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STRATEGIC MANAGEMENT

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SCHOOL OF EXCELLENCE IN LAW

PREFACE

Strategic management is a multidisciplinary, comprehensive and integrated course. The aim of this book is to provide a concise presentation of the theory and practice of strategic management, with particular emphasises on effective, responsive strategy-making processes. The scope is comprehensive and research-based and yet content in accessible manner, ready to be applied in management practices.

It is realised that strategic management is applicable to profit making, non –profit making and government/public organisation. Strategic management is also applicable to all sizes of organisations ranging from a large multinational corporation to small retail stores. The purpose of this book is to provided students with the most current, comprehensive and state-of the art analysis of the field.

Until the recent past, students of management programmes and managers used to integrate the functional areas based on their intuition and personal experiences. Adequate body of knowledge has been developed recently, focusing on a systems approach to this course. The announcements of economic liberalisation by the government of various countries and globalisation of business contribute for the accumulation of literature in this field.

Strategic management is a continuous process that evaluates and controls the business and the industries in which organisation is involved evaluates it's competitors and sets goals and strategies to meet all existing and potential competitors; and then revaluates strategies on a regular basis to determine how it has been implemented and whether it was successful or does it needs replacement.

One of the major roles of strategic management is to incorporate various functional areas of the organisation completely, as well as, to ensure these functional areas harmonize and get together well. Another role of strategic management is to keep a continuous eye on the goals and objective of the organisation.

The managers must have a thorough knowledge and analysis of the general and competitive organisational environment so as to take right decisions. They should conduct SWOT analysis i.e. they should make the best possible utilization of strengths, minimize the organisational weakness, make use of arsing opportunities from the business environment and shouldn't ignore the threats

Strategic management is nothing but planning for predictable as well as unfeasible contingencies. It is applicable to small and large organisation. Though the formulation seems to be simple, it would be very difficult to accomplish it. Many organisations develop their strategic management process over periods of several years, adjusting and tailoring them to meet specific needs of the organisation.

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COURSE OUTLINE

UNIT-1

INTRODUCTION

Strategy-strategy management process-Developing a strategic vision-Setting Objectives-Crafting Strategy-Strategies and Tactics-Importance of corporate Strategy-The 7-sFramework-Board of Directors: Role and Functions-Board Functioning-Top Management: Role and Skills.

UNIT-2

SOCIETY AND BUSINESS

Social Responsibility of Business-Corporate Governance and Ethical Responsibility-Corporate Policy: Importance-Characteristics-Objectives-Policy Formulation and Development-Types of Business Policies-Implementation of Policies.

UNIT-3

ENVIRONMENTAL ANALYSIS

Environmental Scanning-Industry Analysis-The Synthesis of External Factors-Internal Scanning-Value Chain Analysis-SWOT Audit-Stakeholders Expectations-Scenario Planning.

UNIT-4

STRATEGY FORMULATION AND ANALYSIS

Strategy Formulation-Strategic Factors Analysis Summary Matrix-Business Strategy- Corporate Strategy-Functional Strategy-Strategic choices-Generic, Competitive Strategies.

UNIT-5

STRATEGY IMPLEMENTATION

Strategy Implementation-Corporate Culture-Matching Organisation Structure to Strategy-Strategic Leadership-Strategic Control: Strategic Control Process-Du Pont's Control Model-Balanced Score Card-Michael Porter's Framework for Strategic Management-Future of Strategic Management-Strategic Information Structure.

UNIT-I

INTRODUCTION TO STRATEGY

1.1 STRATEGIC AN INTRODUCTION

Strategic Management is all about identification and description of the strategies that mangers can carry so as to achieve better performance and a competitive advantage for their organisation. An organisation is said to have competitive advantage its profitability for all companies in its industry.

Strategic management is nothing but planning for predictable as well as unfeasible contingencies. It is applicable to both small as well as large organisation as even the smallest organisation face competition, by formulating and implementing appropriate strategies, they can attain sustainable competitive advantage. Strategic management gives a boarder perspective to the employees of an organisation and they can better understand how their job fits into the entire organisational plan and how it s co-related to the other organisational members.

What is Strategy?

Strategy is an action that managers take to attain one or more of the organisation`s goals. ``A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process.``

Strategy narrowly defined "the art of the general`(the Greek stratus, meaning 'field, spread out as in `structure'; and agos,meaning 'leader").Strategy is a set of key decision made to meet objectives.

(Chandler1962)Strategy is the determination of the basic long term goals of an enterprise, and the adoption of course of action and the allocation of resources necessary for carrying out these goals.

Mintezberg has identified the 5p`s of strategy

A plan

A pattern

A position

A poly

A perspective

Need for Strategic Management

- Due to Change

The following factors help us to know the need for strategic management. Change makes planning difficult.but; firms may proact to the change rather than just reach to it. Strategic management encourages the top executives to forecast change and provides direction and control. It will also allow the firm to take the advantage of the opportunities provided by the changes in the environment and avoid the threats or reduce the risks as the future is anticipated. Thus strategic management allows an enterprise to base its decision on long-range forecasts.

- To provide guidelines

Strategic management provides guidelines to the employer about the organisation's expectations from them. This would minimise conflict between job performance and job demands. Thus it provides incentives for employer and helps the organisation in achieving its objective.

- Developed field of study by Research

Strategic management was just based on case studies or anecdotal evidence, 30 years ago. But recently, there are methodological problems in research in this field of study. More synthetic knowledge in this area is available at present. Therefore, it worthwhile to study strategic management at present compared to the past.

- Probability for better performance

There is no clear research evidence that strategic management leads to higher performance. But the majority of studies suggest that there is a relationship between better performance and formal planning.

- Systematic business decisions

Strategic management provides data and information about different business transactions to managers and helps them to make decisions systematically.

- Improves communication

  Strategic communication provides effective communication information from lower level mangers to middle level managers and top level managers.

- improves coordination

Strategic management improves coordination not only among the functional areas of management but also among individual projects.

1.1.1 Features of Strategy

1. Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.

2. Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.

3. Strategy is created to take into account the probable behaviour of customers and competitors. Strategies dealing with employees will predict the employee behaviour.

CRITERIA FOR EFFECTIVE STRATEGY:

1) Clear, decisive objectives: All the efforts should be directed towards clearly understood, decisive and attainable overall goals. All goals need not be written down or numerically precise but they must be understood and be decisive.

2) Maintaining the initiative: The strategy preserves freedom of action and enhances commitment. It sets the pace and determines the course of events rather than reacting to them.

3) Concentration: The strategy concentrates superior power at the place and time likely to be decisive. The strategy must define precisely what will make the enterprise superior in power, best in critical dimensions in relation to its competitors. A distinctive competency yields greater success with few resources.

4) Flexibility: The strategy must purposely be built in resources, buffers and dimensions for flexibility and manoeuvre. Reserved capabilities, planned manoeuvrability and repositioning allow one to use minimum resource while keeping competitors at a relative disadvantage.

5) Coordinated and committed leadership: The strategy should provide responsible, committed leadership for each of its major goals. Care should be taken in selecting the leaders in such a way their own interest and

values match with the requirements of their roles. Commitment but not acceptance is the basic requirement.

6) Surprise: The strategy should make use of speed, secrecy and intelligence to attack exposed or unprepared competitors at an unexpected time. Thus surprise and correct time are important.

7) Security: The organisation should secure or develop resources required, securely maintain all vital operating points for the enterprise, an effective intelligence system to prevent the effects of surprise by the competitors.

NEED FOR STRATEGY

- To have rules to guide the search for new opportunities both inside and outside the firm.
- To take high quality project decision.
- To develop measure to judge whether a particular opportunity is rare or whether much better ones are likely to develop in the future.
- To have an assurance that the firm's overall resources allocation pattern is efficient.
- To have and develop internal ability to anticipate change.
- To save time, money and executive talent.
- To identify, develop and exploit potential opportunities.
- To utilise the delay principle that is delay the commitment until an opportunity.

1.1.2 Levels of strategy

A typical business firm should consider three types of strategies, which form a hierarchy

- ➢ Corporate Strategy
- ➢ Business Strategy
- ➢ Functional strategy
- ➢ Operational Strategy

- Which describes a company`s overall direction towards growth by managing business and product lines. These include stability, growth, and retrenchment. For example coco cola has followed the

growth strategy by acquisition. It has acquired local bottling units to emerge as the market leader.

- Usually occurs at business unit or product level emphasizing the improvement of competitive position of a firm products or services in an industry or market segment served by that business unit. For example: Apple Computers uses a differentiation competitive strategy that emphasizes innovative product with creative design.

- It is the approach taken by functional area to achieve corporate and business unit objectives and strategies by maximizing resources productivity. It is concerned with developing and nurturing a distinctive competence to provide the firm with a competitive advantage. For example Procter and Gamble spends huge amount on advertising to create customer demands.

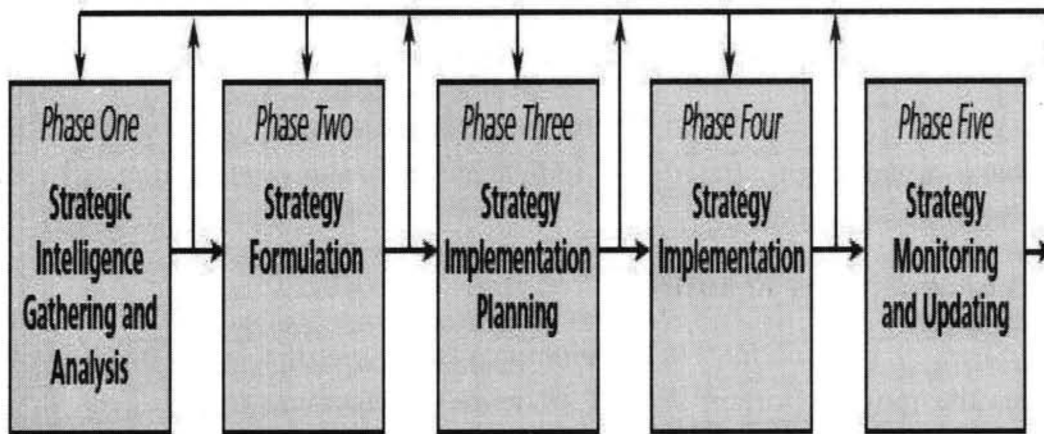
    - These are concerned with how the components parts of an organisation deliver effectively the corporate, business and functional-level strategies in terms of resources, process and people.

1.2 PROCESS OF STRATEGIC MANAGEMENT

It consists of four basic elements

- ENVIRONMENTAL SCANNING
- STRATEGY FORMULATON
- STRATEGY IMPLEMENTATON
- EVALUATON AND CONTROL

The Kepner-Tregoe Strategy Formulation and Implementation Process



1.2.1 Environmental Scanning

It is monitoring, evaluating and disseminating of information from external and internal environment to key people within the corporation. Its purpose is to identify strategic factors those internal element that will determine the future of the corporation.

The external environment consists of variables (opportunities and threats) that are outside the organisation and most typically within the short-run control of top management.

The internal environment of a corporation consists of variables (strength and weakness) that are within the organisation itself and are not usually within the short run control of top management.

1.2.2 Strategy Formulation

It is the development of long-range plans for the effective management of environmental opportunities and threats, in light of corporate strengths and weakness.

1.2.3 Strategy Implementation

It is the process by which strategies and policy are put into action through the development of programs, budgets and procedures. This process might involve changes within the overall culture, structure or management system of the entire organisation.

1.2.4 Evaluation and Control

The process in which corporate activities and performance results are monitored so that actual performance can be compared with desired performance.

1.3 DEVELOPING A STRATEGIC VISION

Vision is a statement of the future. It articulates the basic characteristic that shape organisation strategic. It indicates where the organisation is headed and what it intends to be.

1.3.1 Vision objective of business

Strategy formulation i.e. developing vision, mission, and objectives and goals is the most important step of strategic management model. This step is considered as a path forming step, and provides the direction to organisation for movement in future.

1.3.2 Vision

1) vision provide a road map to company`s future.

2) Vision indicates the kind of company management is trying to create in future.

3) Vision specifies about company intention and capabilities to adapt to new technologies.

4) Vision also specifies management policies towards customers and societies.

1.3.3 Strategic vision specifies primarily three things

- Forming a mission statement (who we are and where we are now?)
- Using this mission statement (where we are going?)
- Finally, communicating about the strategic vision

1.3.4 Definition of Vision

MILLER and DESS

"Category of intentions that are board, all inclusive and forward thinking

ENVISIONING

This is the process of creating vision. !t is a difficult and complex task. A well conceived vision must have

- CORE IDEOLOGY
- ENVISIONED FUTURE

CORE IDEOLOGY

It will remain unchanged. It has the enduring character. It consists of core value and core purpose. Core values are essential tenets of an organisation. Core purpose is related to the reasoning of the existence of organisation.

ENVISIONED FUTURE

It will basically deal with the following:

- The long term objective of the organization
- Clear description of articulated future

1.3.5 Mission Statement

Mission statement is the statement of the role by which an organization intends to serve its stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated. It describes what the organization does present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence). A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (about where we are).For instance,

Ex: Microsoft's mission is to help people and businesses throughout the world to realize their full potential. Wal-Mart's mission is to give ordinary folk the chance to buy the same thing as rich people. Mission statements always exist at top level of an organization, but may also be made for various organizational levels. Chief executive plays a significant role in formulation of mission statement. Once the mission statement is formulated, it serves the organization in long run, but it may become ambiguous with organizational growth and innovations. In today's dynamic and competitive environment, mission may need to be redefined. However,

care must be taken that the redefined mission statement should have original fundamentals/components. Mission statement has three main components-a statement of mission or vision of the company, a statement of the core values that shape the acts and behaviour of the employees, and a statement of the goals and objectives.

1.3.6 Features of a Mission

a. Mission must be feasible and attainable. It should be possible to achieve it.

b. Mission should be clear enough so that any action can be taken.

c. It should be inspiring for the management, staff and society at large.

d. It should be precise enough, it should be neither too broad nor too narrow.

e. It should be unique and distinctive to leave an impact in everyone's mind.

f. It should be analytical, it should analyze the key components of the strategy.

g. It should be credible, all stakeholders should be able to believe it.

1.4 FOUR APPROACHES FOR CRAFTING STRATEGY

1) The chief Architect Approach

A single person the owner or CEO assumes the role of chief strategist and chief entrepreneur, single handily shaping most or all of the major pieces of strategy

2) The Delegation Approach

Here the manager in charge delegate's big chunk of the strategic-making task to trusted subordinates, down-the-line-managers in change of key business units and departments, a high-level force of knowledgeable and talented people from many parts of the company brought in specifically to help develop new strategic initiatives.

3) The collaborative or Team Approach

This is a middle approach when a manager strategy-making responsibility enlists the assistance and advice of key peers and subordinates in hammering out as a consensus strategy.

4) The Corporate Intrapreneur Approach

In corporate intrapreneur approach, top management encourages individuals and team to develop and champion proposal for new product lines and new business ventures.

1.5 GOALS AND OBJECTIVES

A goal is a desired future state or objective that an organization tries to achieve. Goals specify in particular what must be done if an organization is to attain mission or vision. Goals make mission more prominent and concrete. They co-ordinate and integrate various functional and departmental areas in an organization. Well made goals have following features-

1. These are precise and measurable.
2. These look after critical and significant issues.
3. These are realistic and challenging.
4. These must be achieved within a specific time frame.
5. These include both financial as well as non-financial components.

Objectives are defined as goals of the organization wants to achieve over a period of time. These are the foundation of planning. Policies are developed in an organization so as to achieve these objectives. Formulation of objectives is the task of top level management.

Effective objectives have following features-

1. These are not single for an organization, but multiple.
2. Objectives should be both short-term as well as long-term.
3. Objectives must respond and react to changes in environment, they must be flexible.
4. These must be feasible, realistic and operational.

1.6 TACTICS

Tactics are concerned with the short to medium term co-ordination of activities and the deployment of resources needed to reach a particular

strategic goal. Some typical questions one might ask at this level are: "What do we need to do to reach our growth / size / profitability goals?" "What are our competitors doing?" "What machines should we use?" The decisions are taken more at the lower levels to implement the strategies based on ground realities.

1.7 CORPORATE STRATEGY

Strategic management is basically needed for every organization and it offers several benefits.

- UNIVERSAL
  - It refers to a complex web of thoughts, ideas, insights, experience, goals, expertise, memories, perceptions and expectation that provides general guidance for specific action in pursuit of particular ends.

- KEEPNG PACE WITH CHANGING ENVIRONMENT
  - The present day environment is so dynamic and fast changing thus making it very difficult for any modern business enterprise to operate. Because of uncertainties, threat and constraints, the business corporation are under great pressure and are trying to find out the ways and means for their healthy survival.

- MINIMIZES COMPETITIVE DISADVANTAGE
  - It minimizes competitive disadvantage and adds up to competitive advantages. For example HLL realized that merging with companies which make fast moving consumer goods but venture into retailing will help to reap heavy profits.

- CLEAR STRATEGIC VISION AND SHARPER ON GOALS AND OBJECTIVES
  - Every firm competing in an industry has a strategy, because strategy refers to how a given objective will be achieved.

- MOTIVATING EMPLOYEES
  - One should note that the labour efficiency and loyalty management can be expected only in an organisation that operates under strategic management.

- STRENGTHENING DECISION-MAKING

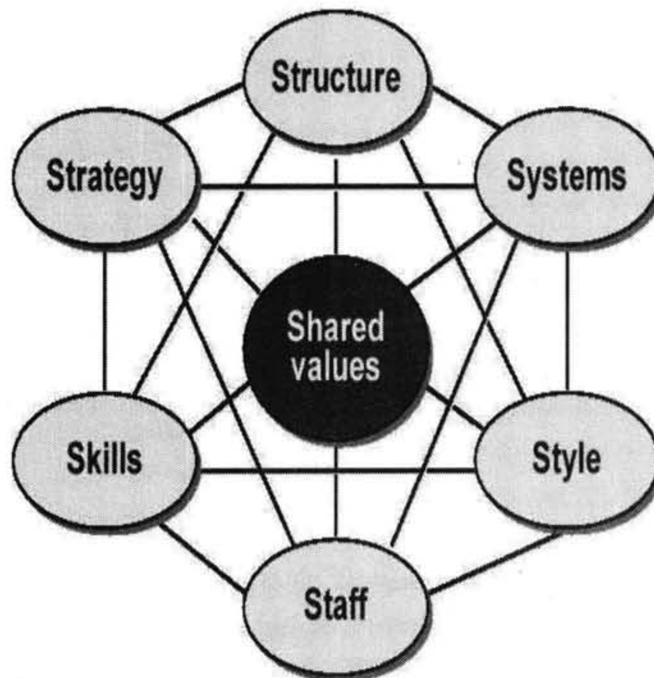
- The first step to be taken is to identify the objectives of the business concern .The basic principles of strategic management will find a smooth sailing due to effective decision-making.

❖ EFFICIENT AND EFFECTIVE WAY OF IMPLEMENTING ACTIONS
  - Strategy provides a clear understanding of purpose, objective and standards of performance to employees at all levels and in all functional areas.

❖ IMPROVED INTERNAL AND EXTERNAL ENVIRONMENT OF BUSINESS
  - Strategy formulation requires continuous observation and understanding of environment variables and classifies them as opportunities and threats.

1.8 THE 7-S FRAMEWORK OF MCKINSEY IS A VALUE BASED MANAGEMENT (VBM)

The Model describes how one can holistically and effectively organize a company. Together these factors determine the way in which a corporation operates.



1.8.1 Shared Value

The interconnecting centre of McKinsey's model is: Shared Values. What does the organization stands for and what it believes in. Central beliefs and attitudes.

1.8.2 Strategy

Plans for the allocation of firms scarce resources, over time, to reach identified goals Environment, competition, customers.

1.8.3 Structure

The way the organization's units relate to each other centralized, functional division (top-down);decentralized the trend in larger organizations); matrix, network, holding, etc.

1.8.4 System

The procedures, processes and routines that characterize how important work is to be done financial, systems, hiring, promotion and performance appraisal systems, Information systems.

1.8.5 Staff

Numbers and types of personnel within the organization.

1.8.6 Style

Cultural style of the organization and how key managers behave in achieving the organization's goals.

1.8.7 Skill

A distinctive capability of personnel of the organization as a whole is a core competences

1.9 BOARD OF DIRECTORS

A Board of Directors is a body of elected or appointed members who jointly oversee the activities of a company or organization. The business which exists in corporate form has a board of directors, elected by stockholders and given ultimate authority and responsibility. Boards typically elect a chairperson who

is responsible for overseeing board business, and they form standing committee which meet regularly to conduct their business. A strategy committee is a board that works with CEO to develop strategic management process.

1.9.1 **Role of Board of Directors**

- Trusteeship: The board of directors' act as trustees to the property and welfare of the company.
- Formulation of mission, objectives and policies: The board of directors must see the long run view and have long run perspectives of the company.
- Designing organisational structure: The board design the structure of the organisation based on the objectives, policies, environmental factors, degree of competition, role of quality, expectation of employees etc.
- Selection of top executives: The board should assume the responsibility of screening and selecting the top executives who can formulate and implement the strategies
- Financial sanction: The important financial decisions like sanctioning of finances to various projects, reserves, distribution of profit to shareholders and repayment of loans and advances etc.
- Link between the company and external environment: The board acts a vital and continuous link between the company and external environment like government, other companies, social and economic institutions etc.

REVIEW QUESTIONS:

1. Differentiate Mission and Vision Statement.
2. Explain the role of Board of Directors.
3. Describe Crafting Strategies.
4. Enumerate Corporate Strategies.
5. List out the 7S Frame work.

UNIT-II

SOCIETY AND BUSINESS

2.1 SOCIAL RESPONSIBILITY OF BUSINESS

A stakeholder of a company is an individual or a group who has a stake in the consequences of the suppliers of raw materials and inputs and distributors of products and services to deal fairly with them.

Management decisions and can influence those decisions. The management of a company has obligations to many different stakeholders. The company is responsible to.

- The shareholders or the owners of the company to attempt to increase the value of the firm.
- The suppliers of raw materials and inputs and distributions of products and services, to deal fairly with them.
- Financial companies, development banks and commercial banks, to repay them.
- Government agencies and societies, to abide by laws.
- Interest groups, to consider their arguments.
- Employees and unions, to provide better pay and reward, safe qualitative work life, and recognise their rights.
- Consumers to provide safe products at reasonable price and market them efficiently.
- Competitors to avoid practices and restrain trade.
- Local communities and society at large, to avoid practices and harm the environment.

2.1.1 **Major arguments for and against social responsibility for business**

- It is in the best interest of a business to promote and improve the communities where does business stand.
- Social action can be profitable.

- It improves the public image of the firm.
- Laws cannot be passed for all circumstances. Thus, business must assume responsibility to maintain an orderly legal society.
- Society should give business a chance to solve social problems that government has failed to solve.
- Business is considered by some groups to be institutions with financial and human resources to solve social problems.
- Prevention is better than cures, so let business solve problems before they become too great.

2.1.2 **Concern for social responsibility**

- Social actions cannot be measured.
- It violates profit maximization.
- Business lacks social skills to solve societal problems.
- The cost of social responsibility is too great and would increase prices too much.

2.1.3 **Concern for Consumers**

- Are the products safe and well designed?
- Are products priced fairly?
- Are the advertisements clear and not deceptive?
- Are customers treated fairly by sales people?

2.1.4 **Concern for employees**

- Are employees paid a fair wage?
- Are employees provided a safe work environment?
- Are employees given special training and educational opportunities?
- Does the business help rehabilitate employee with physical, mental or emotional problems?

2.1.5 **Concern for the natural environment**

- Is the environment adequately protected from unclean air and water, excessive noise, or other types of pollution associated with manufacturing?

- Are the products and packages biodegradable or recyclable?
- Are any by-products that pose a safety hazard to society carefully handled and given proper treatment or disposal?

2.1.6 **Concern for the community**

- Does the firm support minority and community enterprises by purchasing from them or subcontracting to them?
- Is the social impact of any plant location or relocation considered by the managers who can make the decision?
- Are the donations made to help develop and support education, art, health, and community development programs?

2.2 CORPORATE GOVERNANCE

2.2.1 Definition of Corporate Governance

"Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate Governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community".

Characteristics of Good Corporate Governance

- DISCIPLINE
- TRANSPARENCY
- INDEPENDENCE
- ACCOUNTABILITY
- RESPONSIBILITY
- FAIRNESS
- SOCIAL RESPONSIBILITY

DISCIPLINE:

Corporate governance is a commitment by a company's senior management to adhere to behaviour that is universally recognised and accepted to be correct and proper. This encompasses a company's awareness of, and

commitment to, underlying principles' of good governance, particularly at senior management level.

TRANSPARENCY:

Transparency is the ease with which an outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business.

INDEPENDENCE:

Independence is the extents to which mechanisms have been put in place to minimizes or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or a large share owner. These mechanisms range from the composition of board, appointments to committees of the board, and external parties such as the auditors.

ACCOUNTABILITY:

Individuals or group in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow for accountability. These provide investors with the means to query and assess the actions of the board and its committee.

RESPONSIBILITY:

With regard to management, responsibility pertains to behaviour that allows for corrective action and penalizing mismanagement would, when necessary, put in place what it would it take to set the company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility towards all the stakeholders of the company.

FAIRNESS:

The systems that exists within the company must be balance in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged and respected. For example, minority share owner interests must receive equal consideration to those of the dominant share owners.

SOCIAL RESPONSIBILITY:

A well-managed company will be aware of and respond to social issues, placing high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non -exploitative, and responsible with regard to environmental and human rights issues.

2.2.2 **Corporate Governance**

Corporate governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholder's action.

Corporate governance is the interaction between various participants (shareholders, board of directors and company management) in shaping corporations performance and they way it is proceeding towards corporate governance has a broad scope. It includes both social and institutional aspects. Corporate governance encourages a trustworthy, moral, as well as ethical environment.

BENEFITS OF CORPORATE GOVERNANCE

- Good corporate governance ensures corporate success and economic growth.
- Strong corporate governance maintains investor's confidence, as result of which companies can raise capital efficiently and effectively.
- It lowers the capital cost.
- There is positive impact on the share price.
- Good corporate governance also minimizes wastages, corruption risk and mismanagement.
- It provides proper inducement to the owners as well as managers to achieve objectives that are in interest of the shareholders and the organisation.
- It helps in brand formation and development.

2.2.3 Business Policy Planning and Strategic Planning:

Business policy is set of rules for functions and the responsibility of senior management towards those functions. For example, management functions such as marketing, finance, HR, production always have some predefined rules or guidelines and those rules are known as business policy of that respective area.

Decision-making is the primary task of a manager. While making decisions is common that managers consult the existing organisational policies relevant to the decisions Thus, policies are intended to provide guidance to managers in decision-making. It has to be remembered that a policy is also a decision. But it is a onetime standing decision in the light of which so many routine decisions are made.

Importance of Policies:

Policies provide the broad framework within which decisions are to be made. In the absence of appropriate policies, managerial decision-making may be analogous to "Reinventing the Wheel" every time. Sound policies thus save lot of time in decision-making and avoid confusion.

Sinc· policies specify the boundary conditions of decisions, it goes without saying that when decisions are actually made, they conform to the policy relevant to the decision. Thus, decisions relating to a particular operational area of the business tend to be consistent. If the policy of an organisation is to face competition with quality products, the emphasis naturally will be on issues relating to improving the quality of the product. All the decisions that affect the product quality are normally taken in the light of the explicit policy. Policies developed carefully and understood perfectly result in consistency in planning. As a result, organisational resources would be deployed in those areas where they find a better use.

Types of Policies

Policies come about in any organisation in different ways. Based on their source, Koontz and O'Donnell have classified policies under the following types.

Originated policies: Originated policies are the result of top management decisions. To guide the actions of the subordinates, top management formulates policies for the important functional areas of business such as Production, Marketing, Finance, Personnel and so on. These policies basically stem from the organisational objectives. They may be broad or specific depending on the centralisation or decentralisation of authority. If they are broad, they allow the subordinates some operational freedom. On the other hand if they are specific they are implemented as they are.

Appealed Policies: At times a manager may be in dilemma whether he has the authority to take a decision on a particular problem. There may not be precedents to guide him. In such a case, he appeals the matter to his superiors for their thinking. Thus, appeals are taken upward still they reach the appropriate level in the hierarchy for a decision. The decision taken by the higher-ups, thus becomes a ruling. For example, during festival seasons, the manager at the branch level may be in a dilemma to offer discount to the customers. There may not be any explicit policy to guide him. But to meet competition in a particular market situation where competitors offer discounts, top management, on the basis of an appeal made by the branch manager may allow him to offer discount. Unless otherwise stated, it becomes an unwritten policy and guides the manager's decision-making in all such future situations.

Implied Policies: As in the above case, there may not be specific policies for all the contingencies. Managers draw meanings from the actions and behaviour of their superiors. In a particular situation, a manager may go all out to help a customer who is in a difficult situation. If customer service is on top of the agenda of the organisation, there may not be any objection from the top management to the stand taken by the lower level manager in support of the customer. Though there is no explicit policy, managers may assume it in a particular way and go about in their day-to-day operations.

Externally Imposed Policies: These are the policies imposed by the agencies in the external environment like government, trade unions, industry associations, consumer councils, etc. These agencies, to protect the interests of the respective groups may lay down certain policies to be followed by the business. As the interaction of the business with external environment is increasing, one can find many policies thus coming into being in any modern business. For instance, the recruitment policy of the organisation is

influenced by the government's policy towards reservations to weaker sections. Anti pollution measures, concern for the quality of the product and customer service also falls in this category.

Principles of Policy Making: Policies help to ensure that all units of an organisation operate under the same ground rules. They facilitate co-ordination and communication between various organisational units. This is possible because policies make consistency in action possible. In view of the importance of policies in guiding executive behaviour, they have to be formulated carefully. In fact, policy formulation is one of the important executive responsibilities. Effectiveness of policies, therefore, lies in understanding the following principles underlying policy formulation.

Define the Business: Correct definition of the business provides clarity to the policies. Two questions have to be asked in this regard, what is our business? What kind of business are we in? Many businesses have failed because they did not attempt to seek answers to these simple and basic questions. Gramophone record companies for long did not realise that they are in the entertainment business. Hence they are now here in the corporate history. To define the business, a company must take a close look at it's basic operations and analyse it's major strengths and weaknesses in all the functional areas like marketing, product development, finance, and public relations. Such an exercise enables the enterprise to correct it weaknesses, if any, and to capitalise on it's strengths.

Assess Future Environment: Future environment of the business has to be forecasted. A realistic estimate of the future trends in matters relating to technology, economic and market conditions, political stability, etc. is essential for policy formulation. As many people would agree, forecasting is a difficult task. Instances are not rare, where the best of the forecasts turned out to be just intentions. It is interesting to note that sometimes products which were predicted to be instant failures by the so called market surveys proved to be run-away successes. The 'Syntax' water tank is a classic example where the product defied the gloom predicted by the market research. However, examples of this sort are few and far between.

Ensure availability of Resources: Formulating policies in an ambitious way without regard to the ground realities lands you in trouble. You would encounter too many problems while implementing the policies. As a result, policies do not serve the intended purpose. For example, if the policy of the

organisation is to cash in on the new opportunities, it does not mean that you can enter any Held thrown open by the government. You have to assess yourself as to how strong you are in terms of resources required. Otherwise it amounts to overstretching.

Communicate the policies: The chief objective of many policies is to help managers in decision-making and to ensure consistency in action. As such, policies have to be communicated to all those who are to take decisions. The policy of the organisation towards competition, for instance has to be communicated to the people in the marketing department. Otherwise there will not be proper synchronisation between the policy and action.

Process of Policy Formulation:

As mentioned earlier, the basic intention of policies is to help executive thinking in decision-making. Policies are formulated for all the key functional areas of business like production, marketing, finance, personnel and so on.

Effectiveness and consistency of decisions in all these areas depend on how well the policies are formulated and understood. A policy is a plan. Therefore, the steps involved in policy formulation are similar to the steps in planning. Though policies vary, in respect of scope, the process of policy formulation usually involves the following steps:

Corporate Mission: Corporate mission specifies the purpose for which the organisation exists. It is natural, therefore, that all the activities of the organisation are geared towards the achievement of the mission. The mission statement provides the direction to the organisation. As such, thorough understanding of the corporate mission is the starting point for policy formulation.

Appraisal of the Environment: Integration of the organisation with the environment is the key function of the management. The nature of environment and the various forces in it that affect the business have to be analysed.

It includes collection of relevant information from the environment and interpreting it's impact on the future of organisation.

Corporate Analysis: While the focus in environmental appraisal is on the external factors of the business, corporate analysis takes into account the internal factors. Corporate analysis discloses strengths and weaknesses of the organisation and points out the areas that have potential.

Identification of Alternatives: The above two steps - Environmental appraisal and corporate analysis popularly known as SWOT (strengths, weaknesses, opportunities and threats) analysis will help identifying the alternative policies. For example, the objective of the organisation is expansion. This may be achieved by several ways. Diversification of the activities, acquisition of existing organisations, establishment of subsidiaries abroad and so on. Again, if diversification is chosen, it has to be decided whether it is into related or unrelated business. The alternative policies thus identified have to be evaluated in the light of the organisational mission and objectives.

Choice of the right policy: This stage involves choosing the right policy from among the several policy options that suits the organisational objectives. The Corporate history, personal values and attitudes of the management and the compulsions in the environment, if any, influence the choice of the policy.

Policy Implementation: Once the policy is decided, necessary steps have to be taken for its implementation. Effective implementation of the policy requires design of suitable organisational structure, developing and motivating people to contribute their best, design of effective control and information systems, allocation of resources, etc. At times, policies may have to be revised in line with the changes in the environment. To make good any inadequacy at the time of making the policy, or to adapt to the changes in the business environment, policies like plans have to be monitored constantly during the implementation stage.

Basic Areas of Policy Making: As mentioned earlier, policies are normally formulated for all the key areas of the business. Some of the important areas for which policies are required are discussed here.

Production:

In the area of production, make or buy decision is an important policy. For instance, automobile companies buy many accessories and parts from outside rather than making those parts themselves. This type of policy enables the organisation to concentrate on the basic product. However, it depends largely on the resources of the organisation and capabilities.

Another important policy pertains to the production run. The volume of output depends on the production run. The demand for the product interims of the orders, costs of tooling, economics of scale are some of the factors that influence the production run. Some companies choose to produce to order, while some companies may produce in anticipation of demand. During slack season, there are companies which produce some fill-in-products to make good use of the facilities. Issues relating to Innovation, new product development and diversification are the other important aspects which require policy direction.

Marketing:

As the business world has become increasingly competitive, marketing has acquired tremendous importance in the recent times. Peter Drucker regards innovation and marketing as the two important functions for every business. The success of any organisation depends on how strong it is in these two basic functions. In the functional area of marketing, answers to certain basic questions help in formulating the policies. The questions include:

Who are our customers and what do they buy?

Why do they buy our product?

What do we offer in relation to our competitors?

What supporting services do we offer? and

What is the price to be charged?

Appropriate answers to these questions help in deciding the product, pricing, distribution and promotional policies of the firm. Among these, pricing policy is of utmost significance. Issues relating to how to face the competition are resolved with a sound pricing policy. For instance, whether to indulge in price competition or non-price competition are the two basic issues in this regard. In the former case, the firm meets competition by

cutting the prices while in the later, competition is met by promotion, advertising and after sales service, etc. The emphasis is on non-price variables.

Finance:

Financial aspects normally set the limits to the expansion of the business. Necessary steps have to be taken to raise the funds. The required funds for the business may be furnished by the owners or borrowed from outside sources. The actions of management with regard to procurement, utilisation and distribution of funds are guided by the broad policies laid down for the management of funds.

Important policy decision pertains to the proportion of the equity to debt capital. The relative merits and demerits in raising the funds through equity and debt have to be examined. Further, in the case of a going concern, funds may also be raised through retaining a portion of the profits in the business. This in turn influences the dividend policy of the organisation.

Working capital management is another area which requires policy direction. Adequate working capital is essential for any business for maintaining credit and meeting obligations. Policies regarding working capital vary from company to company depending on the size and nature of the business. For instance, public utility concerns with regular cash collection may need less working capital than those engaged in the manufacture of specialised machines. Similarly, a company operating on strictly cash basis requires less working capital than one operating on predominantly credit sales.

Policies relating to the distribution of profits of the business are equally important. This is usually influenced by factors including - the desire of the shareholders, the company's future plans of expansion, availability of other sources of obtaining capital the urgency of the need for additional capital and availability of reinvestible profits. If multinational companies like Hindustan Lever, Brooke Bond, Colgate etc., enjoy tremendous investor clout and emerged as blue chip companies, it is because of investor friendly policies relating to dividends and frequent capitalisation of resources.

Personnel:

Any organisation can be as effective as the people in it. Many problems in the organisations are obviously people related in nature. It is, therefore

needless to say that sound personnel polices ensure good employer-employee relations.

Important policies in this area relate to recruitment and training, compensation and other employee benefits and the attitude of the management towards labour unions. All these policies are normally influenced by factors such as skills required at various levels, the attitude of the people towards work and the philosophy of the management. On the whole, good employee-oriented personnel policies encompassing the above mentioned issues would contribute to employee motivation and morale.

REVIEW QUESTIONS

1. List out the different types of policies.
2. Briefly explain the benefits of corporate governance.
3. Discuss the Social responsibility towards consumer.

UNIT-III

ENVIRONMENTAL ANALYSIS

3.1 ENVIRONMENTAL SCANNING

The process of environmental scanning has been far from being systematic except with regard to information relating to current developments. Environmental scanning requires information inputs which can be derived from different sources.

- ➢ Verbal inputs from audio-visual media, suppliers, salesman etc...
- ➢ Written and documentary information from new papers, journals and reports.
- ➢ Information from management information system.
- ➢ Industrial spying
- ➢ Forecasting reports.

3.1.1 Key source of information for environmental scanning

Once strategies have selected key environmental variables, the next step is to select key source of environmental information for scanning.

- The economic and business daily newspapers like the economic times, Business Standard, Business line and financial express.
- Governmental 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.

3.1.2 Approaches to environmental scanning

The experience of various pioneering companies reflects the emergence of four basic principles regarding effective implementation of environmental scanning function.

- Environmental analysis must be linked, conceptually and practically too current planning and operations.

- Environmental scanning serves a number of separate , different analytic structures and systems may be required in order to achieve those different purposes.
- Systems for environmental analysis must fit the culture and decision-making styles of the organisation and areas they serve.
- Continuing support from internal changes is required to sustain environmental analysis in an organisation over time.

3.1.3 **Factors affecting the environmental scanning**

Several factors affect the environment scanning. These factors are classified as

Strategist related factors

Organisation related factors

Environmental related factors

Strategic includes 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 the people, ability to adopt to different cultures and problems situations, ability to form and lead team work, ability to forecast, judgement, analytical and interpretation skills etc.

Organisation includes the nature of business, product or services and markets, age, size, and complexity of the organisation, organisation structure and its nature etc...

Environmental include complexity, volatility or turbulence hostility and diversity of the environment.

3.1.4 **Scanning systems**

1) Irregular scanning system:

These consist of ad hoc studies in response to environmental crises.

2) Regular scanning systems:

These consist of regular reviews of the environment or selected strategic environmental components. These reviews include annual planning exercises.

3) Continuous scanning systems:

This is an ongoing activity. Established boundary, spanning offices often coordinate this activity. This is more future oriented system.

3.1.5 **Techniques in environmental scanning**

1) Expert opinion: knowledgeable people are selected and asked to assign important and probability rating to various possible future developments.

2) Trend 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 relationship that can support forecasts.

4) Dynamic modelling: Researchers build sets of equations and try to describe the underlying system.

3.2 INDUSTRY ANALYSIS

Industry analysis is a tool that facilitates a company's understanding of its position relative to other companies that produce similar products or services. Understanding the forces at work in the overall industry is an important competent of effective strategic planning.

These factors are outlines as below

Industry forces

The first step in performing an industry analysis is to assess the impact of porter's five forces. The collective strength of these forces determines the ultimate profit potential in the industry.

EASE OF ENTRY

Ease of Entry refers to how easy or difficult it is for a new firm to begin competing in the industry. The ease of entry into an industry is important because it determines the likelihood that a company will face new competitors.

POWER SUPPLIERS

Suppliers can gain bargaining within the industry through a number of different situations. For example, suppliers gain power when an industry relies on a just a few suppliers, when there are no substitutes available for the suppliers product.

POWER OF BUYERS

The reverse situation occurs when bargaining power rests in hands of buyers. Powerful buyerscan expert pressure on small business by demanding lower prices, higher quality, or additional services, or by playing competitors off one another.

AVAILABILITY OF SUBSTITUES

All firms in an industry are competing in a board sense with industries producing substitute limit. The potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge.

COMPETITORS

The battle you wage against competitors is one of strongest industry forces with which you contend, according to cook. Competitive battles can take the form of price wars,advertsing campaigns, new product introductions, or expanded service offerings.

3.3 Value Chain Analysis:

Value Chain is the series of internal processes or activity a company performs "to produce its product, to design its product, to deliver its product, to support its Product".

Increasing attention is now being given to value chain analysis as a means of increasing customer satisfaction and managing costs more effectively.

It is the linked set of value creating activities all the way from basic raw material sources for components suppliers through to the ultimate end-use product or service delivered to the customer.

Coordinating the individual parts of the value chain together creates the conditions to improve customer satisfaction, particularly in terms of cost efficiency quality and delivery.

A firm, which performs the value chain activities more efficiently, and at a lower cost, than its competitors will gain a competitive advantage. Therefore it is necessary to understand how value chain activities are performed and how they interact with one another.

The activities are not just a collection of independent activities but a system of interdependent activities in which the performance of one activity affects the performance and cost of other activities.

It is also appropriate to view the value chain from the customer's perspective with each link being seen as the customer of the previous link. If each link in the value chain is designed to meet the needs of its customers, then end-customers, satisfaction should ensure.

Activities are the means by which a firm creates value in its products. (They are sometimes referred to as value activities). Activities incur costs, and in combination with other activities, provide a product or service which earns revenue. Firms create value for their buyers by performing these activities.

Porter (in Competitive Advantage) analysed the various activities of an organisation into a value chain. This is a mode of value activities and the relationships between them. Here is a diagram of the value chain (figure in the next page) :

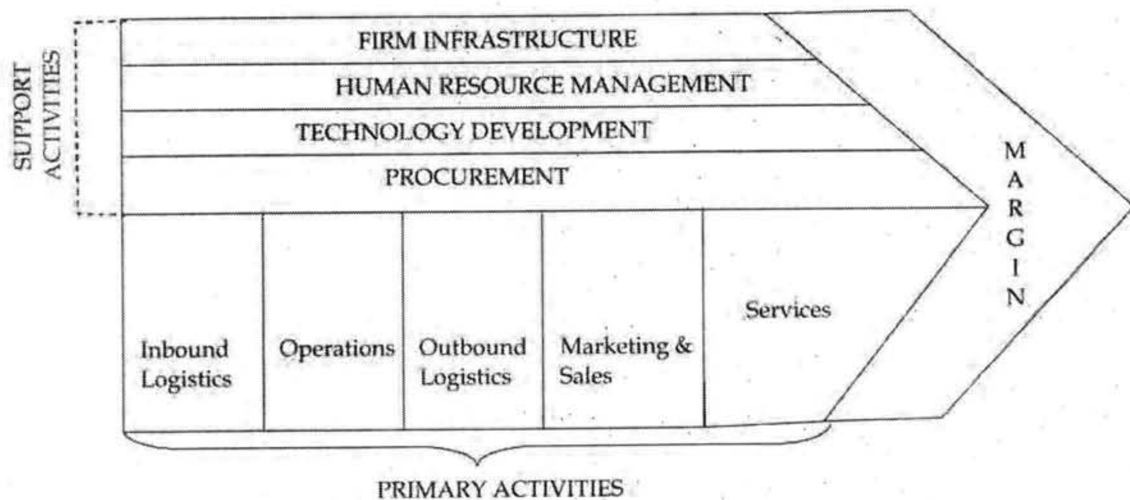
Let us examine some of these elements in turn.

Primary activities are those directly related with production, sales, marketing, delivery and services. The diagram shows five primary activities.

Inbound logistics are those activities involved with receiving, handling and storing inputs to the production system. It thus includes warehousing, transport, stock control and so forth.

Operations are those activities which convert inputs into final product. Outbound logistics are those activities relating to storing the product and its distribution to customers.

Marketing and sales are those activities that relate to informing customers about the product, persuading them to buy it and enabling them to do so. This includes advertising, promotion and so forth after sales service. For many companies there are activities such as installing products, repairing them, providing spare parts and so forth.



Support activities are those which provide purchased inputs, human resources, technology and infrastructural functions to support the primary activities. Support activities include the following.

- Procurement Reports to those activities which acquire the resource inputs to the primary activities.
- Technology development. These activities are related to both product design and to improving processes and/or resource utilisation.
- Human resource management: Is the activities of recruiting, training, developing and rewarding people.
- Firm infrastructure. The system of planning, finance, quality control activities in which Porter believes are crucially important to an organisation's strategic capability in all primary activities.

3.5 SWOT Analysis

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (**S**) or weaknesses (**W**), and those external to the firm can be classified as opportunities (**O**) or threats (**T**). Such an analysis of the strategic environment is referred to as a SWOT analysis.

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

3.4.1 Strengths

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage

Examples of such strengths include:

- patents
- strong brand names
- good reputation among customers
- cost advantages from proprietary know-how
- exclusive access to high grade natural resources
- favourable access to distribution networks

3.4.2 Weaknesses

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- lack of patent protection
- a weak brand name
- poor reputation among customers
- high cost structure
- lack of access to the best natural resources
- lack of access to key distribution channels

In some cases, a weakness may be the flip side of strength. Take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be a considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

3.4.3 Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

- an unfulfilled customer need
- arrival of new technologies
- loosening of regulations
- removal of international trade barriers

3.4.4 Threats

Changes in the external environmental also may present threats to the firm. Some examples of such threats include:

- shifts in consumer tastes away from the firm's products
- emergence of substitute products
- new regulations
- increased trade barriers

3.5 The SWOT Matrix

A firm should not necessarily pursue the more lucrative opportunities. Rather, it may have a better chance at developing a competitive advantage by identifying a fit between the firm's strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. The SWOT matrix (also known as a **TOWS Matrix**) is

Shown below:

SWOT / TOWS Matrix

	Strengths	**Weaknesses**	
	S-O strategies	W-O strategies	
Opportunities			
Threats	S-T strategies	W-T strategies	

S-O strategies pursue opportunities that are a good fit to the company's strengths.

- **W-O strategies** overcome weaknesses to pursue opportunities.
- **S-T strategies** identify ways that the firm can use its strengths to reduce its vulnerability to external threats.
- **W-T strategies** establish a defensive plan to prevent the firm's weaknesses from making it highly susceptible to external threats.

3.6 Stake holders in Business:

Stake holders are the individuals and groups who can affect by the strategic outcomes achieved and who have enforceable claims on a firm‘s performance. Stake holders can support the effective strategic management of an organization.

Stake holder‘s relationship management

Stake holders can be divided into:

1. Internal Stakeholders
   - Shareholders
   - Employees
   - Managers
   - Directors
2. External Stakeholders
   - Customers
   - Suppliers
   - Government
   - Banks/creditors
   - Trade unions
   - Mass Media

Stake holder‘s Analysis:

- Identify the stake holders.
- Identify the stake holders expectations interests and concerns
- Identify the claims stakeholders are likely to make on the organization

- Identify the stakeholders who are most important from the organizations perspective.
- Identify the strategic challenges involved in managing the stakeholder relationship.

3.7 Scenario planning,

Scenario planning, also called **scenario thinking** or **scenario analysis,** is a strategic planning method that some organizations use to make flexible long-term plans. It is in large part an adaptation and generalization of classic methods used by military intelligence.

3.7.1 Use by managers

The basic concepts of the process are relatively simple. In terms of the overall approach to forecasting, they can be divided into three main groups of activities which are, generally speaking, common to all long range forecasting processes.

1. Environmental analysis
2. Scenario planning
3. Corporate strategy

The first of these groups quite simply comprises the normal environmental analysis. This is almost exactly the same as that which should be undertaken as the first stage of any serious long-range planning. However, the quality of this analysis is especially important in the context of scenario planning.

The central part represents the specific techniques – covered here – which differentiate the scenario forecasting process from the others in long-range planning.

The final group represents all the subsequent processes which go towards producing the corporate strategy and plans. Again, the requirements are slightly different but in general they follow all the rules of sound long-range planning.

3.7.2 Process

The part of the overall process which is radically different from most other forms of long-range planning is the central section, the actual production of the scenarios. Even this, though, is relatively simple, at its most basic level. As derived from the approach most commonly used by Shell, it follows six steps:

1. Decide drivers for change/assumptions
2. Bring drivers together into a viable framework
3. Produce 7–9 initial mini-scenarios
4. Reduce to 2–3 scenarios
5. Draft the scenarios
6. Identify the issues arising

Step 1 – Decide assumptions/drivers for change

The first stage is to examine the results of environmental analysis to determine which are the most important factors that will decide the nature of the future environment within which the organisation operates. These factors are sometimes called 'variables' (because they will vary over the time being investigated, though the terminology may confuse scientists who use it in a more rigorous manner. Users tend to prefer the term 'drivers' (for change), since this terminology is not laden with quasi-scientific connotations and reinforces the participant's commitment to search for those forces which will act to change the future. Whatever the nomenclature, the main requirement is that these will be informed assumptions.

This is partly a process of analysis, needed to recognise what these 'forces' might be. However, it is likely that some work on this element will already have taken place during the preceding environmental analysis. By the time the formal scenario planning stage has been reached, the participants may have already decided – probably in their sub-conscious rather than formally – what the main forces are.

In the ideal approach, the first stage should be to carefully decide the overall assumptions on which the scenarios will be based. Only then, as a second stage, should the various drivers be specifically defined. Participants, though, seem to have problems in separating these stages.

Perhaps the most difficult aspect though, is freeing the participants from the preconceptions they take into the process with them. In particular, most participants will want to look at the medium term, five to ten years ahead rather than the required longer-term, ten or more years ahead. However, a time horizon of anything less than ten years often leads participants to extrapolate from present trends, rather than consider the alternatives which might face them. When, however, they are asked to consider timescales in excess of ten years they almost all seem to accept the logic of the scenario planning process,

and no longer fall back on that of extrapolation. There is a similar problem with expanding participants horizons to include the whole external environment.

3.7.3 Brainstorming

In any case, the brainstorming which should then take place, to ensure that the list is complete, may unearth more variables – and, in particular, the combination of factors may suggest yet others.

A very simple technique which is especially useful at this – brainstorming – stage, and in general for handling scenario planning debates is derived from use in Shell where this type of approach is often used. An especially easy approach, it only requires a conference room with a bare wall and copious supplies of 3M Post-It Notes.

The six to ten people ideally taking part in such face-to-face debates should be in a conference room environment which is isolated from outside interruptions. The only special requirement is that the conference room has at least one clear wall on which Post-It notes will stick. At the start of the meeting itself, any topics which have already been identified during the environmental analysis stage are written (preferably with a thick magic marker, so they can be read from a distance) on separate Post-It Notes. These Post-It Notes are then, at least in theory, randomly placed on the wall. In practice, even at this early stage the participants will want to cluster them in groups which seem to make sense. The only requirement (which is why Post-It Notes are ideal for this approach) is that there is no bar to taking them off again and moving them to a new cluster.

A similar technique – using 5" by 3" index cards – has also been described (as the 'Snowball Technique'), by Backoff and Nutt, for grouping and evaluating ideas in general.

As in any form of brainstorming, the initial ideas almost invariably stimulate others. Indeed, everyone should be encouraged to add their own Post-It Notes to those on the wall. However it differs from the 'rigorous' form described in 'creative thinking' texts, in that it is much slower paced and the ideas are discussed immediately. In practice, as many ideas may be removed, as not being relevant as added. Even though it follows many of the same rules as normal brainstorming typically lasts the same length of time – say, an hour or so only.

It is important that all the participants feel they 'own' the wall and are encouraged to move the notes around themselves. The result is a very powerful

form of creative decision-making for groups, which is applicable to a wide range of situations (but is especially powerful in the context of scenario planning It also offers a very good introduction for those who are coming to the scenario process for the first time. Since the workings are largely self-evident, participants very quickly come to understand exactly what is involved.

3.7.4 Important and uncertain

This step is, though, also one of selection process – since only the most important factors will justify a place in the scenarios. The 80:20 Rule here means that, at the end of the process, management's attention must be focused on a limited number of most important issues. Experience has proved that offering a wider range of topics merely allows them to select those few which interest them, and not necessarily those which are most important to the organisation.

In addition, as scenarios are a technique for presenting alternative futures, the factors to be included must be genuinely 'variable'. They should be subject to significant alternative outcomes. Factors whose outcome is predictable, but important, should be spelled out in the introduction to the scenarios since they cannot be ignored. The Important Uncertainties Matrix, as reported by Kees van der Heijden of Shell, is a useful check at this stage.

At this point it is also worth pointing out that a great virtue of scenarios is that they can accommodate the input from any other form of forecasting. They may use figures, diagrams or words in any combination. No other form of forecasting offers this flexibility.

Step 2 – Bring drivers together into a viable framework

The next step is to link these drivers together to provide a meaningful framework. This may be obvious, where some of the factors are clearly related to each other in one way or another. For instance, a technological factor may lead to market changes, but may be constrained by legislative factors. On the other hand, some of the 'links' (or at least the 'groupings') may need to be artificial at this stage. At a later stage more meaningful links may be found, or the factors may then be rejected from the scenarios. In the most theoretical approaches to the subject, probabilities are attached to the event strings. This is difficult to achieve, however, and generally adds little except complexity – to the outcomes.

This is probably the most (conceptually) difficult step. It is where managers' 'intuition' their ability to make sense of complex patterns of 'soft' data which more rigorous analysis would be unable to handle – plays an important role. There are, however, a range of techniques which can help; and again the Post-It-Notes approach is especially useful:

Thus, the participants try to arrange the drivers, which have emerged from the first stage, into groups which seem to make sense to them. Initially there may be many small groups. The intention should, therefore, be to gradually merge these often having to reform them from new combinations of drivers to make these bigger groups work. The aim of this stage is eventually to make 6–8 larger groupings; 'mini-scenarios'. Here the Post-It Notes may be moved dozens of times over the length – perhaps several hours or more of each meeting. While this process is taking place the participants will probably want to add new topics so more Post-It Notes are added to the wall. In the opposite direction, the unimportant ones are removed (possibly to be grouped, again as an 'audit trail' on another wall). More important, 'certain' topics are also removed from the main area of debate – in this case they must be grouped in clearly labelled area of the main wall.

As the clusters – the 'mini-scenarios' – emerge, the associated notes may be stuck to each other rather than individually to the wall; which makes it easier to move the clusters around and is a considerable help during the final, demanding stage to reducing the scenarios to two or three.

The great benefit of using Post-It Notes is that there is no bar to participants changing their minds. If they want to rearrange the groups or simply to go back (iterate) to an earlier stage – then they strip them off and put them in their new position.

Step 3 – Produce 7 – 9 initial mini-scenarios

The outcome of the previous step is usually between seven and nine logical groupings of drivers. This is usually easy to achieve. The natural reason for this may be that it represents some form of limit as to what participants can visualise.

Having placed the factors in these groups, the next action is to work out, very approximately at this stage, what is the connection between them. What does each group of factors represent?

Step 4 – Reduce to two or three scenarios

The main action, at this next stage, is to reduce the seven to nine mini-scenarios/groupings detected at the previous stage to two or three larger scenarios. The challenge in practice seems to come down to finding just two or three 'containers' into which all the topics can be sensibly fitted. This usually requires a considerable amount of debate but in the process it typically generates as much light as it does heat. Indeed, the demanding process of developing these basic scenario frameworks often, by itself, produces fundamental insights into what are the really important perhaps life and death issues affecting the organisation. During this extended debate and even before it is summarised in the final reports – the participants come to understand, by their own involvement in the debate, what the most important drivers for change may be, and perhaps even more important what their peers think they are. Based on this intimate understanding, they are well prepared to cope with such changes reacting almost instinctively when they actually do happen; even without recourse to the formal reports which are eventually produced!

There is no theoretical reason for reducing to just two or three scenarios, only a practical one. It has been found that the managers who will be asked to use the final scenarios can only cope effectively with a maximum of three versions! Shell started, more than three decades ago, by building half a dozen or more scenarios but found that the outcome was that their managers selected just one of these to concentrate on. As a result, the planners reduced the number to three, which managers could handle easily but could no longer so easily justify the selection of only one! This is the number now recommended most frequently in most of the literature.

3.7.6 Complementary scenarios

As used by Shell, and as favoured by a number of the academics, two scenarios should be complementary; the reason being that this helps avoid managers 'choosing' just one, 'preferred', scenario and lapsing once more into single-track forecasting negating the benefits of using 'alternative' scenarios to allow for alternative, uncertain futures. This is, however, a potentially difficult concept to grasp, where managers are used to looking for opposites; a good and a bad scenario, say, or an optimistic one versus a pessimistic one – and indeed this is the approach (for small businesses) advocated by Foster. In the Shell approach, the two scenarios are required to be equally likely, and between them to cover all the 'event strings'/drivers. Ideally they should not be obvious opposites,

which might once again bias their acceptance by users, so the choice of 'neutral' titles is important. For example, Shell's two scenarios at the beginning of the 1990s were titled 'Sustainable World' and 'Global Mercantilism'[xv]. In practice, we found that this requirement, much to our surprise, posed few problems for the great majority, 85%, of those in the survey; who easily produced 'balanced' scenarios. The remaining 15% mainly fell into the expected trap of 'good versus bad'. We have found that our own relatively complex (OBS) scenarios can also be made complementary to each other; without any great effort needed from the teams involved; and the resulting two scenarios are both developed further by all involved, without unnecessary focusing on one or the other.

3.7.7 Testing

Having grouped the factors into these two scenarios, the next step is to test them, again, for viability. Do they make sense to the participants? This may be in terms of logical analysis, but it may also be in terms of intuitive 'gut-feel'. Once more, intuition often may offer a useful – if academically less respectable – vehicle for reacting to the complex and ill-defined issues typically involved. If the scenarios do not intuitively 'hang together', why not? The usual problem is that one or more of the assumptions turns out to be unrealistic in terms of how the participants see their world. If this is the case then you need to return to the first step – the whole scenario planning process is above all an iterative one returning to its beginnings a number of times until the final outcome makes the best sense.

Step 5 – Draft the scenarios

The scenarios are then 'written up' in the most suitable form. The flexibility of this step often confuses participants, for they are used to forecasting processes which have a fixed format. The rule, though, is that you should produce the scenarios in the form most suitable for use by the managers who are going to base their strategy on them. Less obviously, the managers who are going to implement this strategy should also be taken into account. They will also be exposed to the scenarios, and will need to believe in these. This is essentially a 'marketing' decision, since it will be very necessary to 'sell' the final results to the users. On the other hand, a not inconsiderable consideration may be to use the form the author also finds most comfortable. If the form is alien to him or her the chances are that the resulting scenarios will carry little conviction when it comes to the 'sale'.

Most scenarios will, perhaps, be written in word form (almost as a series of alternative essays about the future); especially where they will almost inevitably be qualitative which is hardly surprising where managers, and their audience, will probably use this in their day to day communications. Some, though use an expanded series of lists and some enliven their reports by adding some fictional 'character' to the material – perhaps taking literally the idea that they are stories about the future – though they are still clearly intended to be factual. On the other hand, they may include numeric data and/or diagrams – as those of Shell do (and in the process gain by the acid test of more measurable 'predictions').

Step 6 – Identify the issues arising

The final stage of the process is to examine these scenarios to determine what are the most critical outcomes; the 'branching points' relating to the 'issues' which will have the greatest impact potentially generating 'crises' on the future of the organisation. The subsequent strategy will have to address these – since the normal approach to strategy deriving from scenarios is one which aims to minimise risk by being 'robust' that is it will safely cope with all the alternative outcomes of these 'life and death' issues rather than aiming for performance (profit) maximisation by gambling on one outcome.

Use of scenarios

It is important to note that scenarios may be used in a number of ways:

a) Containers for the drivers/event strings

Most basically, they are a logical device, an artificial framework, for presenting the individual factors/topics or coherent groups of these so that these are made easily available for managers' use – as useful ideas about future developments in their own right without reference to the rest of the scenario. It should be stressed that no factors should be dropped, or even given lower priority, as a result of producing the scenarios. In this context, which scenario contains which topic (driver), or issue about the future, is irrelevant.

b) Tests for consistency

At every stage it is necessary to iterate, to check that the contents are viable and make any necessary changes to ensure that they are; here the main test is to see if the scenarios seem to be internally consistent if they are not then the writer must loop back to earlier stages to correct the problem. Though it has been mentioned previously, it is important to stress once again that scenario

building is ideally an iterative process. It usually does not just happen in one meeting though even one attempt is better than none but takes place over a number of meetings as the participants gradually refine their ideas.

c) Positive perspectives

Perhaps the main benefit deriving from scenarios, however, comes from the alternative 'flavours' of the future their different perspectives offer. It is a common experience, when the scenarios finally emerge, for the participants to be startled by the insight they offer as to what the general shape of the future might be at this stage it no longer is a theoretical exercise but becomes a genuine framework (or rather set of alternative frameworks for dealing with that.

REVIEW QUESTIONS

1. Discuss in detail about “Value Chain Analysis”.
2. Describe Scenario planning.
3. Illustrate SWOT Analysis.

UNIT - IV

STRATEGIC FORMULATION AND ANALYSIS

4.1 STRATEGIES FORMULATION:

Strategy formulation is often referred to as strategic planning or long-range planning. This process is primarily analytical, not action-oriented. The strategy formulation process is concerned with developing a corporation's mission, objectives, strategy and policy. This process involves scanning external and internal environmental factors, analysis of the strategic factors and generation, evaluation and selection of the best alternative strategy appropriate to the analysis.

4.1.1 Functional strategies

All organisations, irrespective of their size, nature and scope of business must perform the function like production/operation, finance, marketing, Human resources and research. Careful planning, execution, planning and coordination of these functions are highly essential for efficient strategic planning, implementation and control.

- PRODUCTION/OPERATIONS

The basic objectives of production/oprations management are to ensure that the outputs produced have a value that exceeds the combined costs of the inputs and the transformation process. In other words, it should add the value to the inputs in the process of transformation.

- RESEARCH AND DEVELOPMENT

The process of R&D refers to reducing the cost of operations and making them more efficient. Business unit that adopt the niche low cost and low cost strategies emphasise process R&D with a view to reduce the cost of operation.

- MARKETING

Business units that adopt generic strategies of differentiation and low cost differentiation purse different marketing strategies.

- HUMAN RESOURCES

Resources function includes the major activities like designing and analysing human jobs based on the future organisational needs, planning for

future human resources needs recruiting, selecting and employing people based on the needs of the organisation, training and developing employees people their human resources, appraising their performance and move the employees among different levels based on organisational needs and employee career goals, fixing and maintaining the compensating package, maintaining conductive human relations and creating and maintaining high quality of work life.

- INFORMATION SYSTEMS

All the functional areas of the business can be defined by a well designed information system. Computer based decision support system that consists central data base permits each functional area to access information its needs and to communicate electronically with the other functional department is necessary.

4.1.2 **Generic strategies**

Competitive strategy includes all the moves and approaches a firm has taken and is taken

1. To withstand competitive pressures
2. To improve its market position.
3. To attract buyers

Firm's strategy can be mostly offensive or mostly defensive depending upon the market conditions. There would be countless strategies that a firm adopt in different situations. But, all these strategies can broadly divided into following three categories.

- Striving to be the overall low-cost producer in the industry(low-cost leadership strategy)
- Seeking to differentiate one's product offering from rival's product(a differentiation strategy)
- Focusing on a narrow portion of the market rather than whole market(a focus or niche strategy)

1) A Low-cost leadership strategy:

The low-cost leader's basis for competitive advantage is lower overall costs than competitors. The low-cost strategy is powerful approaches in markets

where most of the customers are price sensitive. The purposes of striving to be a low-cost producer are:

- To fix the price for the maximum market share from the competitors
- To fix the price for the products at a lower compared to that of the competitors.
- To earn high profit margin and thus maximise the profits.

This strategy will help the firm initially to gain the market share from the competitors and later to maximise the profits. The danger of this strategy is that, if the firms cut the prices abnormally to kill the competitors, the firms may end-up with problems of a cheap product.

ADVANTAGES OF BEING A LOW-COST

Price competition among rival sellers is dominant competitive force.

The industry's product is essentially standardised.

T here is few ways to achieve product differentiation that have value to buyers.

Most buyers use the product in the same ways.

Buyers shop for the best price without incurring much cost and inconvenience.

2) DIFFERENTIATION STRATEGIES:

Generally customers' needs taste and preference vary from one customers to another customer. The differences in customers' tastes, preferences and needs can be satisfied by producing the product with different attributes. This situation results in adoption of differentiation strategy by the producer to satisfy the diversified needs of the customer by a standardised product.

APPROACHES TO DIFFERENTIATION

A different taste, special taste, superior service, spare parts availability, overall value to the customer, engineering design and performance, product reliability, quality manufacturer, technological leadership, a full range of services, complete line of products, top-of-the-line image and reputation.

3) FOCUS AND SPECIALISATION STRATEGY

Focusing begins by choosing a market niche where customers have distinctive preferences or requirements. Thompson and Strickland define the term 'niche' as geographic uniqueness, by specialised requirements in using the product or by special product attributes that appeal only niche members. A strategist basis for competitive advantage is either lower costs than competitors in serving the market niche or an ability to offer niche members something different from that of competitors. If the buyers needs can be satisfied through a low cost based product compared to the rest of the market, the producer can adopt a focus strategy based on low-cost.

Advantages of focus strategy:

Specialised skills of a producer adopting the focus strategy in serving the target market niche provide a basis for defending against five competitive forces.

The focused company's' competence in serving the market niche creates entry barriers for new firms. Therefore it is harder for firms outside the niche to enter.

This strategy also presents a hurdle to the producers of substitute products to enter the niche market.

The powerful customers bargaining power is also lowered as the competitors' ability to serve their needs is less compared to the focused him.

The niche strategy combined with low-cost and differentiation strategies will enable the producer to enhance market share and profitability.

4.2 CORPORATE STRATEGY:

Corporate strategy is primarily about the choice of direction for the firm as a whole. This is true whether the firm is a small, one-product Company or a large multinational corporation. In a large multi-business company, however, corporate strategy is also about managing various product lines and business units for maximum value. In this instance, corporate headquarters must play the role of organizational parent in that it must deal with various product and business unit children. Even though each product line or business unit has its own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the marketplace, the corporation must coordinate

these different business strategies so that the corporation as a whole succeeds as a family.

Corporate strategy, therefore, includes decisions regarding the flow of financial and other resources to and from a company's product lines and business units. Though a series of coordinating devices, a company transfers skills and capabilities developed in a one unit to other units that need such resources. In this way, it attempts to obtain synergies among

Numerous product lines and business units so that the corporate whole is greater than the some of its individual business unit parts. All corporations, from the smallest company offering one product in only one industry to the largest conglomerate operating in many industries in many product must, at one time or another, consider one or more of these issues.

4.3 STRATEGY FORMULATIONS: FUNCTIONAL STRATEGY & STRATEGIC CHOICE

A functional strategy is the approach a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity. For example the difference between McDonalds and Domino Pizza. While McDonalds expect you to visit its outlet and have Pizza, Domino Pizza designed its supply chain in such a way that whenever you are hungry you can have Pizza. It is functional strategy based on supply chain.

4.3.1 Core competency:

The Core Competence is a term coined by, C.K. Prahalad and Gary Hamel and it may be defined as collective learning and coordination skills behind the firm's product lines. They made the case that core competencies are the source of competitive advantage and enable the firm to introduce an array of new products and services.

According to Prahalad and Hamel, core competencies lead to the development of core products. Core products are not directly sold to end users; rather, they are used to build a larger number of end-user products. For example, motors are a core product that can be used in wide array of end products. The business units of the corporation each tap into the relatively few core products to develop a larger number of end user products based on the core product technology. The intersection of market opportunities with core competencies forms the basis for launching new businesses. By combining a set

of core competencies in different ways and matching them to market opportunities, a corporation can launch a vast array of businesses.

Without core competencies, a large corporation is just a collection of different businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio. For Reliance Group size, scale and project management skills form the basis of core competence.

4.3.2 Core Competencies

Core competencies arise from the integration of multiple technologies and the coordination of diverse production skills. Some examples include Philip's expertise in optical media, Sony's ability to miniaturize electronics and Airtel's ability to provide cheapest services in telecom with maximum customer satisfaction.

A core competence should:

1. provide access to a wide variety of markets, and
2. Contribute significantly to the end-product benefits, and be difficult for competitors to imitate.
3. Should be developed by the organization

Core competencies tend to be rooted in the ability to integrate and coordinate various groups in the organization. While a company may be able to hire a team of brilliant scientists in a particular technology, in doing so it does not automatically gain a core competence in that technology. It is the effective coordination among all the groups involved in bringing a product to market that result in a core competence.

It is not necessarily an expensive undertaking to develop core competencies. The missing pieces of a core competency often can be acquired at a low cost through alliances and Licensing agreements. In many cases an organizational design that facilitates sharing of competencies can result in much more effective utilization of those competencies for little or no additional cost.

What core competence is not?

1. Trying to overtake others by R&D
2. Sharing costs among business units
3. Integrating vertically

These strategies with no objective of getting the four aspects elaborated cannot be called core competence. They may help to build but by themselves they do not lend to any competencies.

Failure to recognize core competencies may lead to decisions that result in their loss. During 1970's many U.S. manufacturers closed down television manufacturing businesses arguing that industry was mature and that high quality, low cost models were available from Japanese manufacturers. In the process, they lost their core competence in video, and this loss resulted in a handicap in the newer digital television industry. Similarly American hardware manufacturers started outsourcing

To China, the cheaper option and lost totally to Foxconn; Foxconn manufactures 170 billion $ worth of hardware and America is left with very less number of workers and people with the socio eco system of manufacturing competencies.

4.3.3 Core Products

Core competencies manifest themselves in core products that serve as a link between the competencies and end products. Core products enable value creation in the end products. Examples of firms and some of their core products include:

- 3M - substrates, coatings, and adhesives
- UAE motors in any grinding machine in India
- Canon - laser printer subsystems
- Honda - gasoline powered engines
- Intel Processors

The core products are used to launch a variety of end products. For example, Honda uses its engines in automobiles, motorcycles, lawn mowers, and portable generators.

Because firms may sell their core products to other firms that use them as the basis for end user products, traditional measures of market share are insufficient for evaluating the success of core competencies. Prahalad and Hamel suggest that core product share is the appropriate measure. While a company may have a low brand share, it may have high core product share and it is this share that is important from a core competency standpoint. Once a firm has successful core

products, it can expand the number of uses in order to gain a cost advantage via economies of scale and economies of scope.

Implications for Corporate Management

Prahalad and Hamel suggest that a corporation should be organized into a portfolio of core competencies rather than a portfolio of independent business units. Business unit managers tend to focus on getting immediate end-products to market rapidly and usually do not feel responsible for developing company-wide core competencies. Consequently, without the incentive and direction from corporate management to do otherwise, strategic business units are inclined to under invest in the building of core competencies.

If a business unit does manage to develop its own core competencies over time, due to its autonomy it may not share them with other business units. As a solution to this problem, Prahalad and Hamel suggest that corporate managers should have the ability to allocate not only cash but also core competencies among business units. Business units that lose key employees for the sake of a corporate core competency should be recognized for their contribution.

A core competency is something that a corporation can do exceedingly well. It is a key strength. It should have the following characteristics;

1. It should have been developed by the organization
2. It cannot be easily copied by others
3. It should give access to the wider market.
4. If all the conditions are satisfied then it is known as core competency.

Selection of strategy:

After the pros and cons of the potential strategies alternatives have been identified any one must be selected from implementation. The most important criteria is the identity of the propose strategy to deal with the specific strategic factors developed earlier in SWOT analysis.

Corporate scenario:

The corporation may choose stability over growth by continuing its current activities without any significant change in direction. The stability family of corporate strategies can be appropriate for a successful corporation operating in a reasonably predictable environment. Stability strategies can be very useful in short run but can be dangerous if followed for too long.

Sum of the strategies are;

1. Pause and proceed with caution strategy
2. No change strategy
3. Profit strategy

Corporate parenting:

Corporate parenting views corporation in terms of resources and capabilities that can be used to build business value as well as generates synergies across business units.

The corporate parenting strategies can be developed in following ways.

1. Examine each business unit in terms of its critical success factors.

2. Examine each business unit in terms of areas in which performance can be improved

Corporate scenario:

Corporate scenario are pro forma balance sheet and income statement that forecast the effects that each alternative strategy and its various programs will likely have on division and corporate return on investment. Corporate scenario is extension of industry scenario.

Development of policies:

The selection of the best strategic alternative is not the end of the strategy formulation. Management now must established policies that define the ground rule for implementation. Flowing from the selected strategy, policies provide the guidance for decision making an action throughout the organization. Policies tend to be rather long lived and can even outlast the particular strategy that created them.

Strategy implementation: Organizing for Action

Strategy implementation is the sum total of the activities and choices required for the execution of strategic plan by which strategies and policies are put into action through the development of programs, budgets and procedures. Although implementation is usually considered after strategy has been formulated, implementation is a key part of strategic management. Thus strategy formulation and strategy implementation are the two sides of same coin.

Matrix Organisation Structure:

The above structures (Functional, Divisional and SBU) consist of flow of authority from top to bottom i.e. vertical flow whereas Matrix structure contains both vertical and horizontal flow of communications or authority. This type of structure is frequently used in IT organisation for managing different projects. Each individual project is managed by a project manager and projects manager will have his team arranged under him.

Advantages:

Useful for some specific industries like Information Technology, Healthcare etc.

Employee can see visible results of their efforts

Remove barrier to communications

Managing projects are easy

Effective structures when environment is very dynamic

Disadvantages:

Complex structure as this contains both vertical and horizontal flow of information.

High cost approach due to more management positions.

Dual lines of authority.

Conflicts arises in the allocation of resources.

REVIEW QUESTIONS

1. Elaborate in detail about Functional Strategy.
2. Discuss Michael Porter's approach towards generic strategy.
3. What are Strategic Choices in business?

UNIT 5

STRATEGY IMPLEMENTATION

5.1 CORPORATE CULTURE:

Every company has its own history, own methods of solving problems, organising, activities, composition of managerial personalities and styles. An organisation's culture may be weak and fragemented, if most of the employees have no deeply felt sense of company purpose, view their jobs as a source of income and have divided loyalities. Culture of some companies may be strong and cohesive in the sense that most of the people understand the company's objectives and strategy, and know what their individual roles are. A strong culture is powerful level for changeling behaviour and helping employees in doing their jobs in a more strategy-supportive manner. This occurs in the following ways:

1) Employees in strong culture companies are provided with a system of informal rules and peer pressures regarding how to behave or do the work most of the times. The absences of strong company identify and purposeful work climate in weak culture companies, results in substantial employee confusion and wasted effort.

2) A strong corporate culture provides structure, standards, and value system and provides strong companies identification among employees. Thus a strong culture turns a job into a way of life and motivates the employees to contribute effectively to the company.

What is corporate culture?

Corporate culture refers to the values and pattern of beliefs and behaviour that are accepted and practised by the members of a company. Companies within the same industry and companies within the same city exhibit distinctly different ways of operating and working as each company develops its own unique culture.

5.1.1. Impact of culture on strategy

Culture reflects the past and environmental change. These changes bring significant modifications in corporate culture. Corporate culture in turn affects the strategy implementation either positively or negatively. Changes in strategy must be accompanied by corresponding alternations in corporate culture to

implement the strategy successfully. Conservative organisations follow the controlling approach even though they have formulated new goals and plans.

How leaders shape culture?

Leaders can shape the corporate culture. Transactional leaders are less influential in modifying the company's culture than transformational leaders. The transactional leader works within the organisational culture as it exist the transformational leader changes the organisational culture.

According to schein, leader can change the organisational culture in five ways, they are.

- By systematically paying attention to certain areas of business. These are including controlling costs, improving employee productivity, improving sales etc.
- By reacting to critical incidents and organisation crises. The crises include declining sales, employee unrest, technological change etc.The way leader deals with crisis can emphasise norms, values and working procedures etc.
- By serving as a deliberate role model, teacher or coach.
- By allocating rewards and rewards and status to the employees.
- By adopting the producers through which a company selects, employs, and promote, retrenches and dismiss the employees. Corporate culture can be perpetuated by employing and promoting employees whose values are similar to the company's values.

5.1.2. Match between strategy and culture

Some parts of corporate culture may be unchangeable. The strategy-maker, in such cases should select the strategy which fits in the existing corporate culture. Once the strategy is selected, the strategy implementer should bring corporate culture into close alignment with the strategy and stabilise it there.

Aligning culture with strategy requires:

- Diagnosing the facets of existing culture which are strategy supportive;

- Identifying the facets of present culture which to be modified to bring match with the strategy; and
- Deciding the actions to be taken by the management to modify the cultural environment and create a stronger match with the strategy.

SPIRIT OF HIGH PERFORMANCE AND CULTURE

- The high performance culture results in improvement in organisational performance and organisational excellence.
- Organisational with a spirit of high performance are intensely human resources oriented.
- They treat the people with dignity and respect; encourage employees to use their potentialities, initiatives and creativity to maximum extent in performing their work.

The companies set reasonable and clear performance expectations, use rewards and punishments encourage the managers to develop their subordinates and grant autonomy to employees to contribute to the goals excellently.

5.2. STRATEGIC CONTROL INTORDUCTION

Once the strategy is formulated and implemented there is no guarantee that the strategy is implemented as it is designed and the strategy generates the results as aimed at. Therefore, the strategist has to evaluate the strategy and its programme to assess whether the implementation of the strategy is as per the strategic plan. Further a number of deviations either in the external environment or in organisational environmental may take place. These deviations may necessitate a change in the strategy. These changes also require a strategic evaluation and control.

DEFINIION OF CONTROL

Control consists of making something happen the way it was planned to happen. According to Henry fayol, control consists in verifying whether everything occurs in conformity with the plan adopted the instructions issued and principles established. Its objective is to point out weakness and errors in order to rectify them and prevent recurrence. It operates on everything, things, people; actions the control function includes three producers viz;

- Measuring actual performance
- Comparing actual performance to standards
- Taking corrective action to ensure that planned events actually occur.

THREE TYPES OF CONTROL

- Preliminary control
- Concurrent control
- Feedback control

Preliminary control focuses on preventing the possible deviations in the quality and quantity of resources. Human resources must meet the job requirements. The materials must meet acceptable levels of quality and other specifications. Financial resources must be available at reasonable cost in the right time.

Concurrent control monitors ongoing operations to ensure that objectives are pursed.

Feedback control methods focus on end results. Corrective action is directed at improving either the resource acquisition process or the actual operations.

5.2.1. STRATEGIC CONTROL

Strategic control focuses on monitoring and evaluating the strategic management process to ensure that it functions in the right direction. The strategic control aims at achieving the results planned at the time of strategy formulation. Strategic control is a special type of organisational control.

5.2.2. PURPOSE OF STRATEGIC CONTROL

The basic purpose of strategic control is to help top management to achieve strategic goals as planned. To be specific, the purpose of strategic control ate to answer the questions such as:

- Are our internal strengths still holding good?
- Have we added other internal strengths?
- Are our internal weakness still holding good?
- Do we have other weakness?
- Are our opportunities still opportunities?

- ➢ Are there new opportunities?
- ➢ Are our threats still existing?
- ➢ Are the decisions being made consistent with policy?
- ➢ Should we proceed with plans as we have formulated?

5.2.2. PROCESS OF STRATEGIC CONTROL

Step 1:

Key Areas to be monitored:

MACROENVIRONMENT:

As stated earlier, one of the key areas to be monitored is the macro environment of the company. This area should be focussed first. Normally individual companies cannot influence the environment significantly. But the external environmental forces must be continuously monitored as changes in the environment influence the strategic implementation process.

- Strategic monitoring and control includes:

Modifying any one or more of the areas like company's mission, objectives, goals, strategy formulation and strategic implementation. The modification depends upon the nature and degree and degree of changes and shits in the environment.

- Industry Environment:

The strategist also monitors and control the industry related environment. The environmental forces may be not as they were planned. The changes in the environment may be provided new opportunities or pose new threats. The strategy, therefore should be n=modified accordingly. thus, the purpose is to modify the company's strategy, goals and operations in order to capitalise the new opportunities and defend against the new threats effectively. The industry environment of the future should be considered by the top management for purpose of strategic evaluation and control.

- Internal Operations:

The strategist has to evaluate the internal operations continuously in view of the changes in the macro environment and industry environment. The strategist has

to introduce changes in internal operations when the changes in the environment affect the strategy.

Steps 2:

- Establishing Standards

Evaluating an organisational performance is normally based on certain standards. These standards may be previous years' achievements or the competitors' records or the fresh standards established by the management. Qualitative judgements like the qualitative features of the product or service in the last year may be used. Quantitative measures like return or investment, return on sales may be used for judging the performance. Companies should establish the standards for evaluating the performance of the strategies taking several factors into considerations.

- Quality of products/service
- Quantity of products to be produced.
- Quality of management
- Innovativeness/creativity
- Long term investment value
- Volume of sales and /or market share.
- Market place performance

Step3:

- Measuring performance

The strategist has to measure the performance the performance of various areas of the organisation before taking an action. Strategic audits and strategic audit measurements methods are useful to measure the organisational performance.

- Strategic Audit

A strategic audit is an execution and evaluation of organisation's operations Affected by the strategy implementation. Strategic audit may be very comprehensive, emphasising all facets of a strategic management process. It may also be normally focussed, emphasis only on a single part of the process such as environmental process. Strategic audit May be quite formal adhering to

organisational rules and producers. It may quite informal providing freedom and autonomy to the managers to take decisions.

5.3. LEADERSHIP

Leadership is the relationship in which one person influences others to work together willingly on are related task to attain goals devised by the leader and /or group. Leadership is the key factor in strategy implementation. Some people equate leadership with management. But these two concepts are not synomous in fact; leadership is a part of management, but not all. Leaders require and use three different skills in influencing and interacting with people to attain goals, technical skills, human relations skills and conceptual skills.

LEADERSHIP STYLE:

Leadership is practised by its styles which may be positive or negative. The way in which a leader uses power also establishes leadership styles. There are three popularly known styles viz; free-rein, autocratic and democratic and participative

Free –rein or laissez –faire style

The leaders in this style avoid authority and responsility .they mostly depends upon the group to establish objectives and goals, formulate policies and programmes. The group members train and motivate themselves. Contrary to autocratic style the leader plays minor or negligible roles and depends upon the group. It is, however concluded that there is no direction and control by the leader.

Autocratic style

Autocratic leaders or leaders in the autocratic style centralise power of decision-making in them. The followers have no say either in decision-making or implementation. They have to completely obey and follow the instruction of the autocratic leaders. The leaders take full authority and responsibility. The autocratic leaders are classified into

1) Strict autocrat who follows autocratic style completely where the method of influencing subordinates is thoroughly negative

2) Benevolent autocrat typically gives towards trust in subordinates and motivates them to achieve the goals.

3) Incompetent autocrat, who adopts autocratic style with a view to hide his/her incompetency.

PARTICIPATIVE STYLE:

Participative style leaders decentralise authority and encourage subordinates to express their opinion in decision-making as well as in implementing decisions. Leaders solicit the opinion in decision and idea of the subordinates and make the decisions by themselves thus, authority to make decisions is reserved by the leaders. however, and decisions are arrived at by consultation.

DEMOCRATIC STYLE

Democratic leaders decentralise authority and encourage subordinates to participate and involve in decision making and implementation process. Decisions are made jointly by the leaders and subordinates as a group.

5.3.1. STRATEGIC LEADERSHIP

"Strategic Leadership refers to a manager's potential to express a strategic vision for the organisation, or a part of the organisation, and to motivate and persuade others to acquire that vision. Strategic leadership can also be defined as leadership can also be defined as utilizing strategy in the management of employees".

Strategic leadership requires the potential to foresee and comprehend the work environment. It requires objectivity and potential to look at the broader picture.

A few main traits/characteristics/features/qualities of effective strategic leaders that do lead to superior performance are as follows:

- Loyalty:

Powerful and effective leaders demonstrate their loyalty to their vision by their words and actions.

- Keeping them updated:

Efficient and effective leaders keep themselves updated about what is happening within their organisation. They have various formal and informal sources of information in the organisation.

- Judicious use of Power:

A strategic leader makes a wide use of their power. They must play the power game skilfully and try to develop consent for their ideas rather than forcing their ideas upon others. They must push their ideas gradually.

- Have wider perspectives/outlook:

Strategic leaders just don't have skills in their narrow speciality but they have a little knowledge about a lot of things.

- Motivation:

Strategic leaders must have a zeal for work that goes beyond money and power and also they should have an inclination to achieve goals with energy and determination.

- Compassion:

Strategic leaders must understand the views and feelings of their subordinates, and make decisions after considering them.

- Self-Control:

Strategic leaders must have the potential to control distracting/disturbing moods and desires, i.e they must before acting.

- Social skills

Strategic leaders must be friendly and social.

- Self-awareness:

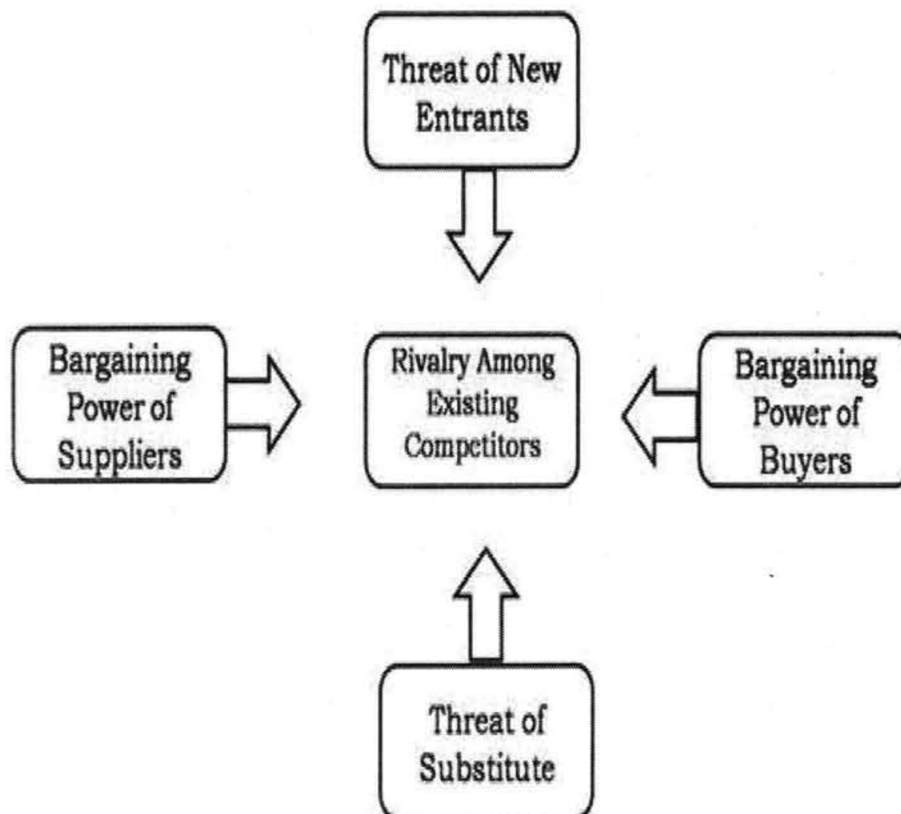
Strategic leaders must have the potential to understand their moods and emotions, as well as their impact on others.

5.4. MICHAEL PORTER'S FRAMEWORK FOR STRATEGIC FRAME WORK

Porter's five competitive forces model can be termed as one of the most used frameworks in the field of strategic management. This tool is widely used for identification and determination of potential profitability and risk in any industry. He suggested that an industry does not only compete with existing players that produce the same goods or service to the same target groups but in

addition to this, there are other factors that drives the competition in a particular industry.

- Threats of new entrants
- Bargaining powers of buyers
- Bargaining power of suppliers
- Threats of substitute and alternatives
- Existing rivalry



Threats of New Entrants:

Porter has suggested that the threats of new entrants refer to the potential competitors, these are the companies which are not conducting their operations in an industry but they have the adequate capability to join the market. It's clear from analysis of this dimension that the players of a particular industry attempt to discourage the potential competitors from entering the market, this strategy is adopted in order to protect the market share and profit by a firm which is the part of exiting business. The increasing numbers of potentials entrants reflect a

high risks to the profitability of the established companies. It can be easily understood by an example; the last two decades have seen a high risk of new entrants to the mobile industry. The introduction of latest mobiles in the markets has brought down the price and as well profit to this industry.

Bargaining Powers of Buyers:

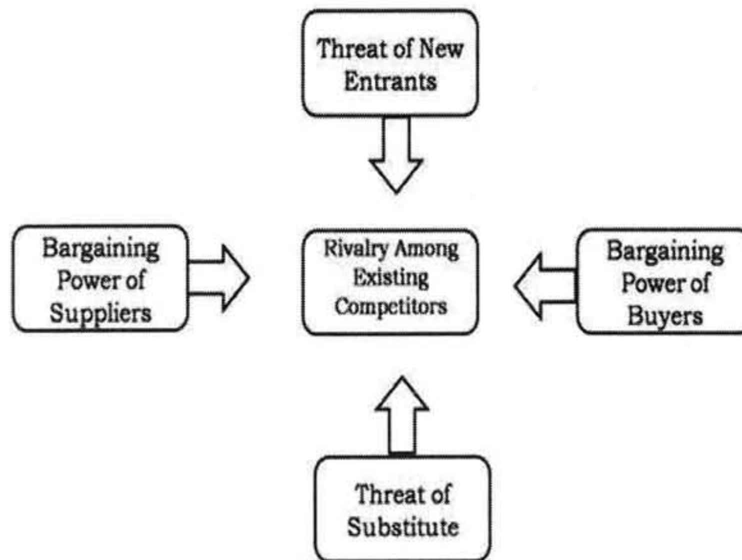
The competitive forces model indentifies the buyers from the perspectives of competitors. The buyers may include the end-users or the firms that distribute the product or services to the end-users, such as retailers or wholesales. The bargaining power of buyer represents the capabilities of buyers to force the manufacturers to charge low prices for the product or services. The buyers can also raise the cost for the companies for particular product or services through demanding high quality. In either of the way, lowering the price or raising of costs buyers can squeeze the profit from the industry. Due to this reason, porter has viewed powerful buyers as competitors. In the contrast of this, if buyers are in weak position a firm can raise the prices or can reduced the cost while providing low quality.

Bargaining Power of Suppliers:

The suppliers refer to those individuals or companies which provide input into the industry. These inputs can be in terms of raw materials, service, labour, and etc.If the suppliers are strong position they may raise the cost of inputs that would eventually results into a higher cost for manufactured products. In addition to this, they can also reduce the existing level of demand for particular product though providing a poor or sub-standard input. In both the ways the companies have to compromise with their market share and ratio of profit.

Threats of Substitute and Alternatives:

One of the competitive forces by Michael porter has been identifies as threats of substitute and alternatives. He clearly pointed out that a firm of a particular has to compete with the firms in other industries has to compete with the firms in other industries as well, if the products of another are seen as an alternatives or substitute by the consumers. It is worth noticing here that the industry might have a completely different characteristic but can fulfil the same need of consumers.



Existing Rivalry:

Porter has seen rivalry among the existing players as a result of pressure to improve their competitive position at market place. The competition among the existing companies is based upon reduction of prices, enlargement of product line, increasing promotional efforts, developments and commercialization of new products. The numbers of competitors and their strengths determine the nature and intensity of competition in any industry.

5.5. Balanced Scorecards:

A Scorekeeper, the management accountant designs reports to help managers track progress in implementing strategy. Many organisations have introduced a balanced score card approach to manage the implementation of their strategies.

The balanced scorecard translates an organisation mission and strategy into a set of performance measures that provides the framework for implementing the strategy. The balanced scorecard does not focus solely on achieving financial objectives. It also highlights the non-financial objectives that an organisation must achieve to meet its financial objectives. The Scorecard measures an organisation performance from four perspectives:

- Financial
- Customer
- Internal business processes

❖ Learning and growth

A Company's strategy influences the measures it uses to track performance in each of this perspective.

It's called the balanced scorecard because it balances the use of financial and nonfinancial performance measures to evaluate short-run and long-run performance in a single report. The balanced scorecard reduces managers' emphasis on short-run financial performance such as quarterly earnings. That's because the non-financial and operational indicators, such as product quality and customer satisfaction measure changes that a company is making for the long run.

The financial benefits of these long-run changes may not appear immediately in short-run earnings, but strong improvement in non financial measures is an indicator of economic value creation in the future. For example an increase in customer satisfaction, as measured by customer surveys and repeat purchases, is a signal of higher sales and income in the future. By balancing the mix of financial and non financial measures, the balanced scorecard broader management's attention to short-run and long-run performance.

The four Perspectives of the Balanced Scorecard:

1. **Financial Perspective:** This perspective evaluates the Profitability of the strategy. Because cost reduction relative to competitors, costs and sales growth are chipset's key strategic initiatives, the financial perspectives focuses on how much of operating income and return on capital results from reducing costs and selling more units.

2. **Customers Perspective:** This perspective identifies the targeted market segments and measures the company's success in these segments. To monitor its growth objectives, number of new customers and customers satisfaction.

3. **Internal business process Perspective:** This perspective focuses on internal operations that further the customers' perspective by creating value for customers and further the financial perspective by increasing shareholder value. Chipset determines internal business process improvement targets after benchmarking against its main competitors.

The internal business process perspective comprises three sub processes:

1. **The innovation process:** Creating products, services and processes that will meet the needs of customers, Chipset is aiming at lowering costs and promote growth by improving the technology of its manufacturing.

2. **The operations process:** Producing and delivering existing products and services that will meet the needs of customers. Chipset's strategic initiatives are (a) improving manufacturing quality reducing delivery time to customers and (b) Meeting specified delivery dates.

3. **Post sales Service** Providing service and support to the customer after the sale of a product of service. Although customers do not require much post sales service. CX1 monitors how quickly and accurately CX1 is responding to customers' service requests.

Learning & Growth Perspectives:

This perspective identifies the capabilities of the organisation must excel at to achieve superior internal processes that create value for customers and shareholders.

Chipset's learning and growth perspectives emphasises three capabilities:

4. Employee Capabilities measured using employee education and skill levels.

5. Information system capabilities, measured by percentage of manufacturing processes with real-time feedback and

6. Motivation measured by employee satisfaction and percentage of manufacturing and sales employees (line employees) empowered to mange processes.

5.6. DU PONT ANALYSIS

Du Pont analysis (also known as the DuPont identity, DUPONT EQUATION, Du Pont model or the Du Pont method) is an expression which breaks ROE (return on equity) into three parts.

The name comes from the DuPont corporation that started using this formula in the 1920s.Du Pont explosive salesman Donaldson brown invented this formula in an internal efficiency report in 1912.

BASIC FORMULA

ROE= (profit margin)*(asset turnover)*

(Equity multiplier)= (net profit/sales)*

(Sales/average total assets)*(average total assets/average equity)=(net profit/equity)

- Profitability(measured by profit margin)
- Asset efficiency(measured by asset turnover)
- Financial leverage(measured by equity multiplier)

ROE ANALYSIS

The Du Pont identity breaks down return on equity (that is, the returns that investors receive from the firm) into three distinct elements. This analysis enables the analysts to understand the source of superior return by comparison with companies in similar industries or between industries.

ROA and ROE ratio

The return on assets(ROA) developed by DUPONT for its own use is now used by any firms to evaluate how efficiently assets are used. It measures the combined effects of profit margin and assets turnover.

ROA=Net income/revenue*revenue/average total

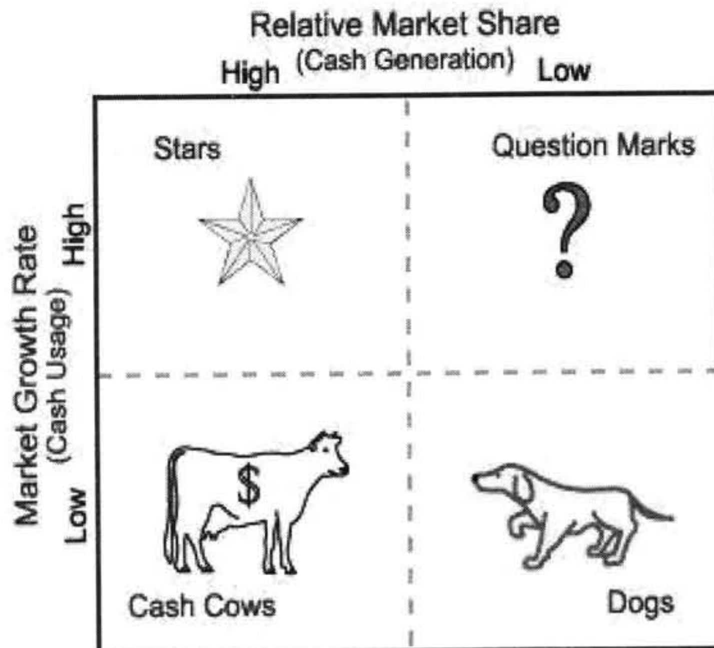
ROE

The return on equity ratio is a measure of the rate of return to stock holders. Decomposing the roe into various factors influencing company performance is often called the DuPont system.

5.7. BCG Matrix

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it's portfolio on the basis of their related market share and industry growth rates. It is a two dimensional

analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.



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The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU's are in same industry, the average growth rate of the industry is used. While, if all the SBU's are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.

1. **Stars-** Stars represent business units having market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

2. **Cash Cows-** Cash Cows represents business units having a large market share in mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These
SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.

4. **Dogs-**Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because

these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

5.8 STRATEGIC INFORMATION SYSTEM

Introduced in1982 by Dr. Charles Wiseman and primarily used within the field of information systems, strategic information systems are creative in response to business initiatives to provide a competitive advantage.

Strategic information systems (SIS) are information systems that are developed in response to corporate business initiative. They are intended to give competitive advantage to the organisation

Advantages

- **Communication**- With help of information technologies the instant messaging, emails, voice and video calls becomes quicker, cheaper and much efficient.
- **Globalization and cultural gap**- By implementing information systems we can bring down linguistic, geographical and some cultural boundaries sharing the information, knowledge, communication and relationships between different countries, languages and cultures becomes much easier.
- **Creation of new types of job**- One of the best advantages of information systems is the creation of new and interesting jobs. Computer programmes, systems analyzers, hardware and software developers and web designers are just some of the many new employment opportunities created with the help of IT.

DISADVANTAGES

- **Unemployment and lack of job security**: Implementing the information systems can save a great deal of time during the completion of tasks and some labor mechanic works. Most paper works can be processed immediately; financial transactions are automatically calculated etc.
- **Dominant Culture**: While information technology may have made the world a global village, it has also contributed to one culture dominating another weaker one.
- **Security Issues**: Thieves and hackers get access to identities and corporate saboteurs target sensitive company data. Such data can include vendor information, bank records, intellectual property and personal data on company management.

REVIEW QUESTIONS:

1. Describe Corporate culture.
2. Explain Duo Pont's Control Model.
3. Discuss Michael Porter's Framework.

MODEL QUESTION PAPER

Subject Name: STRATEGIC MANAGEMENT

Subject Code: HC5A

PART – A (2 X 12 = 24 marks)

Answer any TWO Questions in about 500 words

1. What are strategies? Explain in detail the important elements in strategic management process?

2. Discuss in detail about framework of Michael porter's strategies

3. Enumerate the strategies adopted to achieve business growth by BCG matrix

PART-B (2 x 7 Marks = 14 Marks)

Answer any TWO Questions in about 300 words

4. What are the steps involved in crafting a strategy?

5. Briefly explain the concept of generic strategy

6. Explain the sources for environmental scanning

PART-C(5 x 4 Marks = 20 Marks)

7. Answer FIVE of the following briefly:

a) Describe about functional strategy?

b) What is meant by SWOT analysis?

c) What is Balance score card method?

d) What are role of board of directors?

e) What is Value chain analysis?

f) List out the qualities of a strategic leader

g) Write a short note on corporate culture?

PART-D(2 x 6 Marks = 12 Marks)

8. Answer any TWO of the following

a) Explain in detail about Du Pont's method
b) Discuss in detail about Vision and Mission in Organisation
c) Elaborate in detail about social responsibility in business.

ANSWER HINTS

1. STRATEGIC MANAGEMENT

Strategy is an action that managers take to attain one or more of the organisation`s goals. ``A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process.``

Strategy narrowly defined "the art of the general`(the Greek stratus, meaning 'field, spread out as in `structure'; and agos,meaning 'leader").Strategy is a set of key decision made to meet objectives.

(Chandler1962)Strategy is the determination of the basic long term goals of an enterprise, and the adoption of course of action and the allocation of resources necessary for carrying out these goals.

Mintezberg has identified the 5p`s of strategy

A plan

A pattern

A position

A poly

A perspective

Need for Strategic Management

- Due to Change

The following factors help us to know the need for strategic management. Change makes planning difficult.but; firms may proact to the change rather than just reach to it. Strategic management encourages the top executives to forecast change and provides direction and control. It will also allow the firm to take the advantage of the opportunities provided by the changes in the environment and avoid the threats or reduce the risks as the future is anticipated. Thus strategic management allows an enterprise to base its decision on long-range forecasts.

- To provide guidelines

Strategic management provides guidelines to the employer about the organisation's expectations from them. This would minimise conflict between

job performance and job demands. Thus it provides incentives for employer and helps the organisation in achieving its objective.

- Developed field of study by Research

Strategic management was just based on case studies or anecdotal evidence, 30 years ago. But recently, there are methodological problems in research in this field of study. More synthetic knowledge in this area is available at present. Therefore, it worthwhile to study strategic management at present compared to the past.

- Probability for better performance

There is no clear research evidence that strategic management leads to higher performance. But the majority of studies suggest that there is a relationship between better performance and formal planning.

- Systematic business decisions

Strategic management provides data and information about different business transactions to managers and helps them to make decisions systematically.

- Improves communication

  Strategic communication provides effective communication information from lower level mangers to middle level managers and top level managers.

- improves coordination

Strategic management improves coordination not only among the functional areas of management but also among individual projects.

Features of Strategy

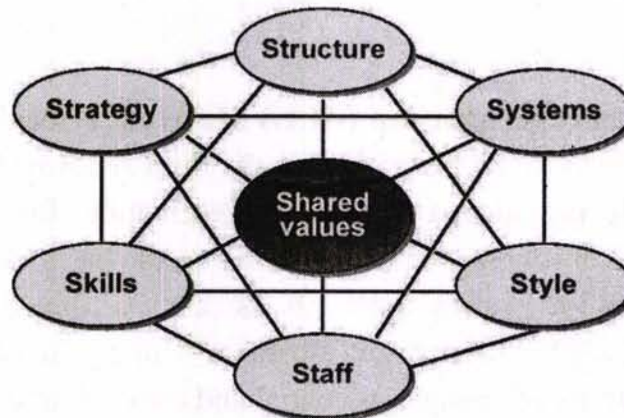
Strategy is Significant because it is not possible to foresee the future. Without a perfect foresight, the firms must be ready to deal with the uncertain events which constitute the business environment.

Strategy deals with long term developments rather than routine operations, i.e. it deals with probability of innovations or new products, new methods of productions, or new markets to be developed in future.

Strategy is created to take into account the probable behaviour of customers and competitors. Strategies dealing with employees will predict the employee behaviour.

2.7 S Framework

The Model describes how one can holistically and effectively organize a company. Together these factors determine the way in which a corporation operates.



Shared Value

The interconnecting centre of McKinsey's model is: Shared Values. What does the organization stands for and what it believes in. Central beliefs and attitudes.

Strategy

Plans for the allocation of firms scarce resources, over time, to reach identified goals. Environment, competition, customers.

Structure

The way the organization's units relate to each other: centralized, functional division (top-down); decentralized the trend in larger organizations; matrix, network, holding, etc.

System

The procedures, processes and routines that characterize how important work is to be done: financial systems, hiring, promotion and performance appraisal systems, Information systems.

Staff

Numbers and types of personnel within the organization.

Style

Cultural style of the organisation and how key managers behave in achieving the organization's goals.

Skill

A distinctive capability of personnel of the organization as a whole is a core competence.

3. **BCG Matrix**

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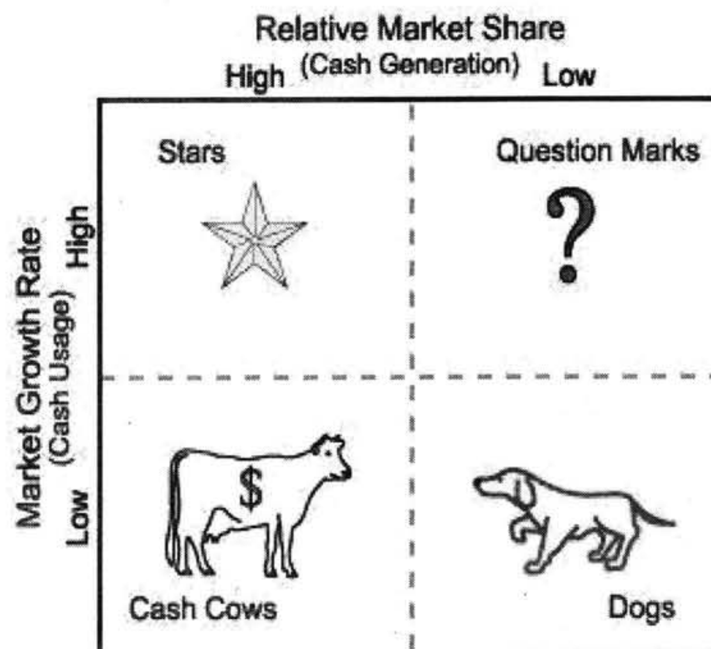

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PART – B

Answer any Two of Question

4.<u>Crafting Strategy</u>

1) The chief Architect Approach

A single person-the owner or CEO-assumes the role of chief strategist and chief entrepreneur, single handily shaping most or all of the major pieces of strategy

2) The Delegation Approach

Here the manager in charge delegate's big chunk of the strategic-making task to trusted subordinates, down-the-line-managers in change of key business units and departments, a high-level force of knowledgeable and talented people

from many parts of the company brought in specifically to help develop new strategic initiatives.

3) The collaborative or Team Approach

This is a middle approach when a manager strategy-making responsibility enlists the assistance and advice of key peers and subordinates in hammering out as a consensus strategy.

4) The Corporate Intrapreneur Approach

In corporate intrapreneur approach, top management encourages individuals and team to develop and champion proposal for new product lines and new business ventures.

5.Generic Strategy

Competitive strategy includes all the moves and approaches a firm has taken and is taken

1. To withstand competitive pressures
2. To improve its market position.
3. To attract buyers

Firm's strategy can be mostly offensive or mostly defensive depending upon the market conditions. There would be countless strategies that a firm adopt in different situations. But, all these strategies can broadly divided into following three categories.

- Striving to be the overall low-cost producer in the industry(low-cost leadership strategy)
- Seeking to differentiate one's product offering from rival's product(a differentiation strategy)
- Focusing on a narrow portion of the market rather than whole market(a focus or niche strategy)

A Low-cost leadership strategy:

The low-cost leader's basis for competitive advantage is lower overall costs than competitors. The low-cost strategy is powerful approaches in markets where most of the customers are price sensitive. The purposes of striving to be a low-cost producer are:

- To fix the price for the maximum market share from the competitors
- To fix the price for the products at a lower compared to that of the competitors.
- To earn high profit margin and thus maximise the profits.

This strategy will help the firm initially to gain the market share from the competitors and later to maximise the profits. The danger of this strategy is that, if the firms cut the prices abnormally to kill the competitors, the firms may end-up with problems of a cheap product.

6. Environmental Scanning

It is monitoring, evaluating and disseminating of information from external and internal environment to key people within the corporation. Its purpose is to identify strategic factors those4 internal element that will determine the future of the corporation.

The external environment consists of variables (opportunities and threats) that are outside the organisation and most typically within the short-run control of top management.

The internal environment of a corporation consists of variables (strength and weakness) that are within the organisation itself and are not usually within the short run control of top management.

PART - C

a. Functional Strategy

All organisations, irrespective of their size, nature and scope of business must perform the function like production/operation, finance, marketing, human resources and research. Careful planning, execution, planning and coordination of these functions are highly essential for efficient strategic planning, implementation and control.

- PRODUCTION/OPERATIONS
- RESEARCH AND DEVELOPMENT
- MARKETING
- HUMAN RESOURCES
- INFORMATION SYSTEMS

b. **SWOT Analysis**

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (**S**) or weaknesses (**W**), and those external to the firm can be classified as opportunities (**O**) or threats (**T**). Such an analysis of the strategic environment is referred to as a SWOT analysis.

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

C. Balanced Score Card

A Scorekeeper, the management accountant designs reports to help managers track progress in implementing strategy. Many organisations have introduced a balanced score card approach to manage the implementation of their strategies.

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The four Perspectives of the Balanced Scorecard:

1. **Financial Perspective:**
2. **Customers Perspective:**
3. **Internal business process Perspective:**

d. Role of Board of Directors

- Trusteeship: The board of directors' act as trustees to the property and welfare of the company.
- Formulation of mission, objectives and policies: The board of directors must see the long run view and have long run perspectives of the company.
- Designing organisational structure: The board design the structure of the organisation based on the objectives, policies, environmental factors, degree of competition, role of quality, expectation of employees etc.
- Selection of top executives: The board should assume the responsibility of screening and selecting the top executives who can formulate and implement the strategies
- Financial sanction: The important financial decisions like sanctioning of finances to various projects, reserves, distribution of profit to shareholders and repayment of loans and advances etc.
- Link between the company and external environment: The board acts a vital and continuous link between the company and external environment like government, other companies, social and economic institutions etc.

e. Value Chain Analysis

Value Chain is the series of internal processes or activity a company performs “to produce its product, to design its product, to deliver its product, to support its Product”.

Increasing attention is now being given to value chain analysis as a means of increasing customer satisfaction and managing costs more effectively.

It is the linked set of value creating activities all the way from basic raw material sources for components suppliers through to the ultimate end-use product or service delivered to the customer.

f. Qualities of Strategic Leader

- Loyalty:
- Keeping them updated:
- Judicious use of Power:
- Have wider perspectives/outlook:
- Motivation:
- Compassion:
- Self-Control:
- Social skills
- Self-awareness:

g. Corporate Culture

Corporate culture refers to the values and pattern of beliefs and behaviour that are accepted and practised by the members of a company. Companies within the same industry and companies within the same city exhibit distinctly different ways of operating and working as each company develops its own unique culture.

Impact of culture on strategy

Culture reflects the past and environmental change. These changes bring significant modifications in corporate culture. Corporate culture in turn affects the strategy implementation either positively or negatively. Changes in strategy must be accompanied by corresponding alternations in corporate culture to

implement the strategy successfully. Conservative organisations follow the controlling approach even though they have formulated new goals and plans.

PART - D

8. Answer any Two of the Following

a. Du Pont's Method

DU PONT ANALYSIS

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ROE ANALYSIS

The Du Pont identity breaks down return on equity (that is, the returns that investors receive from the firm) into three distinct elements. This analysis enables the analysts to understand the source of superior return by comparison with companies in similar industries or between industries.

ROA and ROE ratio

The return on assets(ROA) developed by DUPONT for its own use is now used by any firms to evaluate how efficiently assets are used. It measures the combined effects of profit margin and assets turnover.

ROA=Net income/revenue*revenue/average total

ROE

The return on equity ratio is a measure of the rate of return to stock holders. Decomposing the roe into various factors influencing company performance is often called the DuPont system.

b. Vision and Mission

Vision

1) vision provide a road map to company`s future.

2) Vision indicates the kind of company management is trying to create in future.

3) Vision specifies about company intention and capabilities to adapt to new technologies.

4) Vision also specifies management policies towards customers and societies.

Mission Statement

1) Mission statement is the statement of the role by which an organization intends to serve its stakeholders. It describes why an organization is operating and thus provides a framework within which strategies are formulated.
2) It describes what the organization does (i.e., present capabilities), who all it serves (i.e., stakeholders) and what makes an organization unique (i.e., reason for existence).
3) A mission statement differentiates an organization from others by explaining its broad scope of activities, its products, and technologies it uses to achieve its goals and objectives. It talks about an organization's present (i.e., —about where we are).

c. Social Responsibility

A stakeholder of a company is an individual or a group who has a stake in the consequences of the suppliers of raw materials and inputs and distributors of products and services to deal fairly with them.

The company is responsible to.

- The shareholders or the owners of the company to attempt to increase the value of the firm.

- The suppliers of raw materials and inputs and distributions of products and services, to deal fairly with them.
- Financial companies, development banks and commercial banks, to repay them.
- Government agencies and societies, to abide by laws.
- Interest groups, to consider their arguments.
- Employees and unions, to provide better pay and reward, safe qualitative work life, and recognise their rights.
- Consumers, to provide safe products at reasonable price and market them efficiently.
- Competitors, to avoid practices and restrain trade.
- Local communities and society at large, to avoid practices and harm the environment.