competitive intensity based on the above factors. In other words, the industry growth rate is low and the profit margins are narrowed down.

Now, we shall discuss each of these competitive focuses in detail:

Potential/threat of new entrants: Normally new entrants pose a threat to the existing firms as they enter the industry with new and creative management practices, new and improved product features, low price, latest technology, and write new promises to the customers. For example, Reliance mobiles entered mobile industry in India with latest technology, reduced price, wide area network and enhanced bandwidth. Similarly, Degicel entered mobile market in Papua New Guinea with wide area network, reduced price and latest technology.

However, the existing firms and/or the industry can create entry barriers: They include: Large scale operations sales and low prices provided, an advantage to Reliance mobile phones to prevent the entry of rivals in Indian mobile industry whereas the exorbitant tariff fixed by 'Be' mobile created an 'invitation to enter' the mobile market to Digicel mobiles in Papua New Guinea.

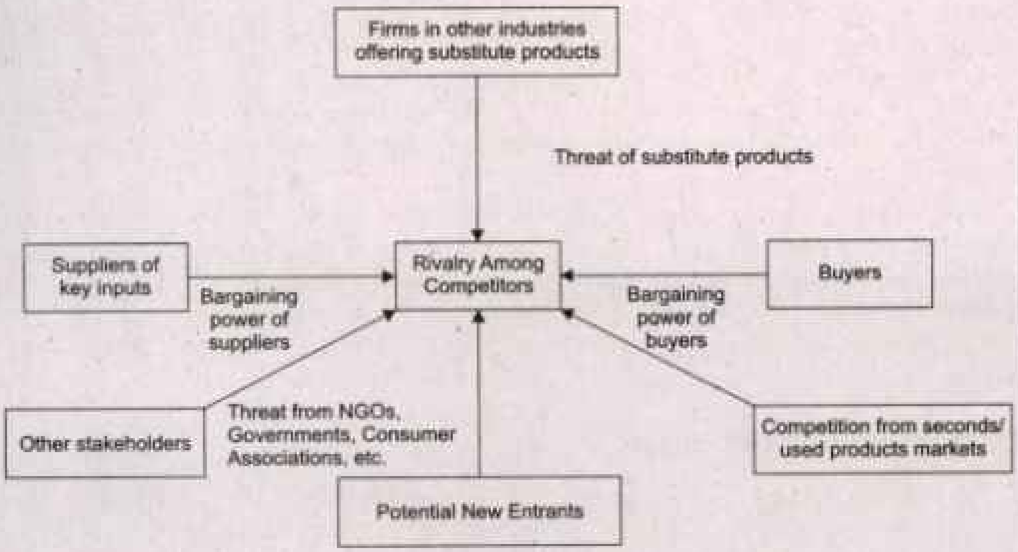

Fig. 3.10. Forces Driving Industry Competition

Product Differentiation: Product differentiation created by Coca-Cola like Sprite, Fanta, Diet coke, etc., created entry barriers to other companies and tough competition to Pepsi Cola.

Capital Requirement: The need for inventing large capital creates entry barrier for new entrants. For example, steel industry, airways and shipping companies need huge capital and therefore less number of new firms enter these industries.

Switching Costs: Entry barriers are created when the cost of switching to other businesses or systems is too high.

Accession to Distribution Channels: The existing firms can create a block to the access of the distribution channels by employing role distribution dealers.

Government Regulations: Government imposes entry barriers by imposing licensing and other regulations in certain industry like oil exploration, food processing, air travel, agro-based and chemical industry.

Rivalry Among Existing Firms

Actions of a firm affects the other firms of the same industry directly and the firms of some of the other industries indirectly. In fact, the moves of the French National Railways with regard to the enhanced speed affected the airlines industry in France. Thus, rivalry takes place even across the industries. The tariff reduction by domestic airlines in India affected the Indian Railways, which brought a variety of schedules to provide convenience to customers like *tatkal* tickets.

Thus, rivalry among firms are independent in their actions and counter actions. Intense rivalry, according to Michael Porter, is related to the presence of the following factors:

Number of competitors: Presence of number of competitors depends upon the nature of industry and the size of the market. There are more than 10 competitors in mobile industry in India whereas there are only two competitors in mobile industry in Papua New Guinea owing to the small size of the market. In number of fast moving consumer goods industry, the firms watch the strategies and actions of the competitors very closely and craft their strategies when the number of competitors is less.

Industry Growth Rate: The war based on price, product improvement and differentiation is relatively more when the growth rate of the industry is slowed down. Indian mobile companies used to charge a tariff of more than ₹ 2 per one minute of the outgoing calls when the industry growth rate was high during late 1990s and early 2000. They reduced the same to around ₹ 0.50 when the growth rate slowed down by 2007. This is due to the fact that the firms compete for the same market whose growth is slowed down.

Product/Service characteristics: The factors like availability and location proximity play vital role in the competition when the product/service characteristics are the same or do not matter much when compared to other factors like time and location proximity. For example, customers weigh the time and location proximity in buying food for immediate consumption and also when the product characteristics are the same.

Bargaining Power of Buyer

Current and potential bargaining power of the buyers determines the competitive strength of the firms for example, airlines, bargaining power in buying petrol is relatively high compared to that of a truck owner. Bargaining power of the buyer is relatively more in the following situations:

- Purchases form a larger share of the sales of company. For example, the quantity of books purchased by distance education department/centres of universities is larger, than publishing the total sales by a company. Similarly, the share of purloin of computers by colleges and universities is larger to the total purchases by a computer company.
- Ability of the buyer to implement backward integration strategy for example, the ability of Airlines Company or Indian Railways to have its own catering and the ability to start their own colleges and universities to educate the prospective employees like Kirlosker.
- Availability of alternative suppliers: Liberalisation of economies resulted in the alternative supply of products and services. For example, Air India was the major supplier of international air travel before 2000. Now, there are a wide range of alternatives.
- High share of the value of purchase: The buyer prefers to reduce the cost of buying when the share of value of purchase is relatively high. This is true in case of purchase of barley by a brewery.

Low Margins of the Buyer in Sales

Market intermediaries when they are forced to maintain low margin bargain for low price. This is more applicable in case of fast moving consumer goods.

Bargaining Powers of Suppliers

Bargaining power of the supplier influences prices. Bargaining power of the suppliers of pharmaceuticals is more in Papua New Guinea and is one of the reasons for high cost of medical facilities in Papua New Guinea. Similarly, the bargaining power of OPEC is significant in supplying oil which resulted in increase in airfares in 2008.

NOTES

The suppliers enjoy higher level of bargaining power under the following circumstances:

- When the suppliers in the industry is dominated by a few firms.
- When the supply of the product/service is less than the demand for it.
- When the product has distinctive attributes and difficult to switch over.
- When easy substitutes are not available like rail travel in India and air travel in Papua New Guinea.
- When suppliers can have forward linkage and direct dealing with customers like airline business.

Development of Second Market

Development of second/used products market poses a wide threat in some industries particularly in publishing and automobile industry. For example www.amazon.com facilitates second market for a wide range of used books posing a threat to the publishing industry. Similarly, a number of companies started the business in procuring such and supplying used cars to various foreign countries. Such trends pose competition to the firm in the publishing industry as well as automobile industry.

Relative Power of Other Stakeholders

Other stakeholders include political parties and non-government organisations. This is an additional factor for the Porter's model. For example; the products of Coca-Cola and Pepsi Cola have been challenged by the Bhartiya Janata Party activists on the ground that natural fruits, tender coconut and juices are far better than the cola product, in terms of health issues and price. These activities posed challenges to Coca-Cola and Pepsi Cola.

Some of the Papua New Guineans favour 'Be' mobile, a public sector unit, causing competition to Digicel mobile company in the country. Agitations by the consumer associations and voluntary organisations force governments to plan to enact special legislations and impose regulations to protect the consumer and the environment. These regulations enhance the cost of assets and production. The enhanced costs intensify the competition.

For example, water, air and sound pollution control measures imposed by the Government of India enhanced the cost of production of chemical industry.

Industry Boundaries

An industry is a group of firms that produce the same or similar products or render the same or similar services. Similar products indicate that they serve the same purpose for example, orange juice, grape juice, apple juice and mango juice serve the same purpose. So, firms producing different kinds of juices belong to the juices manufacturing industry. Different kinds of passenger cars like economy cars, luxury cars and cars-cum-truck serve similar purpose of conveyance. These firms belong to the automobile industry along with other automobile manufacturing firms. Sometimes, would be quite unclear to classify the industries for example, Coca-Cola producers beverages as well as mineral water which can include mineral water under beverages. The answer is partly 'Yes' as both these products satisfy the need of thirsty and partly 'No' as the beverages satisfy the need for excitement, unlike water.

NOTES

Similarly some firms producing bicycles for riding also produce toy bicycles. How do we classify such companies? Such examples create a confusion over industry boundaries. These confusions complicate the task of crafting strategy as each operational area override other area of operations of the firm.

Industry definition is necessary:

(i) to determine the area in which the firm is competing.

(ii) to focus the attention of the strategies on the firm's competitors.

(iii) to identify the environment and common opportunities and threats.

(iv) to evaluate the strategies, goals and objectives of the firm.

Though industry definition is necessary, the following problems are involved in the process.

Growing competition forces companies to spread their operations to other industry. For example universities spread their activities into publishing industry, hotel and transport industry.

Industry evolutions create industries within industries like telephone industry, mobile industry, e-mail and Internet within telecommunication industry.

Globalisation led to the creation of global industry.

Yet how to draw Boundaries

Despite these problems, executives have to design boundaries in order to focus on strategic management. The executives, therefore, should examine the following issues:

- Identify the goals of each portfolio of the company.
- Focus on the critical success factors of each portfolio of the business.
- Scan the firm's strengths to compete in other areas of the industry and if not, acquire such strengths.
- Future opportunities and threats that force the firm to enter areas of other industries.
- Acquisition of new strengths and reduction of future threats of entering new industries.
- Reduction of conflict, overlap and gap areas of strategies that result owing the expanding industry boundaries.

Environmental Scanning

The process of environment scanning has been far from being systematic except with regard to information relating to current developments. Environmental scanning requires information inputs which can be devised from different strategies like:

- Verbal information from audio-visual media, suppliers, sales people, etc.,
- Written and documenting information from newspaper, journal and reports,
- Information from management information system
- Industrial spying
- Forecasting reports

NOTES

1. **Key Sources of Information for Environmental Scanning:** Once strategists have selected key environmental variables, the next step is to select key sources of environmental information for scanning. The sources of information include:
   (*i*) The economic and business daily newspapers like The Economic Times, Business Standard, Business Line and Financial Express.
   (*ii*) Journals and periodicals like Business India, Business World, Business Today, Update, Fortune India, Main Stream, Long Range Planning Journal, Economist, IMF World Economic Outlook, Harvard Business Review, Foreign Trade, Finance and Development, Environmental Trends & Scenarios, etc.
   (*iii*) Institutional publications like Mumbai Stock Exchange Directory, the Centre for Monitoring Indian Economy, Kothari Industrial Directory of India, Publications of Market Research, Agencies like Operations Research Group, the National Council for Applied Economic Research, etc., annual reports of various companies, publications of professional organisations like Federation of Indian Chamber of Commerce and Industry.
   (*iv*) Government publications like Economic Survey, Guidelines to India Bulletins, ICICI Portfolio Studies, Business Intelligence and Data, The State of Nation Report, Quarterly Survey of Industries, Indian Trade Journal, Yojana, etc.
   (*v*) Other publications include: United Nations Publications, World Economic Survey, International Financial Statistics, Economic Survey of Asia and the Far East, Commodity Trade Statistics, Year Book of International Trade Statistics, etc.
2. **Approaches to Environmental Scanning:** The experiences of various pioneering companies reflect the emergence of four basic principles regarding effective implementation of environmental scanning function.
   1. Environmental analysis must be linked, conceptually and practically to current planning and operations.
   2. Environmental analysis serves a number of separate purposes, different analytic structures and systems may be required in order to achieve those different purposes.
   3. Systems for environmental analysis must fit the culture and decision-making styles of the organisation and areas they serve.
   4. Continuing support in spite of internal changes is required to sustain environmental analysis in an organisation over time.
3. **Factors Affecting the Environmental Scanning:** Several factors affect the environmental scanning. These factors are classified as (*i*) Strategist related factors, (*ii*) Organisation related factors and (*iii*) Environment related factors.
   (*i*) Strategist related factors include: age, family background, educational background, experience, socio-cultural background, motivational level, perception and cognitive styles, ability to face challenges, ability to cope up with stress, ability to motivate and lead people, ability to adopt to different cultures and problem situations, ability to form and lead team work, ability to forecast, judgement, analytical and interpretation skills etc.

NOTES

(ii) Organisation related factors include the nature of the business, product or services and markets, age, size and complexity of the organisation, organisation structure and its nature etc.

(iii) Environmental factors include: complexity, volatility or turbulence, hostility and diversity of the environment.

The strategist may face the problem of comprehending massive information and a number of environmental factors. Hence, the strategist should select priority based environmental factors to forecast the future or scanning the environment.

4. **Scanning Systems:** There are three types of scanning systems. They are:
   (i) *Irregular Scanning Systems:* These consist of *ad hoc* studies in response to environmental crises.
   (ii) *Regular Scanning Systems:* These consist of regular reviews of the environment or selected strategic environmental components. These reviews include annual planning exercises.
   (iii) *Continuous Scanning Systems:* This is an ongoing activity. Established boundary, scanning offices often coordinate this activity. This is more future oriented system. Compares these three scanning systems along several dimensions.

Techniques of Environmental Scanning

1. *Expert opinion:* Knowledgeable people are selected and asked to assign importance and probability ratings to various possible future developments. The most refined version, the Delphi method, puts experts through several rounds of event assessment, where they keep refining their assumptions and judgements.
2. *Trend extrapolation:* Researchers fit curves (linear, quadriatic, or S-shaped growth curves) through past time series to serve as a basis for extrapolation. This method can be very unreliable if new developments alter the expected direction of movement.
3. *Trend correlation:* Researchers correlate various time series in the hope of identifying leading and lagging relationships that can support forecasts.
4. *Dynamic modelling:* Researchers build sets of equations to try to describe the underlying system. The coefficients in the equations are fitted through statistical means. Econometric models of more than 300 equations, for example, are used to forecast changes in the U.S. economy.

Comparison of Scanning Models

Irregular Model	Regular Model	Continuous Model
Media for Scanning Activity		
Ad hoc studies	Periodically updated studies	Structured data collection and processing systems
Scope of Scanning		
Specific events	Selected events	Broad range of environmental systems

NOTES

Motivation for Activity		
Crisis initiated	Decision and issue oriented	Planning process oriented
Temporal Nature of Activity		
Reactive	Pro-active	Pro-active
Time Frame for Data		
Retrospective	Primarily current and retrospective	Prospective
Time Frame for Decision Impact		
Current and near future	Near-term	Long-term
Organisational makeup		
Various staff agencies unit	Various staff agencies	Environmental scanning

5. *Cross-impact analysis:* Researchers identify a set of key trends (those high in importance and/or probability) and ask, "If event A occurs, what will be the impact on all other trends?" The results are then used to build sets of "domino chains," with one event triggering others.
6. *Multiple scenarios:* Researchers build pictures of alternative futures, each internally consistent and with a certain probability of happening. The major purpose of the scenarios is to stimulate contingency planning.
7. *Demand/hazard forecasting:* Researchers identify major events that would greatly affect the firm. Each event is rated for its convergence with several major trends taking place in society and for its appeal to each major public group in the society. A higher convergence and appeal increases the probability that the event will occur. The highest-scoring events are then researched further.

5. Environmental Threat and Opportunity Profile: ETOP

Analysis of environmental information, data and factors, and determining opportunities and threats require a systematic technique. Lawrence R. Jauch and William F. Glueck suggest the technique of Environmental Threat and Opportunity Profile (ETOP). This technique conveniently summarises the diagnoses of all the various factors of the environment which is important to the strategic gaps facing the firm. The ETOP presents the impact of each environmental factor like economic, political and social on the organisation. Below given table presents an environmental threat and opportunity profile (ETOP) of a bank.

Environmental Threat and Opportunity Profile of a Bank

Environmental Factors	+	Continued emphasis on infrastructural facilities including telecommunications
	+	Increase in educational levels and income levels
	+	Increase in business activity.
	–	Establishment of financing companies
Technological	+	Increased computerisation
	–	Shortage of computer operators and engineers.

NOTES

Government	–	Economic liberalisation allowed private banks to operate and compete with the existing banks
Customer	–	Shift from the present banks to the newly established banks with modern facilities.
Supplier	–	Source of technology will become scarce
Competitor	+	Less competition from the existing banks
	o+	No competition from cooperative banks.
	–	Strength of the foreign banks in terms of technology, people and funds.

3.16 SUMMARY

- Non-profit organisations are of two groups, *viz.*, private non-profit organisations and public non-profit organisations.
- Types of non-profit organisations are educational institutions hospitals, charities, social service organisations, foundations, cultural organisations and social organisations.
- Goals of non-profit organisations are value-laden, trade-offs and provide high quality service.
- Strategy formulation is more or less the same in non-profit organisations compared to that of private and profit oriented organisations.
- There are certain constraints on strategy formulation and implemetation of non-profit organisations.
- Popular strategies of non-profit organisations include strategic piggybacking, interorganisational linkage, and linkage with other non-profit organisations.
- Non-profit organisations deal with the complications arising from the constraints to some extent.
- Strategic management involves three levels, *viz.*, the organisation's macro environment or general environment, the industry in which the organisation operates and the organisation itself.
- Environmental factors are prime influences on strategy change.
- The trend towards globalisation has emerged around the world.
- Social and cultural factors influence business.
- Technological changes enabled business to take up the shape of transnational business through the concept of global business.
- Economic system is an organisation of institutions established to satisfy human needs/wants.
- Political ideology is the body of ideas. Theories and objectives constitute a socio-political programme.
- Industry is a group of firms producing the same or similar products vets.

3.17 REVIEW QUESTIONS

NOTES

1. What are non-profit organisations? Discuss various types of non-profit organisations.
2. Discuss mission, objectives and goals of non-profit organisations.
3. How do you formulate strategies for non-profit organisations?
4. How do you implement strategies for non-profit organisations?
5. What are the popular strategies for non-profit organizations?
6. Discuss the process of strategy evaluation and control in non-profit organisations?
7. Suggest measures to control the constraints of strategic management in non-profit organisations.
8. Describe the strategic management in non-profit organisations.
9. Why do you scan the business environment?
10. What is economic environment? How do you use economic factors in determining opportunities and threats?
11. What are the global factors that affect the business?
12. Why do companies go global?
13. What are the social and cultural factors that affect the business?
14. What are the technological factors? How do they influence business?
15. What are the political ideologies? How do political factors influence business?
16. What is industry analysis? Discuss the demographic factors that influence the business.
17. What is competitor analysis?
18. How do you identify opportunities and threats of a business?

UNIT 4: CORPORATE GOVERNANCE, CSR AND SOCIAL AUDIT

STRUCTURE

4.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to understand:

- Corporate Governance: Need, Importance and History;
- Corporate Social Responsibilities: Arguments For and Against;
- Objectives;
- CSR in India;
- Company Law and CSR;
- Social Audit: Scope and Objectives;
- Values in Business;
- Case study: Aftermath of a Tragedy;

4.2 CORPORATE GOVERNANCE

Like individuals, corporations need to conduct their operations in an ethical and morally responsible manner. They need to take decisions in the best interests of all stakeholders. The ethical and moral side of the coin cannot be put aside while chasing goals, returns and profits. Corporate governance is a healthy mixture of three viewpoints: the values for which the company should be known, the ethical framework and the moral framework. Managers need to put resources entrusted to them to best advantage without trying to discount the ethical and moral framework. Creation of wealth cannot be at the cost of society. They are not supposed to take decisions that are unethical, immoral and illegal.

NOTES

What do you Mean by Corporate Governance?

- Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society (Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank, 2000)
- The set of obligations and decision-making structures that shape 'the complex set of constraints that determine the profits generated by the firm and shape the ex post bargaining over those profits.– *Stijn Claessens*
- Corporate governance is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations. – *International Chamber of Commerce*
- Corporate governance is about "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated." – *Margaret Blair, Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century.*
- Corporate governance is the relationship among various participants [chief executive officer, management, shareholders, employees] in determining the direction and performance of corporations – *Monks and Minow, Corporate Governance.*

The definition of corporate governance most widely used is "the system by which companies are directed and controlled" (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the IFC states, "the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders". The OECD Principles of Corporate Governance states: *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."*

Corporate governance, as the above definitions indicate, demands a close examination of three important issues: (*i*) *Transparent* decisions (*ii*) taken by people who are *responsible and accountable for results* and (*iii*) such decisions being taken in the *best interests of all stakeholders* – including owners, employees, suppliers, financiers, customers and society at large. Corporate governance, therefore, is nothing but accountability assuring efficient and effective use of funds keeping the best interests of all stakeholders in mind. It defines the manner in which a corporation must run its operations. The obvious purpose of every business must be to bring strategic value to customers while trying to make profits for itself. In the name of chasing returns, it cannot ignore the ethical, social and moral side of the coin. Within a broad framework of values, ethics, morals, norms and laws – set by society at large – a business must run the show. If it tries to violate any of these in any manner, then it would be inviting trouble. When businesses try to cross the limits set by any of the stakeholders at any point of time, they are made to pay a price for such negligence – whether it is the case of Enron, Satyam or any other company. Illegal donations to a political party, insider trading, bribery and kickbacks, famous court cases and other scandals in recent times – all over the globe – have created a perception that all is not well with business houses as far as corporate governance issues are concerned.

4.3 OBJECTIVES OF CORPORATE GOVERNANCE

Good corporate governance consists of a system of structuring, operating and controlling a company such as to achieve the following: (*www.applied-corporate-governance.com*)

- ***The ethical side:*** a culture based on a foundation of sound *business ethics*
- ***Achievement of goals keeping the interests of all stakeholders:*** fulfilling the long-term strategic goal of the owners while taking into account the expectations of all the key stakeholders, and in particular:
  - *employees*: consider and care for the interests of employees, past, present and future
  - *customers*: work to maintain excellent relations with both customers and suppliers
  - *environment and local community interests*: take account of the needs of the environment and the local community
- ***Legal compliance:*** maintaining proper compliance with all the applicable legal and regulatory requirements under which the company is carrying out its activities

4.4 PRINCIPLES OF CORPORATE GOVERNANCE

Corporate governance is all about striking a happy balance between economic and social goals. The resources of a corporation must be put to effective and efficient use. Managers should run the show in a transparent manner. They must keep the best interests of society in mind while fixing priorities, identifying goals, chasing returns or making profits. Corporate governance demands accountability from corporations for actions taken by them. They need to answer knotty, ticklish and vexatious questions posed by social activists, environmental scientists, moral policeman, legal hawks from time to time. To this end, therefore, corporations must conduct their operations in a transparent manner – keeping the interests of owners, employees, customers and society at large. They must remain above board and should not feel embarrassed when members of society were to question the ethical and moral side of their decisions.

Principles of Corporate Governance

1. **Rights and equitable treatment of shareholders:** Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.

NOTES

2. **Interests of other stakeholders:** Organizations should recognize that they have legal and other obligations to all legitimate stakeholders.
3. **Role and responsibilities of the board:** The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the appropriate mix of executive and non-executive directors. The key roles of chairperson and CEO should not be held by the same person.
4. **Integrity and ethical behaviour:** Ethical and responsible decision-making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision-making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm increase if it steps outside ethical and legal boundaries.
5. **Disclosure and transparency:** Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

4.4.1 Need for Corporate Governance

Corporate governance has assumed additional significance in the light of a series of corporate frauds and scandals hitting almost every country in the recent past. Without good governance in place, the funds entrusted to managers are likely to be diverted for private purposes. Management might pursue a scandalous private agenda away from public gaze and scrutiny, literally throwing mud on the faces of regulatory authorities and the gullible public. And when capital is squandered away like that, global capital might not flow into companies and countries where there is a question mark over ethics and morals. Foreign institutional investors might skip those companies and countries and might even downgrade them as risky bets. Good governance is the only outstanding guarantee that funds are put to best use. Banks and financial institutions can lad such companies to safety. When every company adopts a strict ethical and moral code, there is very little risk of companies failing to meet the expectations of stakeholders according to Varun Bhat (*Iowa Law Review, 2007*). Good governance is essential because of the following reasons:

1. Good governance ensures transparency, accountability and enforceability in the market place.
2. Countries where there are no question marks over governance, are safe bets for foreign institutional investors. It is widely believed that corporate governance can raise efficiency and growth.
3. In an open market, investors choose from a variety of investment vehicles. The existence of a corporate-governance system is likely a part of this decision-making process. In such a scenario, firms that are "more open and transparent," and thus well governed, are more likely to raise capital successfully because investors will have "the information and confidence necessary for them to lend funds

directly" to such firms. Moreover, well-governed firms likely will obtain capital more cheaply than firms that have poor corporate-governance practices because investors will require a smaller "risk premium" for investing in well-governed firms.

NOTES

Five Golden Rules of Best Corporate Governance

1. **Ethics:** a clear ethical basis to the business.
2. **Align Business Goals:** appropriate goals, arrived at through the creation of a suitable stakeholder decision-making model.
3. **Strategic management:** an effective strategy process which incorporates stakeholder value.
4. **Organisation:** an organisation suitably structured to effect good corporate governance.
5. **Reporting:** reporting systems structured to provide transparency and accountability.

4. Also, sound corporate-governance practices enable management to allocate resources more efficiently, which increases the likelihood that investors will obtain a higher rate of return on their investment.
5. Finally, leading indices show that developing countries that have good governance structures consistently outperform developing countries with poor corporate-governance structures. Thus, in an efficient capital market, investors will invest in firms with better corporate-governance frameworks because of the lower risks and the likelihood of higher returns. At a macro level, if firms in developing countries attract investment, they will stimulate growth in the local economy. If they "cannot attract equity capital, they are doomed to remain on a small, inefficient scale," and they will be unable to stimulate growth in their host country.
6. Finally, research shows that well-governed firms are valued significantly higher than firms with imperfect corporate-governance practices.

4.4.2 Importance

Corporate governance is something that cannot be consigned to the flames. Corporations cannot have an agenda of making profits at the cost of society. The importance of good governance has assumed additional significance in the light of what is happening all around us in recent times. Let's examine the benefits that accrue to a company if it were to conduct its operations in an ethical and socially responsible manner:

1. ***Ensures Success of a Company:*** A corporation is a congregation of various stakeholders, namely, customers, employees, investors, vendor partners, government and society. A corporation should be fair and transparent to its stakeholders in all its transactions. This has become imperative in today's globalized business world where corporations need to access global pools of capital, need to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaborations and need to live in harmony with the community. Unless a corporation embraces and demonstrates ethical conduct, it will not be able to succeed.
2. ***Conduct Business in Sync with Expectations:*** Corporate governance is about ethical conduct in business. Ethics is concerned with the code of values and principles that enables a person to choose between right and wrong, and

NOTES

therefore, select from alternative courses of action. Further, ethical dilemmas arise from conflicting interests of the parties involved. In this regard, managers make decisions based on a set of principles influenced by the values, context and culture of the organization. Ethical leadership is good for business as the organization is seen to conduct its business in line with the expectations of all stakeholders.

3. ***Ensures Fairness to All:*** Corporate governance is beyond the realm of law. It stems from the culture and mindset of management, and cannot be regulated by legislation alone. Corporate governance deals with conducting the affairs of a company such that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. It is about openness, integrity and accountability. What legislation can and should do, is to lay down a common framework – the "form" to ensure standards. The "substance" will ultimately determine the credibility and integrity of the process. Substance is inexorably linked to the mindset and ethical standards of management.

4. ***Act as a Trustee and Win the Hearts of Stakeholders:*** Corporations need to recognise that their growth requires the cooperation of all the stakeholders; and such cooperation is enhanced by the corporation adhering to the best corporate governance practices. In this regard, the management needs to act as trustees of the shareholders at large and prevent asymmetry of benefits between various sections of shareholders, especially between the owner-managers and the rest of the shareholders.

5. ***Ensures Economic use of Funds Entrusted to a Firm:*** Corporate governance is a key element in improving the economic efficiency of a firm. Good corporate governance also helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Further, it ensures that their Boards are accountable to the shareholders. This, in turn, helps assure that corporations operate for the benefit of society as a whole. While large profits can be made taking advantage of the asymmetry between stakeholders in the short run, balancing the interests of all stakeholders alone will ensure survival and growth in the long run. This includes, for instance, taking into account societal concerns about labor and the environment.

6. ***Open Invitation to Trouble if You Don't Comply:*** The failure to implement good governance can have a heavy cost beyond regulatory problems. Evidence suggests that companies that do not employ meaningful governance procedures can pay a significant risk premium when competing for scarce capital in the public markets. In fact, recently, stock market analysts have acquired an increased appreciation for the correlation between governance and returns. In this regard, an increasing number of reports not only discuss governance in general terms, but also have explicitly altered investment recommendations based on the strength or weakness of a company's corporate governance infrastructure.

7. ***Easy to Attract Patient Long Term Capital:*** The credibility offered by good corporate governance procedures also helps maintain the confidence of investors – both foreign and domestic – to attract more"patient", long-term capital, and will reduce the co-t of capital. This will ultimately induce more stable sources of financing. (Report of the committee on corporate governance, 2003)

4.5 A BRIEF HISTORY OF CORPORATE GOVERNANCE IN INDIA

NOTES

The need for corporate governance was not clearly visualized and put into practice by the architects of modern India. The 1951 Industries Act was a step in this direction, requiring "that all industrial units obtain licenses from the central government." (55) The 1956 Industrial Policy Resolution "stipulated that the public sector would dominate the economy." To put this plan into effect, the Indian government created enormous state-owned enterprises, and India steadily moved toward a culture of "corruption, nepotism and inefficiency." As the government took over floundering private enterprises and rejuvenated them, it essentially "convert[ed] private bankruptcy to high-cost public debt." One scholar referred to India's economic history as "the institutionalization of inefficiency." The absence of a corporate-governance framework exacerbated the situation. Government accountability was minimal, and the few private companies that remained on India's business landscape enjoyed free reign with respect to most laws; the government rarely initiated punitive action, even for nonconformity with basic governance laws. Boards of directors invariably were staffed by friends or relatives of management, and abuses by dominant shareholders and management were commonplace. India's equity markets "were not liquid or sophisticated enough" to punish these abuses. Scholars believe that "takeover threats act as [a] disciplining mechanism to poorly performing companies" because as the stock price of poorly governed firms decreases (because disgruntled investors discard stock), the firms become susceptible to hostile-takeover attempts. Thus, "the fear of a takeover ... is supposed to keep the management honest." However, until recently, hostile takeovers were almost entirely non-existent in India, and therefore, the poorly governed Indian firms had little to worry about in terms of following corporate laws once they had raised capital through their initial public offering. Thus, corporate governance in India was in a dismal condition by the early 1990s. In 1999, in a defining moment in India's corporate-governance history, the Indian Parliament created the Securities and Exchange Board of India ("SEBI") to "protect the interests of investors in securities and to promote the development of, and to regulate[,] the securities market." In the years leading up to 2000, as Indian enterprises turned to the stock market for capital, it became important to ensure good corporate governance industry-wide. Additionally, a plethora of scams rocked the Indian business scene, and corporate governance emerged as a solution to the problem of unscrupulous corporate behavior. In 1998, the Confederation of Indian Industry ("CII"), "India's premier business association," unveiled India's first code of corporate governance. However, since the Code's adoption was voluntary, few firms embraced it. Soon after, SEBI appointed the Birla Committee to fashion a code of corporate governance. In 2000, SEBI accepted the recommendations of the Birla Committee and introduced Clause 49 into the Listing Agreement of Stock Exchanges. Clause 49 outlines requirements vis-a-vis corporate governance in exchange-traded companies. (78) In 2003, SEBI instituted the Murthy Committee to scrutinize India's corporate-governance framework further and to make additional recommendations to enhance its effectiveness. (80) SEBI has since incorporated the recommendations of the Murthy Committee, and the latest revisions to Clause 49 became law on January 1, 2006.

Corporate governance reform in India has focused primarily on the "role and composition of the board of directors." Each of the three sets of recommendations (the CII Code recommendations from 1997, the Kumar Mangalam Birla Committee recommendations from 2000, and the Murthy Committee recommendations from 2003) has advanced a more nuanced and sophisticated understanding of corporate governance in this respect. For example, while the CII Code was silent on the financial-literacy levels expected of directors, the Murthy Committee recommended that companies train their "Board members ... in the business model of the company as well as the risk profile of the business parameters of the company." Another notable recommendation of the Murthy Committee was that the Audit Committee be comprised entirely of "financially literate non-executive members with at least one member having accounting or related discipline."

Recommendation of K.M. Birla Committee

1. **Board of directors:** The board of a company provides leadership and strategic guidance, objective judgement independent of management to the company and exercises control over the company, while remaining at all times accountable to the shareholders. The measure of the board is not simply whether it fulfils its legal requirements but more importantly, the board's attitude and the manner it translates its awareness and understanding of its responsibilities. An effective corporate governance system is one, which allows the board to perform these dual functions efficiently.
2. **Composition of the board of directors:** The board of a company must have an optimum combination of executive and non-executive directors with not less than fifty percent of the board comprising the non-executive directors. The number of independent directors would dependent on the nature of the chairman of the board. In case a company has a non-executive chairman, at least one-third of board should comprise of independent directors and in case a company has an executive chairman, at least half of the board should be independent.
3. **Nominee directors:** Institutions should appoint nominees on the boards of companies only on a selective basis where such appointment is pursuant to a right under loan agreements or where such appointment is considered necessary to protect the interest of the institution. When a nominee of the institution is appointed as a director of the company, he/she should have the same responsibility, be subject to the same discipline and be accountable to the shareholders in the same manner as any other director of the company. In particular, if he/she reports to any department of the institutions on the affairs of the company, the institution should ensure that there exist Chinese walls between such department and other departments which may be dealing in the shares of the company in the stock market.
4. **Chairman of the board:** The role of Chairman is to ensure that the board meetings are conducted in a manner which secures the effective participation of all directors, executive and non-executive alike, and encourages all to make an effective contribution, maintain a balance of power in the board, make certain that all directors receive adequate information, well in time and that the executive directors look beyond their executive duties and accept full share of the responsibilities of governance.
5. **Audit committee:** The need for having an audit committee grows from the recognition of the audit committee's position in the larger mosaic of the governance process, as it relates to the oversight of financial reporting. A proper and well functioning system exists therefore, when the three main groups responsible for financial reporting – the board, the internal auditor and the outside auditors – form the three-legged stool that supports responsible financial disclosure and active and participatory oversight. The audit committee has an important role to play in this process, since the audit committee is a sub-group of the full board and hence the monitor of the process. The committee's job is

clearly one of oversight and monitoring and in carrying out this job it relies on senior financial management and the outside auditors.

6. **Remuneration committee of the board:** The board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment.
7. **Disclosures of remuneration package:** All elements of remuneration package of all the directors i.e., salary, benefits, bonuses, stock options, pension etc., has to be disclosed to shareholders.
8. **Accounting standards and financial reporting:** Reporting on accounting should be based on accounting standards. Reporting should include consolidated accounts in respect of all its subsidiaries in which they hold 51% or more of the share capital. Segment reporting is a must where a company has multiple lines of business. It is important that financial reporting in respect of each product segment should be available to shareholders and the market to obtain a complete financial picture of the company.
9. **Management:** The management is subservient to the board of directors and must operate within the boundaries and the policy framework laid down by the board.
10. **Responsibilities of shareholders:** The General Body Meetings provide an opportunity to the shareholders to address their concerns to the board of directors and comment on and demand any explanation on the annual report or on the overall functioning of the company. It is important that the shareholders use the forum of general body meetings for ensuring that the company is being properly stewarded for maximizing the interests of the shareholders.
11. **Shareholders' rights:** Half-yearly declaration of financial performance including summary of the significant events in last six months, should be sent to each household of shareholders. A board committee under the chairmanship of a non-executive director should be formed to specifically look into the redressing of shareholder complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. The Committee believes that the formation of such a committee will help focus the attention of the company on shareholders' grievances and sensitise the management to redressal of their grievances. To expedite the process of share transfers the board of the company should delegate the power of share transfer to an officer, or a committee or to the registrar and share transfer agents. The delegated authority should attend to share transfer formalities at least once in a fortnight.
12. **Institutional shareholders:** The institutional shareholders take active interest in the composition of the Board of Directors, be vigilant, maintain regular and systematic contact at senior level for exchange of views on management, strategy, performance and the quality of management, ensure that voting intentions are translated into practice and evaluate the corporate governance performance of the company.

4.6 SOCIAL RESPONSIBILITIES

Business objectives may broadly be divided into two categories: economic and social. Economic objectives are goals with respect to the marketplace. Social objectives refer to the company's intentions toward its employees, shareholders and the public at large. Traditionally, the primary responsibility of the business firm was to produce and distribute goods and services in return for a profit. Businesses have performed this function effectively, contributing in a large measure to a tremendous improvement in standards of living everywhere. Despite significant improvements in standards of living in the recent years, society has begun expecting, even demanding, more out of all its institutions. Goals, values, and attitudes in the society are changing to reflect a greater concern for improvements in the quality of life. As business firms operate by public consent, they must satisfy the needs of the society. Business should bury the old values and outdated profit maximisation policies in its archives and try to put an end to all evils in the world between sunrise and sunset. The inevitable conflict between economic and social objectives, thus has led to an ageless controversy and a focal point of discussion among academicians and practitioners everywhere. Profits are absolutely essential for the survival of the business. Attainment of the profit objective is essential for the health and growth of a business concern. Only a profitable business can expand, modernise, and even replace its capital equipment to continue its operations. If the firm cannot show profits in its operations, investors are highly reluctant to invest additional funds in the enterprises. If the business were to experience financial losses over a period of time, the firm would eventually become bankrupt. An unprofitable firm is also a poor employer. Profit, thus, is a measure of the success of a business. If profits are growing, the business is generally regarded as healthy. If they are declining, a question exists as to the trend or future of the firm. It is profits which constitute the acid test of managerial performance. Profit implies socially preferred behaviour. There is nothing unworthy about profits. It means placement of funds to the best advantage, loss means impoverishment of society. Profit, further, is the dynamic element and motivating force behind economic development and all-round progress. According to Milton Friedman, there is one and only one social responsibility of business and that is to generate profits, so long as it stays within the rules of the game, by engaging in open and free competition without deception and fraud.

4.6.1 Arguments against Social Responsibility

The principal arguments against social responsibility are as follows:

1. A competitive business cannot be genuinely selfless. Management cannot commit funds irrationally just to satisfy public expectations in areas where there are no direct or indirect benefits. If an enterprise spends lavishly on social action programmes and its competitors do not emulate the example, it will significantly increase the cost of the socially responsible institution and hence, its prices will be higher and it will certainly lose business. Managers, as employees of shareholders, have no discretion to indulge in this type of extravagance. According to Milton Friedman, the Nobel Laureate, social responsibility is a 'theft'; managers are trying to distribute what is not theirs, strictly speaking. It is an illegitimate exercise of power.
2. The corporation is basically an economic institution. It is not a charitable agency or a community service institution. Outlays for general socially responsible activities will distort the allocation of scarce funds available to a firm and will turn the firm into a vast wasteland in the long-run. Actually, social responsibility should be the function of the government, civic organisations and other social institutions. "Social problems can be successfully solved only by those institutions best fitted to deal with them." In the case of a firm, it has neither the necessary freedom nor the appropriate standards of selection for pursuing many of the socially desirable activities

NOTES

blessed by society. Social responsibility is clearly anti-business rhetoric smuggled into the economic scene just to mollify an angry public.

3. Managers are not trained to pursue social goals. They do not have an appropriate apparatus to destroy the public 'bads' and concentrate on public 'goods'. They are not competent to orchestrate the non-economic objectives successfully and decide the issue of turning corporate 'bad guys' into corporate 'good guys' by applying their value judgements. If these pious intentions were to be turned down by the society, they may find themselves suddenly in a no-win position. Since there is a considerable disagreement among the public as to what should be done, corporate managers hence will be criticised, no matter what is attempted.
4. Managers are not magicians. Society cannot expect the corporation managers to perform miracles. They cannot offer goods at fair prices, satisfy ever-hungry working groups, fatten the coffers of shareholders, keep the inflation monster under check, pay exorbitant taxes and also bless the numerous unrelated social projects in a selfless manner. "Business corporations are not bottomless cornucopia able to solve all of society's ills." Attempts to soft-pedal profit maximisation policies would prove to be disastrous for the firm in the long run. Profit implies socially preferred behaviour. It means placement of funds to the best advantage; loss means impoverishment of society. Profit is the dynamic element and motivating force behind economic development and all-round progress. Further, social responsibility is a fair-weathered concept; management cannot dream of philanthropy unless profits are sufficient.

   Emphasis upon the profit objective tends to obscure the existence of other goals of the enterprise. Every business has other objectives that it must accomplish, however, primarily focussing on its sales and realisation of its profits. The social responsibility of business, as it is often termed, implies a sense of obligation on the part of the business towards the general public.

4.6.2 Arguments for Social Responsibility

The issue of social responsibility is a complex one since it deals with an institution that is at the heart of society. Businesses employ a vast majority of the workforce in India and are in control of vast human and financial resources. Any modification or decision about how these resources are put to use has obvious consequences for the balance of society. It is this resource power base that generates many of the arguments favouring greater social involvement of business:

1. ***A healthy business cannot exist in a sick society:*** An organisation does not flourish in a vacuum. In all its operations, it is vitally influenced by its environment. Corporations are social institutions and as such must live up to society's exacting standards. Society's expectations of business have broadened considerably in the recent years to encompass more than the traditional economic function. In the light of the 'revolution of rising expectations', it is the first duty of every business to ensure that its decisions and operations meet the needs and interests of society. It must mirror the ideals and values of society of which it is an 'integral part'. The prescriptions provided by Milton Friedman and others are convincing, but quite often many problems cannot be satisfactorily resolved through a sudden rush to profit calculus. It is true that managers are not given any rigorous training to assume social roles, but the social and political influence of their actions is inevitable and will have far-reaching consequences. The decisions made by corporations not only affect the community but may affect significantly both the national and international economic activity. For instance,

NOTES

when a manager decides to raise product prices or move out of an economically backward region, the lives of millions of people are affected. Modern corporation, thus, is the principal producer of environmental impacts. Managers as such must bear the responsibility for the social impacts. It is too late to claim incompetence and inexperience. A healthy organisation should visualise these impacts realistically and deal with them firmly, by converting these social problems into opportunities for 'successful performance and positive contribution'. After all, businesses cannot survive for long in a sick and impoverished society.

2. ***Business has surplus to distribute:*** The market economy model does not operate now; competition is no longer a strict disciplinarian; oligopolistic industries abound; owners do not control firms, and government is keenly interested in market power. Organisations during this decade have ballooned to gigantic proportions; they command an enviable reservoir of resources, hold the powerful threads of control and are economically empowered to raise the standard of living of the people. Society expects these institutions to be socially responsible. As business organisations grow in size and economic strength, society continues to expect more benefits from them, to improve their 'quality of life' and living standards. Corporations will have to pay a heavy price, if social expectations are neglected or dismissed as 'trivial issues'. They can function successfully only by public consent. Social power and social responsibility form an equation that must be rationally balanced. When an institution's power grows, its responsibility also grows accordingly. In fact, proper solution to such important issues such as product quality, product safety, healthy working environment, pollution and other ecological problems are in the best interests of the corporation itself. These areas should not require any great public outcry or government action to cause management to do its utmost to meet sound standards.
3. ***Inexpensive Insurance:*** For many firms, social responsibility provides an extremely inexpensive insurance package. If business firms fail to learn the new language of accountability, the government with its potential for inefficiency and insensitive bureaucratic methods will step into the arena, usurp the power and place restraints on corporate performance. Social pressures generate legal measures; it is in the best interests of the business to pursue socially responsible programmes.
4. ***Profit motive is the Villain:*** Increased profits are not always by-products of exorbitant prices or economic exploitation. Firms these days do not try to maximise profits, they try to optimise and achieve reasonable profits which can only provide a satisfactory cushion to absorb business shocks and vicissitudes. It is fundamentally wrong to consider profits and social responsibility as mutually distinct, hostile and excludable items.
5. ***Conflicting Interests:*** A corporation in today's changing world, faces many challenges and is confronted by a whole array of 'inward' and 'outward' responsibilities. It is true that if corporations were to live up to every rule and regulation laid down by the society, government, employees and others, it would be paralysed to inactivity and will have a catastrophic end. It is also true that the corporation is an inappropriate instrument for bringing socio-economic reforms. Still, corporations must be genuinely concerned about society's needs and interests because, society is the ultimate entity which sanctions business operations. However, these collateral objectives should not frustrate the firm in achieving the primary goal of wealth maximisation. Managers shall have to balance these conflicting demands and think of an appropriate solution. In future,

they are expected to create wealth, generate profits and provide employment for the fulfilment of public policy. Simultaneously, they must police their own activities, keep their houses in order, enforce self-discipline and self-regulation and display a basic regard for human values.

NOTES

4.6.3 Types of Responsibilities

In determining a firm's social responsibility, managers must identify the groups that are influenced by its actions and what their expectations are out of the business. In a broad sense, such groups may include owners, employees, customers, the community, the government, suppliers and the society in general.

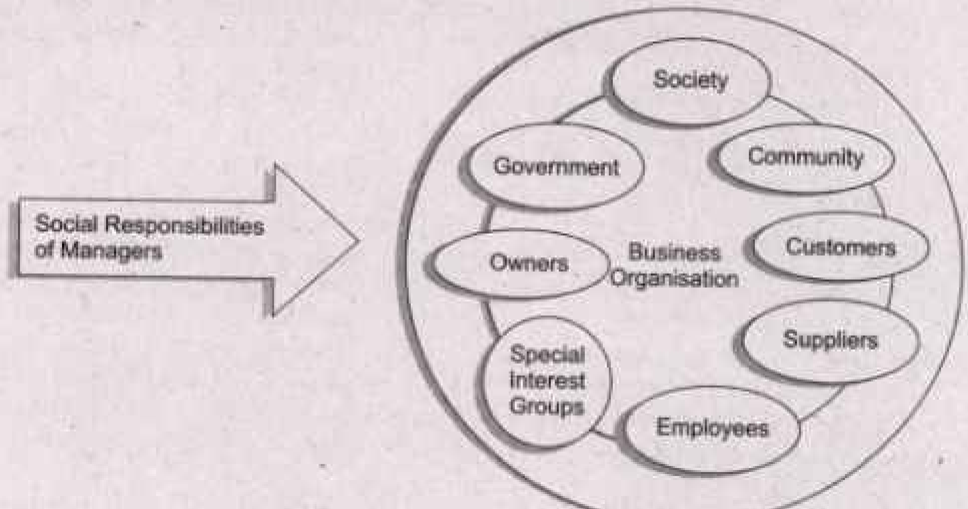

Fig. 4.1. Social Responsibilities of Managers

1. **Responsibility to owner:**
   - Committing funds in the best possible manner.
   - Ensuring a fair rate of return regularly.
   - Fair and honest reporting of business operations from time-to-time.
2. **Responsibility to employees:**
   - Recognise the social needs of workers and provide adequate participation to employees in the matters affecting their life.
   - Fair and reasonable rates of pay.
   - Creating a healthy work climate, improving working and living conditions and making the workplace safe and pleasant.
   - Improving the quality of working life of employees.
3. **Responsibility to customers:**
   - Providing goods of superior quality at reasonable prices.
   - Avoiding deceitful, false and highly exaggerated advertisements and high pressure publicity gimmicks aimed at wooing the customers.
   - Management should not indulge in anti-social activities such as black-marketing, hoarding, etc.

NOTES

4. **Responsibility to creditors and suppliers:**
   - Provide accurate information regarding the financial health of the organisation.
   - Ensure a reasonable price for the articles supplied, and make prompt repayments (involving interest on borrowings); there should be fairness in transactions.
   - Promote a healthy atmosphere where creditors, suppliers and other interest groups are treated as partners in a cooperative endeavour.
5. **Responsibility to community:**
   - Develop constructive relationship with members of the community.
   - Participate in community activities and promote community welfare. Renovating neighbourhoods surrounding the company's headquarters, building public parks with playground equipment, and granting employees paid leave of absence to work in social programmes.
   - Provide safe and secure communities with good housing and efficient transportation.
6. **Responsibility to government:**
   - Follow fair trade policies and practices.
   - Pay taxes to the government.
   - Obey the laws.
   - Discourage unhealthy practices like bribing the government officials to curry favours, obtain licences in order to kill the competition, etc.
7. **Responsibility to society:**
   - Elimination of poverty and provision of quality healthcare.
   - Preservation of the environment by reducing the level of pollution.
   - Providing equal employment and educational opportunities to all, regardless of race, colour, creed or sex.
   - Providing sufficient number of jobs and career opportunities and facilities for all members of society.
   - Improving the physical environment and developing human resources fully. Some of the examples in this regard may be: conducting educational programmes to combat drug abuse, provision of seed money to minority suppliers, urban rehabilitation loans to construct low-cost houses, providing managerial training to small entrepreneurs, establishing manufacturing plants in economically backward regions, etc.

4.6.4 Corporate Social Responsibility in India

For most Indian companies, CSR is not a duty mandated by militant unions, angry public or demanding legislative provisions. Most undertake CSR work out of empathy, not sympathy. They do not consider it as charity but try to integrate CSR work with corporate image-building exercise. For example, The Taj Group of Hotels recently unveiled the Varanasi hand-woven saree that will now be worn by all their front-of-house staff: in one stroke, keeping the craftsmanship of the Varanasi artisans alive and their livelihood going, preventing an art form from going extinct and at the same time adding to the image of the Group.

NOTES

Let's now have a look at CSR activities of some of the major companies in India.

- ***Bajaj Auto:*** The company has been running a Samaj Seva Kendra at Akrudi near Pune since 1975 (900 families as members). The Kendra aims at improving the quality of life of its members by providing education, healthcare, vocational training, etc. The company also runs the Janki Devi Bajaj Gram Vikas Sanstha near Pune. The Sanstha's aim is to promote rural development (water management, procuring vital agricultural inputs, feed and vaccination for livestock, sanitation, etc.)
- ***Larsen & Toubro:*** The Company spends about ₹ 10 crores annually on social projects. In healthcare, it sponsors efforts directed towards birth control; mother and child care; organises camps to check for tuberculosis, leprosy and special surgery camps along the lines of the Life Line Express – the world's first ever hospital on rails. L&T also helps the local populace to source seeds, improve soil quality and encourages dairy and poultry development in and around the areas of its work. Finally, as part of its environment enhancement schemes, it assists in afforestation and promoting biogas plants and smokeless *chullhas* (stoves).
- ***Shriram Investments:*** The Shriram Group formed a trust in 1992 to carry out its social projects. It runs five schools for over 2,000 children. A home for orphans is run by the group. The group offers worksheds along with capital and management support to women in Thanjavur who make incense sticks and candles. In 1995, the group had launched the Shriram Rural Development Project in Kanchipuram district of Tamil Nadu with a view to reduce indebtedness and offer credit to rural population at concessional rates.
- ***Tata Steel:*** Tata Steel has been a pioneer in employee welfare in the country and has acted as a beacon for labour lawmakers. Tata Steal adopted several welfare measures for employees, decades before they were incorporated in the country's laws. These include an eight-hour working day, leave with pay, maternity benefit and leave, workers' provident fund and paying gratuity on retirement.

  Beyond employee welfare, Tata Steel has been involved in social projects that include environmental conservation activities, education, vocational training and healthcare for the underprivileged, revival of traditional arts and crafts, and sports development.

  The company has been running a community development and social welfare department since 1958 that takes care of the educational and vocational training needs of the underprivileged in and around Jamshedpur. The department acts as a catalytic enabler rather than doer, so that the hutment dwellers become more responsible citizens and participate in improving their own quality of life.

  Tata Steel established a tribal cultural centre to preserve tribal customs, arts and habits. It organises an annual fair at Jamshedpur which serves as a marketing platform for traditional handicrafts. It has also set up link roads, irrigation facilities, and sports activities for the benefit of society at large.
- ***Otis Elevator Co. India:*** Otis focuses on socially responsive activities by improving the lot of the mentally retarded or "special people". Worldwide, Otis has been involved in promoting sports for these special people. As a part of this initiative, Otis India sponsored 350 special athletes from Maharashtra

NOTES

for the World Special Olympics in 1995. Since then, Otis employees of all ranks have been involved in fund-raising for this cause on a voluntary basis.

Through these fund-raising efforts, the company employees have been able to help equip special schools with items such as fans, music systems, sewing machines, wheelchairs, hearing aids, learning aids, books, etc. Regular medical camps are also undertaken at an orphan home for the mentally retarded. Not only that, many company employees are motivated enough to take out time to repair and paint furniture for such schools and participate in various celebrations with the special children.

The work put in by Otis India's Team Otis in this regard, helped it bag the Special Partnership Award for 1996 and 1997 from the Otis organisation that is judged by Special Olympics International, Washington, USA.

- ***The Associated Cement Companies:*** Medical care, rural development activities and environmental conservation have long been areas of concern for this company. The company installed pollution control equipment 15 years before it became legally necessary. It also takes special care to see that there is no ecological degradation during the process of mining limestone that is required to make cement. So, it undertakes restoration and rehabilitation of used up mining areas. The company also offers its experience and expertise in these areas to those willing to emulate ACC in such activities. The company has now shifted its focus to integrated rural development. Its entire healthcare, educational and vocational training measures aim at enabling the beneficiaries. ACC has recently taken up another social project that involves conservation of heritage buildings and structures, primarily in Mumbai.
- ***Hindalco:*** "Rural development work", according to the company, "is not the amount spent but how much you involve yourself on a daily basis that matters." Its objective is to mobilise resources and work with NGOs and the government to bring about a change within the 20–30 km area of their operation. It has carried out CSR work in villages belonging to Uttar Pradesh, Chhattisgarh, Jharkhand and Silvassa.
- ***Titan:*** Titan has continuously helped the disabled people by giving them employment (over 5 per cent of the total workforce).
- ***Infosys:*** The Company works for the empowerment of vulnerable groups and has supported educational institutes and medical facilities. Its efforts through the Infosys Foundation began in Karnataka and are now spread over Tamil Nadu, Andhra Pradesh, Maharashtra, Orissa and Punjab.
- ***Reliance Industries:*** The Company spends about 0.5 per cent of its profits on CSR work including activities such as AIDS and TB treatment, Sea-water desalination, Community development in the form of Drishti project, a nationwide corneal grafting drive for underprivileged where funding per surgery is ₹ 5000.
- ***Tata Tea:*** The Company has changed the world for many disabled men and women. It spends generously on CSR projects, including Srishti project in Munnar aiming to bring out the best in differently-abled children; the company's stationery unit recycles tea waste to make paper; it runs the Day-School to provide education based on each kid's capabilities.

- ***NTPC:*** At NTPC, there is complete employee contribution into CSR initiatives in the areas of health, environment, development of the girl child and education. The beneficiaries include more than 3000 people from different villages.

4.6.5 CSR under the Companies Act, 2013

With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of ₹ 500 crore or a turnover of ₹ 1,000 crore or net profit of ₹ 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure. The activities that can be undertaken by a company to fulfil its CSR obligations include:

- Eradicating hunger, poverty and malnutrition,
- Promoting preventive healthcare, promoting education and promoting gender equality,
- Setting up homes for women, orphans and the senior citizens, measures for reducing inequalities faced by socially and economically backward groups,
- Ensuring environmental sustainability and ecological balance, animal welfare, protection of national heritage and art and culture, measures for the benefit of armed forces veterans, war widows and their dependents,
- Training to promote rural, nationally recognized, para-Olympic or Olympic sports, contribution to the Prime Minister's national relief fund or any other fund set up by the central government for socio economic development and relief and welfare of SC, ST and other minorities and women,
- Contributions or funds provided to technology incubators located within academic institutions approved by the central government and rural development projects.

4.7 SOCIAL AUDIT

Meaning: *A social audit is a systematic assessment of a company's activities in terms of their social impact. It is an attempt to measure, monitor and evaluate the organisation's performance with respect to its social programmes and social objectives.*

Approaches to Social Audit

There are various operational approaches to social audit.

- **Inventory approach:** Involves preparation of a list of all the social activities carried out by a company.
- **Outlay approach:** In this approach, the amount spent on each social activity is disclosed. It recognises the costs involved and identifies ways to reduce such costs.

- **Programme management approach:** In this approach, in addition to the above steps, a statement is made as to whether or not the company realised its objectives for each social activity.
- **Cost-benefit approach:** It tries to quantify the contributions (benefits) made to social life as against the expenses incurred in each social activity and present them in the form of a social balance sheet.

A company's social performance is usually measured in terms of such activities as producing goods and services that people need, creating jobs for society, paying fair wages, ensuring worker safety, making efforts to preserve the natural environment etc. Such a measurement gives some indication of the economic contribution the organisation is making to society: it also shows whether it is upholding or improving the general quality of life in society. Although it is not easy to measure social performance in accurate terms, companies generally opt for cost-benefit analysis to find where they stand in respect of undertaking socially relevant and meaningful activities in a cost-effective manner.

4.7.1 Scope and Objectives of Social Audit

Social audit, primarily, tries to cover the following areas:

- ***Ethical Issues:*** Ethical questions range from on-the-job performance to off-the-job activities.
- ***Equal Opportunity:*** A second relevant social issue which comes under social audit is the equity of treatment in employment and a fair justice system in the organisation. Employment decisions in an organisation should be based on merit and ability and not on the basis of arbitrary quotas based on sex, race or religion.
- ***Quality of Work Life:*** The quality of life issue pertains to several on-the-job areas. Besides demands for a safe, healthy and human work environment, people are seeking greater meaning in their lives. Pay alone will not meet these requirements. Greater responsibility, growth, autonomy and rewards contingent upon performance are all factors that people are demanding from the workplace and management is increasingly sensitive to these needs now-a-days.
- ***Consumerism:*** Business has a special obligation towards the consumer – that is, to serve and satisfy the needs of the consumers. It is the principal duty of business to make available to the consumer items of daily needs in the right quantity, at a right time, price and of the right quality. Social audit therefore envisages the creation of consumer councils to protect the consumers against unethical practices like misleading advertisements, speculation, hoarding, profiteering, black marketing, violation of product guarantees etc.
- ***Environmental Protection:*** Protecting the society from air, water and environmental pollution by various industries has become the focal point of attention in recent times.

Social Audit: Benefits and Difficulties

Benefits	Difficulties
• Social performance of each company can be evaluated in an objective way.	• Accepted ways and means to carry out social audit not readily available.
• Awareness and commitment levels of each employee toward social projects improves.	• It requires firm commitment from one and all, which is missing in most cases.
• Social audit boosts up the image of a company.	• Which items to be included in social audit is a question over which there is no complete agreement.
• Every stakeholder comes to know about how socially active and responsible a business is.	• Every company is not very open about revealing how socially responsible and active it is.
• Business can quantify the benefits and key risks in undertaking socially relevant projects.	• Difficult to classify activities into two compartments: social and non-social.

4.7.2 Social Audit in India

Social audit in India is at a nascent stage. There are no accepted standards for measuring social performance of a company. Data regarding social performance is not shared nor kept in the public domain, other than a few details here and there. The costs and benefits arising out of social projects have not been quantified nor presented in an acceptable/comparable way. Reports about social performance are mere appendages to the annual report of a company. And very few would even bother to take a look at how much a company has really spent on social projects and draw comparisons with others in the field.

4.8 VALUES IN BUSINESS

Values define what is good or bad, right or wrong. They guide our behaviour wherever we go and are the primary sources of our actions. Right from childhood, we are guided by our parents to be honest and true to ourselves and to be accountable for our actions. When we grow up and enter organisations we continue to judge events, people and situations with preconceived notions of "what ought" and "what ought not" to be. (Robbins) Values (such as freedom, honesty, self-respect, equality etc) are perceptions about what is good or bad, right or wrong. They tend to be broad views of life and are influenced by parents, teachers, peer groups and associates. In fact, peoples' values develop as a product of the learning and experience they face in the cultural setting in which they live. Value differences basically arise because learning and experiences differ from one person to another. As a result, one person may give more importance to money whereas another person may look at honesty and truthfulness as more important than money. Such differences are likely to be deep seated and somewhat difficult to change, many have their origins in early childhood and the way a person has been raised(Rokeach). From a managerial standpoint, it is important to know that values are those concepts, principles, things, people or activities for which a person is prepared to work hard and even make sacrifices for. Compensation, recognition and status are common values in the workplace Values, quite often, help managers to tie the knot between employee decisions and actions with overall corporate goals.

NOTES

4.8.1 Values and their Impact on Human Behaviour

People are not born with values; rather they acquire and develop them early in life. Parents, teachers, relatives, friends and others influence an individual's values. Values such as 'stealing is bad.' 'Honestly is the best policy', 'Respect your elders and teachers'. 'Be kind to people' are taught and reinforced in schools, religious institutions and social groups. Over the years, these values become relatively stable and enduring. As we grow in years, we often seek environments that are compatible with the values we learned as children. For example, values help find out what companies we are attracted to and how long we stay therein. They also influence how motivated we are at work; people who share same values as the organisation are committed to the organisation than those who do not. Whenever people make decisions or talk about what constitutes appropriate behaviour at work, we can easily see the impact of values or even conflicts between different values. For example, consider the question of laying-off employees. Managers with dominant economic values would be less hesitant to lay them off quickly than would managers with high social values. Once a particular value is internalized, it becomes a standard for guiding action. It becomes instrumental in developing and maintaining attitudes towards relevant objects and situations for justifying one's own and others actions and attitudes, for morally defining self and others and for comparing self with others. When individuals enter an organisation with certain pre-set values, of what is right or wrong, they tend to look at the world through coloured glasses. For example, you believe that an organisation should promote people on the basis of merit and not on seniority. However, the organisation does the opposite thing, you tend to feel disappointed and totally out of place. Your attitude and behaviour towards the organisation perhaps would be very optimistic if your values match with organisation's promotion policies. Values, thus, overpower objectivity and rationality.

4.9 SUMMARY

- Business is stuck with society. It is an economic institution. It is expected to make profits to survive and flourish in a competitive environment. At the same time, it is expected to share the fruits of progress with various sections of society. There is growing concern for CSR in recent times.
- Corporate governance is all about striking a happy balance between economic and social goals. The resources of a corporation must be put to effective and efficient use. Managers should run the show in a transparent manner. They must keep the best interests of society in mind while fixing priorities, identifying goals, chasing returns or making profits.
- CSR is to be viewed as a kind of obligation felt by a company to conduct its operations in an ethical and responsible manner. In India, of course, the law requires every company to earmark a specific sum toward social projects with effect from 2013.
- Social audit is the systematic assessment of social impacts of a firm. Social audit, however, is at a very nascent stage in India.
- Values define what is good or bad, right or wrong. They guide our behaviour wherever we go and are the primary sources of our actions.

4.10 REVIEW QUESTIONS

NOTES

1. Outline the reasons for the growing concern for social responsibilities of business in 21st century.
2. List the pros and cons of social responsibilities of business.
3. Write short notes on:
   (*a*) Social audit
   (*b*) Values in business
   (c) Corporate Governance.
4. Define 'corporate governance'. Why, according to you, Indian companies ignore governance issues? What needs to be done in order to bridge the gaps?
5. Define 'social audit'. Explain why social audit has not taken off in a big way in India?
6. Outline the factors influencing business ethics.
7. Explain the importance of values in business.
8. Is there any clash between economic and social objectives of a business? Why or Why Not?
9. Explain briefly:
   (*a*) CSR in India
   (*b*) Values in Business
   (c) Nature, scope and importance of social audit
10. "Values in Business are deteriorating day by day." Do you subscribe to this view? Why or why not? Support your answer with examples.

Case Study: Aftermath of a Tragedy

Shortly after midnight, on December 3, 1984, outside Bhopal, India, a cloud of deadly methyl isocyanate gas leaked from a pesticide plant, owned by the Indian subsidiary of Union Carbide. The choking gas covered the town, quickly killing hundreds–including many children, who were less resistant to the gas than adults – and forcing Bhopal's 670,000 inhabitants to flee in panic. By the end of the week, more than 2,000 people had died from inhaling the gas, and 150,000 more had to be hospitalised for respiratory and eye damage, making Bhopal's 'night of death' the worst industrial disaster in history. Images of stunned families burying or burning their dead and blaming Union Carbide for their agony were broadcast worldwide.

There were immediate repercussions for Union Carbide and for the chemical industry as well. The Indian government accused the plant management of failing to take adequate safety precautions and indicated that it held the parent company ultimately responsible. Lawsuits brought by American lawyers on behalf of the victims asked for billions of dollars in compensatory and punitive damages and threatened to send the company into bankruptcy. Union Carbide's stock price plummeted; it halted production of methyl isocyanate at its West Viginia plant that produced the chemical in the United States.

Officials in the United States and India called for increased regulation and inspection of chemical processing plants. Many U.S. localities considered passing "right-to-know" laws that would require chemical companies to provide detailed information about hazardous materials to the employees who make them and to residents living near the plants. Several companies countered with voluntary right-to-know programmes to head off public sentiment for government regulation. In the wake of protests against Union Carbide in other parts of the world, some multinational corporations claimed that the Bhopal disaster had chilled the international climate for U.S. business.

NOTES

Union Carbide, which had earned an above-average record on industrial safety over the decade preceding the disaster, appeared paralyzed by the magnitude of Bhopal's suffering. Corporate Chairman Warren Anderson rushed to India to inspect the site and was briefly arrested by Indian authorities. Union Carbide's one hundred thousand employees observed a moment of silence for the dead and injured; many donated money for disaster relief. Top management spent sleepless nights grappling with the company's crushing problems and its uncertain future. Morale at the company was low; production at many plants temporarily dropped. However, while expressing profound sympathy for the Bhopal victims and promising to make a fair restitution, Union Carbide maintained its essential innocence. "There's no criminal responsibility here," said Anderson.

Questions

1. What are the key issues in this case?
2. If you were a manager of Union Carbide, what effect would the news of the disaster have on you? What would you tell your subordinates?
3. What responsibilities does Union Carbide have to the victims of the Bhopal disaster?
4. What do you think the long-term effects of the disaster will be on the company?
5. Should the government require that corporations make public information on hazardous materials or processes even if that would harm their business? What effect would such "right-to-know" laws have?

NOTES

UNIT 5: STRATEGY FORMULATION, IMPLEMENTATION AND CONTROL

STRUCTURE

5.1 LEARNING OBJECTIVES

After studying this chapter, you should be able to understand the following:

- Strategy Evaluation
- Formulation Process
- What is Strategic Management?
- Formulation Business-Level Strategy
- Partnership Strategy
- Strategy Implementation and Control

5.2 STRATEGY FORMULATION VS STRATEGY IMPLMENTATION

Following are the main differences between Strategy Formulation and Strategy Implementation

Strategy Formulation	Strategy Implementation
Strategy Formulation includes planning and decision-making involved in developing organisation's strategic goals and plans.	Strategy Implementation involves all those means related to executing the strategic plans.
In short, Strategy Formulation is **placing the Forces before the action.**	In short, Strategy Implementation is **managing forces during the action.**

Strategy Formulation is an **Entrepreneurial Activity** based on strategic decision-making.	Strategic Implementation is mainly an **Administrative Task** based on strategic and operational decisions.
Strategy Formulation emphasizes on **effectiveness.**	Strategy Implementation emphasizes on **efficiency.**
Strategy Formulation is a **rational process.**	Strategy Implementation is basically an **operational** process.
Strategy Formulation requires co-ordination among few individuals.	Strategy Implementation requires co-ordination among many individuals.
Strategy Formulation requires a great deal of initiative logical skills.	Strategy Implementation requires specific motivational and leadership traits.

5.3 STRATEGY EVALUATION PROCESS AND ITS SIGNIFICANCE

Strategy Evaluation is as significant as strategy formulation because it throws light on the efficiency and effectiveness of the comprehensive plans in achieving the desired results. The managers can also assess the appropriateness of the current strategy in todays dynamic world with socio-economic, political and technological innovations. Strategic Evaluation is the final phase of strategic management (strategic-management.htm).

The significance of strategy evaluation lies in its capacity to co-ordinate the task performed by managers, groups, departments etc, through control of performance. Strategic Evaluation is significant because of various factors such as—developing inputs for new strategic planning, the urge for feedback, appraisal and reward, development of the strategic management process, judging the validity of strategic choice etc.

The process of Strategy Evaluation consists of following steps:

1. **Fixing benchmark of performance:** While fixing the benchmark, strategists encounter questions such as – what benchmarks to set, how to set them and how to express them. In order to determine the benchmark performance to be set, it is essential to discover the special requirements for performing the main task. The performance indicator that best identify and express the special requirements might then be determined to be used for evaluation. The organisation can use both quantitative and qualitative criteria for comprehensive assessment of performance. Quantitative criteria includes determination of net profit, ROI, earning per share, cost of production, rate of employee turnover etc. Among the Qualitative factors are subjective evaluation of factors such as – skills and competencies, risk taking potential, flexibility etc.
2. **Measurement of performance:** The standard performance is a bench mark with which the actual performance is to be compared. The reporting and communication system help in measuring the performance. If appropriate means are available for measuring the performance and if the standards are set in the right manner, strategy evaluation becomes easier. But various factors such as managers contribution will not meet its purpose. For measuring the performance, financial statements like—balance sheet, profit and loss account must be prepared on an annual basis.

3. **Analyzing Variance:** While measuring the actual performance and comparing it with standard performance there may be variances which must be analyzed. The strategists must mention the degree of tolerance limits between which the variance between actual and standard performance may be accepted. The positive deviation indicates a better performance but it is quite unusual exceeding the target always. The negative deviation is an issue of concern because it indicates shortfall in performance. Thus in this case the strategists must discover the causes of deviation and must take corrective action to overcome it.
4. **Taking Corrective Action:** Once the deviation in performance is identified, it is essential to plan for a corrective action. If the performance is consistently less than the desired performance, the strategists must carry a detailed analysis of the factors responsible for such performance. If the strategists discover that the organisational potential does not match with the performance requirements, then the standards must be lowered. Another rare and drastic corrective action is reformulating the strategy which requires going back to the process of strategic management reframing of plans according to new resource allocation trend and consequent means going to the beginning point of strategic management process.

5.4 STEPS IN STRATEGY FORMULATION PROCESS

Strategy formulation refers to the process of choosing the most appropriate course of action for the realisation of organisational goals and objectives and thereby achieving the organisational vision. **The process of strategy formulation basically involves six main steps.** Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organisations' objectives:** The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realisation of organisational objectives. Objectives stress the *state of being there* whereas Strategy stresses upon the *process of reaching there*. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

   While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analysed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.
2. **Evaluating the Organisational Environment:** The next step is to evaluate the general economic and industrial environment in which the organisation operates. This includes a review of the organisations competitive position. It is essential to conduct a qualitative and quantitative review of an organisations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

   After identifying its strengths and weaknesses, an organisation must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.
3. **Setting Quantitative Targets:** In this step, an organisation must practically fix the quantitative target values for some of the organisational objectives. The idea behind this is to compare with long-term customers, so as to evaluate the

contribution that might be made by various product zones or operating departments.

4. **Aiming in context with the divisional plans:** In this step, the contributions made by each department or division or product category within the organisation is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.
5. **Performance Analysis:** Performance analysis includes discovering and analysing the gap between the planned or desired performance. A critical evaluation of the organisations past performance, present condition and the desired future conditions must be done by the organisation. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organisation. An attempt is made by the organisation to estimate its probable future condition if the current trends presist.
6. **Choice of strategy:** This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organisational goals, organisational strengths, potential and limitations as well as the external opportunities. Tough choices and trade-offs that define and support strategy. However, senior executives at such companies as General Electric, 3M, and Johnson & Johnson want middle- and low-level managers to think strategically. Some companies also are finding ways to get front-line workers involved in strategic thinking and planning. Strategic thinking means to take the long-term view and to see the big picture, including the organisation and the competitive environment, and to consider how they fit together. Understanding the strategy concept, the levels of strategy, and strategy formulation versus implementation is an important start toward strategic thinking.

What is Strategic Management?

Strategic management is the set of decisions and actions used to formulate and implement strategies that will provide a competitively superior fit between the organisation and its environment so as to achieve organisational goals. Managers ask questions such as, "What changes and trends are occurring in the competitive environment.? Who are our customers? What products or services should we offer? How can we offer those products and services most efficiently?" Answers to these questions help managers make choices about how to position their organisation in the environment with respect to rival companies. Superior organisational performance is not a matter of luck. It is determined by the choices that managers make. Top executives use strategic management to define an overall direction for the organisation, which is the firm's grand strategy.

Grand Strategy

Grand strategy is the general plan of major action by which a firm intends to achieve its long-term goals. Grand strategies fall into three general categories: growth, stability, and retrenchment. A separate grand strategy can also be defined for global operations.

Growth. Growth can be promoted internally by investing in expansion or externally by acquiring additional business divisions. Internal growth can include development of new or changed products, such as Starbucks' introduction of Frappuccino, a bottled coffee drink, or expansion of current products into new markets, such as Avon's attempt to begin selling products in major retail stores. External growth typically involves *diversification*, which means the acquisition of businesses that are related to current product lines or that take the corporation into new areas. The number of companies choosing to grow through mergers and acquisitions is astounding, as organisations strive to acquire the size and resources to compete on a global scale, to invest in new technology, and to control distribution channels and guarantee access to markets. WorldCom, once an obscure long-distance carrier, has acquired more than 40 companies in the past decade and expanded into local phone services, data transmission, and Internet traffic. Another strategy for international growth is the formation of a joint venture, such as WorldCom's venture with Spanish telecom giant Telefonica, which extended WorldCom's reach into South America.

Stability. *Stability,* sometimes called a *pause strategy*, means that the organisation wants to remain the same size or grow slowly and in a controlled fashion.

The corporation wants to stay in its current business, such as Allied Tire Stores, whose motto is, "We just sell tires." After organisations have undergone a turbulent period of rapid growth, executives often focus on a stability strategy to integrate strategic business units and ensure that the organisation is working efficiently. Mattel is currently pursuing a stability strategy to recover from former CEO Jill Barad's years of big acquisitions and new businesses. The current top executive is seeking only modest new ventures to get Mattel on a slower-growth, more stable course.

Retrenchment. *Retrenchment* means that the organization goes through a period of forced decline by either shrinking current business units or selling off or liquidating entire businesses. The organisation may have experienced a precipitous drop in demand for its products or services, prompting managers to order across-the-board cuts in personnel and expenditures.

Global Strategy

In addition to the three preceding alternatives—growth, stability, and retrenchment—companies may pursue a separate grand strategy as the focus of global business. In today's global corporations, senior executives try to formulate coherent strategies to provide synergy among worldwide operations for the purpose of fulfilling common goals. A systematic strategic planning process for deciding on the appropriate strategic alternative should be used. The grand strategy of growth is a major motivation for both small and large businesses going international. Each country or region represents a new market with the promise of increased sales and profits.

In the international arena, companies face a strategic dilemma between global integration and national responsiveness. Organizations must decide whether they want each global affiliate to act autonomously or whether activities should be standardised and centralised across countries. This choice leads managers to select a basic grand strategy alternative such as globalisation versus multidomestic strategy. Some corporations may seek to achieve both global integration and national responsiveness by using a transnational strategy. The three global strategies are:

1. Multidomestic strategy
2. Transnational strategy
3. Globalisation strategy

Multidomestic Strategy. When an organisation chooses a **multidomestic strategy,** it means that competition in each country is handled independently of industry competition in other countries. Thus, a multinational company is present in many countries, but it encourages marketing, advertising, and product design to be modified and adapted to the specific needs of each country. Many companies reject the idea of a single global market. They have found that the French do not drink orange juice for breakfast, that laundry detergent is used to wash dishes in parts of Mexico, and that people in the Middle East prefer toothpaste that tastes spicy. Procter & Gamble standardised diaper design across European markets, but discovered that Italian mothers preferred diapers that covered the baby's navel. This design feature was so important to the successful sale of diapers in Italy that the company eventually incorporated it specifically for the Italian market. Baskin-Robbins introduced a green-tea flavored ice cream in Japan, and Häagen-Dazs developed a new flavor called *dulce de leche* primarily for sale in Argentina.

Transnational Strategy. A transnational strategy seeks to achieve both global integration and national responsiveness. A true transnational strategy is difficult to achieve, because one goal requires close global coordination while the other goal requires local flexibility. However, many industries are finding that, although increased competition means they must achieve global efficiency, growing pressure to meet local needs demands national responsiveness. One company that effectively uses a transnational strategy is Caterpillar, Inc., a heavy equipment manufacturer. Caterpillar achieves global efficiencies by designing its products to use many identical components and centralizing manufacturing of components in a few large-scale facilities. However, assembly plants located in each of Caterpillar's major markets add certain product features tailored to meet local needs.

Although most multinational companies want to achieve some degree of global integration to hold costs down, even global products may require some customisation to meet government regulations in various countries or some tailoring to fit consumer preferences. In addition, some products are better suited for standardisation than others. Most large multinational corporations with diverse products will attempt to use a partial multidomestic strategy for some product lines and global strategies for others. Coordinating global integration with a responsiveness to the heterogeneity of international markets is a difficult balancing act for managers, but an increasingly important one in today's global business world.

Purpose of Strategy

Within the overall grand strategy of an organisation, executives define an explicit **strategy**, which is the plan of action that describes resource allocation and activities for dealing with the environment and attaining the organisation's goals. The essence of formulating strategy is choosing how the organisation will be different. Managers make decisions about whether the company will perform different activities or will execute similar activities differently than competitors do. Strategy necessarily changes over time to fit environmental conditions, but to remain competitive, companies develop strategies that focus on core competencies, develop synergy, and create value for customers.

Core Competence. A company's **core competence** is something the organisation does especially well in comparison to its competitors. A core competence represents a competitive advantage because the company acquires expertise that competitors do not have. A core competence may be in the area of superior research and development, expert technological know-how, process efficiency, or exceptional customer service. At Amgen, a pharmaceutical company, strategy focuses on the company's core competence of high-quality scientific research. Rather than starting with a specific disease and working backward, Amgen takes brilliant science and finds unique uses for it. Boeing Corporation has a core competence in flexible design and assembly of aircraft. And Home Depot thrives because of a strategy focused on superior

NOTES

customer service. Managers stress to all employees that listening to customers and helping them solve their do-it-yourself worries takes precedence over just making a sale. In each case, leaders identified what their company does particularly well and built strategy around it. Dell Computer has succeeded with its core competencies of speed and cost efficiency.

Dell Computer is constantly changing, adapting, and finding new ways to master its environment, but one thing hasn't changed from the days when Michael Dell first began building computers in his dorm room: the focus on speed and low cost. Most observers agree that a major factor in Dell's success is that it has retained a clear image of what it does best. The company spent years developing a core competence in speedy delivery by squeezing time lags and inefficiencies out of the manufacturing and assembly process, then extended the same brutal standards to the supply chain. Good relationships with a few key suppliers and precise coordination mean that Dell can sometimes receive parts in minutes rather than days.

The system is most evident at Dell's new OptiPlex factory in Austin, Texas, where Dell first introduced a new way of making PCs, called Metric 12, that combines just-in-time inventory delivery with a complicated, integrated computer system that practically hands a worker the right part—whether it be any of a dozen different microprocessors or a combination of software—at just the right time. The goal of the new system is not only to cut costs, but also to save time by decreasing the number of worker touches per machine. Rather than building computers in progressive, assembly-line fashion, small teams of workers at OptiPlex build a complete machine by following precise guidelines and using the components that arrive in carefully indicated racks in front of them. A small glassed-in office above the factory floor functions as a control tower, where employees take orders, alert suppliers, order parts, and arrange shipping, much of this handled over the Internet. By using sophisticated supply-chain software, Dell can keep a few hours' worth of parts on hand and replenish only what it needs throughout the day. Dell's just-in-time system works so smoothly that nearly 85 percent of orders are built, customized, and shipped within eight hours.

Dell's fixation with speed and thrift comes directly from the top. Michael Dell believes the core competencies that made Dell a star in PCs and servers can also make the company a winner as it moves into developing low-cost storage systems and Internet services. To anyone who doubts that Dell can compete in this new market, he says, "Bring them on. We're coming right at them".

Synergy. When organisational parts interact to produce a joint effect that is greater than the sum of the parts acting alone, **synergy** occurs. The organisation may attain a special advantage with respect to cost, market power, technology, or management skill. When properly managed, synergy can create additional value with existing resources, providing a big boost to the bottom line. A good example is PepsiCo's new ; "Power of One" strategy, which is aimed at leveraging.

5.5 FORMULATING BUSINESS-LEVEL STRATEGY

Now we turn to strategy formulation within the strategic business unit, in which the concern is how to compete. The same three generic strategies—growth, stability, and retrenchment—apply at the business level, but they are accomplished through competitive actions rather than the acquisition or divestment of business divisions. One model for formulating strategy is Porter's competitive strategies, which provides a framework for business unit competitive action.

5.6 PORTER'S COMPETITIVE FORCES AND STRATEGIES

NOTES

Michael E. Porter studied a number of business organisations and proposed that business-level strategies are the result of five competitive forces in the company's environment. More recently, Porter has examined the impact of the Internet on business-level strategy. New Web-based technology is influencing industries in both positive and negative ways, and understanding this impact is essential for managers to accurately analyze their competitive environments and design appropriate strategic actions.

Five Competitive Forces. Illustrates the competitive forces that exist in a company's environment and indicates some ways Internet technology is affecting each area. These forces help determine a company's position vis-à-vis competitors in the industry environment.

1. ***Potential new entrants*:** Capital requirements and economies of scale are examples of two potential barriers to entry that can keep out new competitors. It is far more costly to enter the automobile industry, for example, than to start a specialised mail-order business. In general, Internet technology has made it much easier for new companies to enter an industry, for example, by curtailing the need for such organisational elements as an established sales force, physical assets such as buildings and machinery, or access to existing supplier and sales channels.

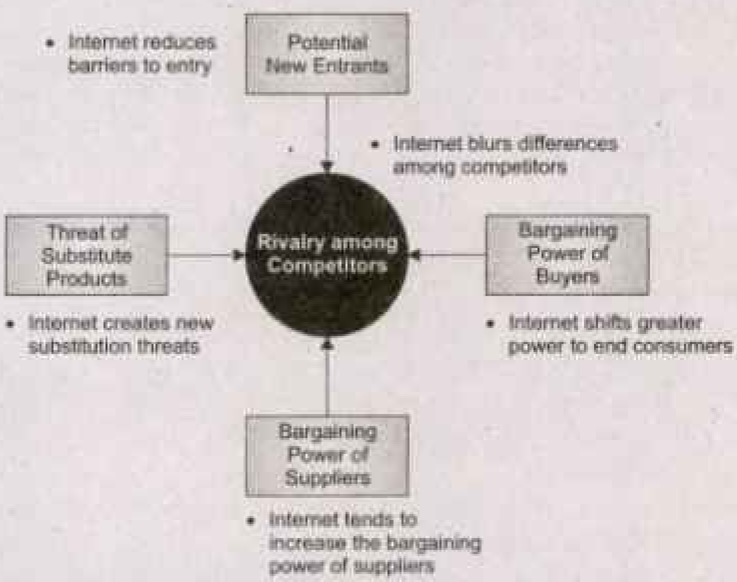

Fig. 5.1

2. ***Bargaining power of buyers*:** Informed customers become empowered customers. The Internet provides easy access to a wide array of information about products, services, and competitors, thereby greatly increasing the bargaining power of end consumers. For example, a customer shopping for a car can gather extensive information about various options, such as wholesale prices for new cars or average value for used vehicles, detailed specifications, repair records, and even whether a used car has ever been involved in an accident.

NOTES

3. ***Bargaining power of suppliers:*** The concentration of suppliers and the availability of substitute suppliers are significant factors in determining supplier power. The sole supplier of engines to a manufacturer of small airplanes will have great power, for example. The impact of the Internet in this area can be both positive and negative. That is, procurement over the Web tends to give a company greater power over suppliers, but the Web also gives suppliers access to a greater number of customers, as well as the ability to reach end users. Overall, the Internet tends to raise the bargaining power of suppliers.
4. ***Threat of substitute products:*** The power of alternatives and substitutes for a company's product may be affected by cost changes or trends such as increased health consciousness that will deflect buyer loyalty to companies. Companies in the sugar industry suffered from the growth of sugar substitutes: manufacturers of aerosol spray cans lost business as environmentally conscious consumers choose other products. The Internet has created a greater threat of new substitutes by enabling new approaches to meeting customer needs. For example, traditional travel agencies have been hurt by the offering of low-cost airline tickets over the Internet.
5. ***Rivalry among competitors:*** As illustrated in Fig 5.1, rivalry among competitors is influenced by the preceding four forces, as well as by cost and product differentiation. With the leveling force of the Internet and information technology, it has become more difficult for many companies to find ways to distinguish themselves from their competitors, so rivalry has intensified.

   Porter referred to the "advertising slugfest" when describing the scrambling and jockeying for position that often occurs among fierce rivals within an industry. Famous examples include the competitive rivalry between Pepsi and Coke and between UPS and FedEx. IBM and Oracle Corp. are currently involved in a fight for the No. 1 spot in the $50 billion corporate-software market. IBM recently rented a billboard near Oracle's headquarters proclaiming a "search for intelligent software." A few days later, Oracle fired the next shot with a competing billboard retorting, "Then you've come to the right place".

5.7 COMPETITIVE STRATEGIES

In finding its competitive edge within these five forces, Porter suggests that a company can adopt one of three strategies: differentiation, cost leadership, and focus. Companies can use the Internet to support and strengthen the strategic approach they choose. The organisational characteristics typically associated with each strategy are summarized in Table 5.1.

1. ***Differentiation:*** The **differentiation** strategy involves an attempt to distinguish the firm's products or services from others in the industry. The organisation may use advertising, distinctive product features, exceptional service, or new technology to achieve a product perceived as unique. The differentiation strategy can be profitable because customers are loyal and will pay high prices for the product. Examples of products that have benefited from a differentiation strategy include Mercedes-Benz automobiles, Maytag appliances, and Tommy Hilfiger clothing, all of which are perceived as distinctive in their markets. Service companies, such as American Express and Hilton Hotels, can also use a differentiation strategy. The Harleysville Group uses its corporate culture to differentiate itself in the insurance industry, as described in this chapter's Putting People First box.

Companies that pursue a differentiation strategy typically need strong marketing abilities, a creative flair, and a reputation for leadership. A differentiation strategy can reduce rivalry with competitors if buyers are loyal to a company's brand. Consider the example of online company eBay, described earlier in the chapter. Rather than cutting prices when Amazon.com and other rivals entered the online auction business, eBay continued to focus on building a distinctive community, offering customers services and experiences they could not get on other sites. Customers stayed loyal to eBay rather than switching to low-cost rivals. Successful differentiation can also reduce the bargaining power of large buyers because other products are less attractive, and this also helps the firm fight off threats of substitute products. In addition, differentiation erects entry barriers in the form of customer loyalty that a new entrant into the market would have difficulty overcoming.

Table 5.1

Strategy	Organizational Characteristics
Differentiation	Acts in a flexible, loosely knit way, with strong coordination among departments
	Strong capability in basic research
	Creative flair, thinks "out of the box"
	Strong marketing abilities
	Rewards employee innovation
	Corporate reputation for quality or technological leadership
Cost leadership	Strong central authority; tight cost controls
	Maintains standard operating procedures
	Easy-to-use manufacturing technologies
	Highly efficient procurement and distribution systems
	Close supervision; finite employee empowerment
	Frequent, detailed control reports
Focus	May use combination of above policies directed at particular strategic target
	Values and rewards flexibility and customer intimacy
	Measures cost of providing service and maintaining customer loyalty
	Pushes empowerment to employees with customer contact

2. ***Cost Leadership.*** With a **cost leadership** strategy, the organisation aggresively seeks efficient facilities, pursues cost reductions, and uses tight cost controls to produce products more efficiently than competitors. A low-cost position means that the company can undercut competitors prices and still offer comparable quality and earn a reasonable profit. Comfort Inn and Motel 6 are low-priced alternatives to Holiday Inn and Ramada Inn. Dell Computer, described earlier in the chapter, has squeezed every cent possible out of the cost of building and selling PCs, making it the undisputed low-cost leader and the number-one maker of personal computers.

   Being a low-cost producer provides a successful strategy to defend against the five competitive forces in Fig. 5.1. For example, the most efficient, low-cost company is in the best position to succeed in a price war while still making a

NOTES

profit. For example, Dell declared a brutal price war in mid-2001, just as the PC industry entered its worst slump ever. The result? Dell racked up $361 million in profits while the rest of the industry reported losses of $1.1 billion. Likewise, the low-cost producer is protected from powerful customers and suppliers, because customers cannot find lower prices elsewhere, and other buyers would have less slack for price negotiation with suppliers. If substitute products or potential new entrants occur, the low-cost producer is better positioned than higher-cost rivals to prevent loss of market share. The low price acts as a barrier against new entrants and substitute products.

3. *Focus.* With a **focus** strategy, the organisation concentrates on a specific regional market or buyer group. The company will use either a differentiation or low-cost approach, but only for a narrow target market. Enterprise Rent-A-Car has made its mark by focusing on a market the major companies such as Hertz and Avis don't even play in—the low-budget insurance replacement market. Drivers whose cars have been wrecked or stolen have one less thing to worry about when Enterprise delivers a car right to their driveway. By using a focus strategy, Enterprise has been able to grow rapidly.

Managers think carefully about which strategy will provide their company with its competitive advantage. Gibson Guitar Corp., famous in the music world for its innovative, high-quality products, found that switching to a low-cost strategy to compete against Japanese rivals such as Yamaha and Ibanez actually hurt the company. When managers realized people wanted Gibson products because of their reputation, not their price, they went back to a differentiation strategy and invested in new technology and marketing. In his studies, Porter found that some businesses did not consciously adopt one of these three strategies and were stuck with no strategic advantage. Without a strategic advantage, businesses earned below-average profits compared with those that used differentiation, cost leadership, or focus strategies. In addition, because the Internet is having such a profound impact on the competitive environment in all industries, it is more important than ever that companies distinguish themselves through careful strategic positioning in the marketplace.

5.8 PARTNERSHIP STRATEGIES

So far, we have been discussing strategies that are based on how to compete with other companies. An alternative approach to strategy emphasizes collaboration. In some situations, companies can achieve competitive advantages by cooperating with other firms rather than competing. Partnership strategies are becoming increasingly popular as firms in all industries join with other organisations to promote innovation, expand markets, and pursue joint goals. Partnering was once a strategy adopted primarily by small firms that needed greater marketing muscle or international access. Today, however, it has become a way of life for most companies, large and small. The question is no longer whether to collaborate, but rather where, how much, and with whom to collaborate. Competition and cooperation often exist at the same time. In New York City, Time Warner (now AOL Time Warner) refused to carry Fox's 24-hour news channel on its New York City cable systems. The two companies engaged in all-out war that included court lawsuits and front-page headlines. This conflict, however, masked a simple fact: the two companies can't live without each other. Fox and Time Warner are wedded to one another in separate business deals around the world. They will never let the local competition in New York upset their larger cooperation on a global scale.

The Internet is both driving and supporting the move toward partnership thinking. The ability to rapidly and smoothly conduct transactions, communicate information, exchange ideas, and collaborate on complex projects via the Internet means that companies such as Citigroup, Dow Chemical, and Herman Miller have been able to enter entirely new businesses by partnering in business areas that were previously unimaginable. IBM is collaborating with numerous partners around the world on the Internet, including competitors such as Dell and Hewlett-Packard, to develop, enhance, and market Linux-based software and services.

Mutual dependencies and partnerships have become a fact of life, but the degree of collaboration varies. Organisations can choose to build cooperative relationships in many ways, such as through preferred suppliers, strategic , business partnering, joint ventures, or mergers and acquisitions. Fig. 5.2 illustrates these major types of strategic business relationships according to the degree of collaboration involved. With preferred supplier relationships, a company such as Wal-Mart, for example, develops a special relationship with a key supplier such as Procter & Gamble that eliminates middlemen by sharing complete information and reducing the costs of salespeople and distributors. Preferred supplier arrangements provide long-term security for both organisations, but the level of collaboration is relatively low. Strategic business partnering requires a higher level of collaboration. Toys 'R' Us and Amazon.com have negotiated a strategic partnership to sell toys online. Amazon agreed to provide warehousing, order fulfillment, and site design, and in return got warrants to purchase 5 percent of toysrus.com, plus up-front payments and a share of the site's sales.

A still higher degree of collaboration is reflected in joint ventures, which are separate entities created with two or more active firms as sponsors. For example, MTV Networks was originally created as a joint venture of Warner Communications and American Express in the late 1970s. In a joint venture, organisations share the risks and costs associated with the new venture. It is estimated that the rate of joint venture formation between U.S. and international companies has been growing by 27 percent annually since 1985. Merck has put together major ventures with such competitors as Johnson & Johnson DuPont, and AstraZeneca.

Mergers and acquisitions represent the ultimate step in collaborative relationships. U.S. business has been in the midst of a tremendous merger and acquisition boom. The U.S. pharmaceuticals company Upjohn merged with Sweden's Pharmacia. Boeing acquired McDonnell Douglas to form the industry's largest company, and Phillips Petroleum and Conoco recently merged to create the nation's third largest oil and gas company.

Fig. 5.2. A continum of partnership strategies

NOTES

Today's companies simultaneously embrace both competition and cooperation. Few companies can go it alone under a constant onslaught of international competition, changing technology, and new regulations. In this new environment, businesses choose a combination of competitive and partnership strategies that add to their overall sustainable advantage.

5.9 FORMULATING FUNCTIONAL-LEVEL STRATEGY

Functional-level strategies are the action plans adopted by major departments to support the execution of business-level strategy. Major organisational functions include marketing, production, finance, human resources, and research and development. Senior managers in these departments adopt strategies that are coordinated with the business-level strategy to achieve the organization's strategic goals.

For example, consider a company that has adopted a differentiation strategy and is introducing new products that are expected to experience rapid growth. The human resources department should adopt a strategy appropriate for growth, which would mean recruiting additional personnel and training middle managers for movement into new positions. The marketing department should undertake test marketing, aggressive advertising campaigns, and consumer product trials. The finance department should adopt plans to borrow money, handle large cash investments, and authorize construction of new production facilities.

A company with mature products or a low-cost strategy will have different functional strategies. The human resources department should develop strategies for retaining and developing a stable work force, including transfers, advancements, and incentives for efficiency and safety. Marketing should stress brand loyalty and the development of established, reliable distribution channels. Production should maintain long production runs, routinization, and cost reduction. Finance should focus on net cash flows and positive cash balances.

5.10 STRATEGY IMPLEMENTATION AND CONTROL

The final step in the strategic management process is *implementation* – how strategy is put into action. Some people argue that strategy implementation is the most difficult and important part of strategic management. No matter how creative the formulated strategy, the organisation will not benefit if it is incorrectly implemented. In today's competitive environment, there is an increasing recognition of the need for more dynamic approaches to formulating as well as implementing strategies. Strategy is not a static, analytical process; it requires vision, intuition, and employee participation. Many organisations are abandoning central planning departments, and strategy is becoming an everyday part of the job for workers at all levels. Strategy implementation involves using several tools – parts of the firm that can be adjusted to put strategy into action as illustrated in Fig 5.2. Once a new strategy is selected, it is implemented through changes in leadership, structure, information and control systems, and human resources. For strategy to be implemented successfully, all aspects of the organization need to be in congruence with the strategy. Implementation involves regularly making difficult decisions about doing things in a way that supports rather than undermines the organization's chosen strategy. Remaining chapters of this book examine in detail topics such as leadership, organisational structure, information and control systems, and human resource management.

Leadership

The primary key to successful strategy implementation is leadership. *Leadership* is the ability to influence people to adopt the new behaviors needed for strategy implementation. An important part of implementing strategy is building consensus. People throughout the organization have to believe in the new strategy and have a strong commitment to achieving the vision and goals. Leadership means using persuasion, motivating employees, and shaping culture and values to support the new strategy. Managers may make speeches to employees, build coalitions of people who support the new strategic direction, and persuade middle managers to go along with their vision for the company. Michael Dell of Dell Computer is a master of strategic leadership. Dell builds support for his vision and strategy at each year's employee meeting, where he has a chance to tell employees face-to-face exactly where he wants them to take the company in the year ahead. Dell's charisma and persuasive leadership keep employees fired up about his goals for the company. With a clear sense of direction and a shared purpose, employees feel motivated, challenged, and empowered to pursue new strategic goals. Another way leaders build consensus and commitment is through broad participation. When people participate in strategy formulation, implementation is easier because managers and employees already understand the reasons for the new strategy and feel more committed to it.

Structural Design

Structural design typically begins with the organisation chart. It pertains to managers' responsibilities, their degree of authority, and the consolidation of facilities, departments, and divisions. Structure also pertains to such matters as centralisation versus decentralisation, the design of job tasks, and the organization's production technology. Structure will be discussed in detail in previous chapter.

In many cases, implementing a new strategy requires making changes in organizational structure, such as adding or changing positions, reorganizing to teams, redesigning jobs, or shifting managers' responsibility and accountability. For example, a cereal manufacturing company that wanted to reduce costs and improve efficiency to pursue a low-cost leadership strategy revised task design by combining several packing positions into one job and cross-training employees to operate all of the packing line's equipment. This reduced the number of workers needed during peak times and avoided leaving some workers idle during slow periods. The structural changes cut overall plant costs and manufacturing expenses while significantly increasing the factory's productivity and yield, thus helping to implement the new strategy. At Limited Inc., a chain of specialty stores including Express and Victoria's Secret, founder and chairman Leslie Wexner decided to shift to a centralized organizational structure to implement a differentiation strategy. Limited was losing its fashion direction and customer insight, with many different stores pursuing their own goals and ideas. The new centralized structure, which includes a "corporate brain trust" of executives who oversee design, marketing, and distribution across the company's nearly 5,000 stores, has gotten the company refocused.

5.11 INFORMATION AND CONTROL SYSTEMS

NOTES

Information and control systems include reward systems, pay incentives, budgets for allocating resources, information technology systems, and the organization's rules, policies, and procedures. Changes in these systems represent major tools for putting strategy into action. For example, managers can reassign resources from research and development to marketing if a new strategy requires increased advertising but no product innovations. Managers and employees must also be rewarded for adhering to the new strategy and making it a success.

At ConAgra, maker of Healthy Choice and Banquet brands, top executives instituted top-down cost controls in the corporations operating units and developed new systems for pooling resources to reduce purchasing, warehousing, and transportation costs. To ensure that managers embraced the new strategy of cooperation and efficiency, leaders tied 25 percent of their bonuses directly to savings target. Division heads saved $100 million in the first fiscal year. Top leaders also made changes in information systems by introducing a computerized network to track how much suppliers charge each ConAgra unit.

Human Resources

The organisation's *human resources* are its employees. The human resource function recruits, selects, trains, transfers, promotes, and lays off employees to achieve strategic goals. For example, training employees can help them understand the purpose and importance of a new strategy or help them develop the necessary specific skills and behaviors. Sometimes employees may have to be let go and replaced. One newspaper shifted its strategy from an evening to a morning paper to compete with a large newspaper from a nearby city. The new strategy fostered resentment and resistance among department heads. In order to implement it, 80 percent of the department heads had to be let go because they refused to cooperate. New people were recruited and placed in those positions, and the morning newspaper strategy was a resounding success.

Mannie Jackson revived the Harlem Globetrotters, an organization on the brink of bankruptcy and irrelevancy, by recruiting new players who could recapture the glory the Globetrotters enjoyed in the 1960s and 1970s. Jackson rates potential players on their skill, charisma, punctuality, and attitude. He wants only top athletes who can promote the Globetrotter brand and are willing to be role models.

Implementing Global Strategies

The difficulty of implementing strategy is greater when a company goes global. In the international arena, flexibility and superb communication emerge as mandatory leadership skills. Likewise, structural design must merge successfully with foreign cultures as well as link foreign operations to the home country. Managers must make decisions about how to structure the organisation to achieve the desired level of global integration and local responsiveness, as described earlier. Information and control systems must fit the needs and incentives within local cultures. In a country such as Japan or China, financial bonuses for star performance would be humiliating to an individual, whereas group motivation and reward are acceptable. As in North America, control is typically created through timetables and budgets and by monitoring progress toward desired goals. Finally, the recruitment, training, transfer, promotion, and layoff of international human resources create an array of problems not confronted in North America. Labor laws, guaranteed jobs, and cultural traditions of keeping unproductive employees on the job provide special problems for strategy implementation.

In summary, strategy implementation is essential for effective strategic management. Managers implement strategy through the tools of leadership, structural design, information and control systems, and human resources. Without effective implementation, even the most creative strategy will fail.

5.12 SUMMARY

- This chapter described important concepts of strategic management. Strategic management begins with an evaluation of the organization's current mission, goals, and strategy. This evaluation is followed by situation analysis (called SWOT analysis), which examines opportunities and threats in the external environment as well as strengths and weaknesses within the organization. Situation analysis leads to the formulation of explicit strategic plans, which then must be implemented.
- Strategy formulation takes place at three levels: corporate, business, and functional. Corporate grand strategies include growth, stability, retrenchment, and global. One framework for accomplishing them is the BCG matrix. An approach to business-level strategy is Porter's competitive forces and strategies. The Internet is having a profound impact on the competitive environment, and managers should consider this when analyzing the five competitive forces and formulating business strategies. An alternative approach to strategic thought emphasizes cooperation rather than competition. Partnership strategies include preferred supplier arrangements, strategic business partnering, joint ventures, and mergers and acquisitions. Most of today's companies choose a mix of competitive and partnership strategies. Once business strategies have been formulated, functional strategies for supporting them can be developed.
- Even the most creative strategies have no value if they cannot be translated into action. Managers implement strategy by aligning all parts of the organization to be in congruence with the new strategy. Four areas that managers focus on for strategy implementation are leadership, structural design, information and control systems, and human resources.
- Returning to the opening problem at Coca-Cola, CEO Douglas Daft has made several strategic moves to try to get the company back on top. Although Coke continues to use primarily a globalization strategy, Daft recognizes the growing need to be more responsive to the heterogeneity of international markets. Therefore, he is gradually shifting toward a transnational strategy. Whereas the company once sought unity in its marketing and advertising strategies, for example, it is now giving bottlers both in the United States and abroad a free hand to tailor promotions to local events and activities. Daft is pushing global managers to think outside the conventional boundaries and come up with ideas for everything from new products to new ways to gather market research. New products include calcium-fortified waters, vitamin-enriched drinks, and new products for international markets such as an Asian tea and a coffee drink. Partnerships are an important part of Coke's new business-

NOTES

level strategy. Coke hopes to attain synergy through a 50-50 joint venture with Procter & Gamble, by marrying Coke's distribution muscle with P&G's successful juice and snack brands. A similar partnership with Nestle will develop new coffee and tea drinks for the global market. A deal with Warner Bros. allows Coke to co-market with the film *Harry Potter* and *the Sorcerer's Stone* around the world. And plans are in the works to create an "incubator" project that will provide office space and seed money to start-ups with innovative ideas that could benefit the giant corporation. The partnership approach is new for Coke, which has long been seen as an insular company bent on doing it all. According to Marketing Director Stephen C. Jones, Daft realizes that "there are too many changes now for us to have all the answers".

5.13 REVIEW QUESTIONS

1. Assume you are the general manager of a large hotel and have formulated a strategy of renting banquet facilities to corporations for big events. At a monthly management meeting, your sales manager informed the head of food operations that a big reception in one week will require converting a large hall from a meeting room to a banquet facility in only 60 minutes—a difficult but doable operation that will require precise planning and extra help. The food operations manager is furious about not being informed earlier. What is wrong here?
2. Which is more important—strategy formulation or strategy implementation? Do they depend on each other? Is it possible for strategy implementation to occur first?
3. If an organisation has hired strategic management professionals to help top managers, during which part of the strategic management process would they play the largest role?
4. Perform a situation (SWOT) analysis for the university you attend. Do you think university administrators consider these factors when devising their strategy?
5. What is meant by the core competence and synergy components of strategy? Give examples.
6. Using Porter's competitive strategies, how would you describe the strategies of Wal-Mart, Bloomingdale's, and Target? Do any of these companies also use partnership strategies? Discuss.
7. Walt Disney Company has four major strategic business units: movies (Touchstone) , theme parks, consumer products, and television (primarily cable). Place each of these SBUs on the BCG matrix based on your knowledge of them.
8. As administrator for a medium-sized hospital, you and the board of directors have decided to change to a drug dependency hospital from a short-term, acute-care facility. Which organisational dimensions would you use to implement this strategy?
9. How would functional strategies in marketing, research and development, and production departments differ if a business changed from a differentiation to a low-cost strategy?
10. Describe how the Internet increases the bargaining power of consumers, one of Porter's five competitive forces. Have you felt increased power as a consumer because of the Internet? Explain.

BBA-601

सर्वे भवन्तु सुखिनः सर्वे सन्तु निरामयाः !
सर्वे भद्राणिः पश्यन्तु माकश्चिद् दुःख भाग्भवेत् !!

उत्तिष्ठत जाग्रत प्राप्य वरान्निबोधत

Directorate of Distance Education

SWAMI VIVEKANAND SUBHARTI UNIVERSITY

UGC Approved Meerut

Where Education is a Passion ...

Subharti Puram, N.H.—58, Delhi-Haridwar By Pass Road,
Meerut, Uttar Pradesh 250005
Website: www.subhartidde.com , E-mail: ddesvsu@gmail.com

ACCREDITED WITH GRADE A NAAC