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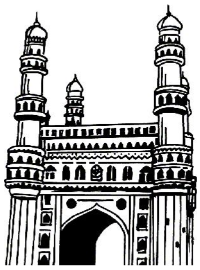

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UNIT I	**Introduction to Strategic Management** Strategic Management, Definition, process, Tasks of Strategic Management, Factors shaping strategy, Developing strategic Vision. Mission, Objectives. Crafting and Executing strategy. Concept of Strategic Intent, A model of strategy and Elements, Developing Strategic Model, Strategy Positioning, Choices-Strategy in action.

1.1 Introduction to Strategic Management

1.1.1 Definition of Strategic Management

Q1. What is strategy ?

Ans :

In simple terms, strategy is a planned or emergent course of action that is expected to contribute to the achievement of organizational goals. Strategy can also be an idea or a thought that is viewed to be productive to complete a course of action. **A strategy is defined** as, "a unified, comprehensive, and integrated plan that relates to the strategic advantages of the firm and to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organisation."

Alfred D. Chandler defines strategy as, "the determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals."

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

According to James Brain Quinn defines the term strategy as, "the pattern of plan that integrates an organisation's major goals, policies and action sequences into a cohesive whole.

The analysis of various definitions of strategy presents the following points:

- Strategy is a central understanding of the strategic management process.
- Strategy is the determination of basic long-term goals and objectives of an organisation.
- It helps in determining the courses of action to attain the predetermined goals and objectives.
- It points to allocation of necessary resources for implementing the course of action.
- It develops the company from its present position to the desired future position.
- It is a set of decision-making rules having a common thread.
- The common thread pulls the policies, plans, goals, objectives of the different functional areas of business such as finance, marketing, production/operations and human resource together and interweaves them as a unified comprehensive and integrated plan, action and evaluation.

Q2. Define strategic management. Explain the characteristics management.

Ans :

Introduction to Strategic Management

The term "strategy" has been found to be equally useful in the business world. In the business sense strategy has been defined in many ways. There does not seem to be unanimity among the scholars regarding its scope and content.

In a broader sense, strategy is defined as the determination of the basic long-term objectives and goals of an enterprise and the formulation of plans and the acquisitions, allocation and utilization of resources necessary to accomplish these goals.

Definitions of Strategic Management

1. **According to Alfred Chandler,** "Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of course of action and allocation of resources necessary for carrying out these goals"

2. **According to Glueck and Jaunch** "Strategic management is a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives"

3. **According to Fed R. David** "Strategic management is a process of formulating implementing and evaluating cross-functional decisions that enable an organization to achieve its objective"

4. **According to Pearce and Robinson, 1988** "Strategic management is the set of decisions and actions resulting in the formulation and implementation of plans designed to achieve a company's objectives."

5. **According to Johnson and Sholes, 2002** "Strategic management includes understanding the strategic position of an organization, making strategic choices for the future and turning strategy into action."

6. **According to Dess, Lumpkin & Taylor, 2005** "Strategic management consists of the analysis, decisions, and actions an organisation undertakes in order to create and sustain competitive advantages."

7 **According to Ansoff (1984)** states that strategic management is "a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way that will assure its continued success and make it secure from surprises".

   In this definition the emphasis is on the environment-organisation relationship for the purpose of achieving the objective of continued success and remaining protected from environmental surprises through the adoption of a systematic approach to general management.

8. **According to Sharplin (1985)** defines strategic management as "the formulation and implementation of plans and carrying out of activities relating to the matters which are of vital, pervasive or continuing importance to the total organisation".

Characteristics of Strategic Management

The following are the fundamental characteristics of strategic management.

1. **Long-term Direction**

   Strategic management is concerned with the long term direction of an organization.

2. **Recognizes Change**

   Strategic management recognizes that environment will change and that organizations should continually monitor internal and external events and trends, so that timely action can be taken as needed.

3. **Oriented Towards the Future**

   Strategic management is oriented towards the future. It is a long-range orientation, one that tries to anticipate events rather than simply react as they occur.

4. **External Emphasis**

   Strategic management process takes into account several components of the external environment, including technological, political, economic and social dimension and their impact on business.

5. **Concerned with Scope of the Organisation**

   Strategic management is concerned with the scope of an organization's activities. For example, should an organization concentrate on one area of activity or should it have many ? This includes important decisions about product range or geographical coverage and is concerned with the organization's boundaries.

6. **Major Impact on the Organisation**

   Strategic management often requires investment of substantial financial and other resources.

7. "Matching" Resources with the Environment

Strategic management is concerned with matching the resources and activities of an organization to the environment in which it operates. This is often referred to as "strategic fit". The notion of strategic fit is developing strategy by identifying opportunities in the business environment and adapting resources and competencies to take advantage of those opportunities. Such a strategic fit is important to achieve the correct positioning of the firm to meet clearly identified market needs.

8. "Stretching" Resources and Competencies

Stretch is the leverage of the resources and competencies of an organization to create opportunities or to capitalize on them. Such a stretch provides an organization competitive advantage.

9. Influenced by Stakeholders

The strategic decisions of an organisation are not only influenced by environmental forces and resource availability, but also by the values and expectations of the stakeholders of the organisation.

10. Affected Operational Decisions

Strategic management affect operational decisions because it is at the operational level that real strategic advantage can be achieved. If the operational aspects of the organization are not in line with the strategy, then, no matter how well conceived the strategy is, it will not succeed.

11. Competitive Advantage

Strategic management aims at achieving some advantage for the organization over competitors.

12. Integration Intuition and Analysis

In a sense, strategic management process integrates intuition and analysis. Intuition means inner voice or a gut feeling. Intuition is essential for making decisions in situations of great uncertainty of little precedents. But in most situations, an objective, logical, systematic approach for making major decisions in an organization is required which is provided by "strategic analysis". Analytical thinking and intuitive thinking complement each other in strategic management.

Q3. Discuss the various elements of strategic management.

Ans :

Strategic Management is connected with deciding on the strategy and how the strategy is to be put into effect. Strategic management has three main elements; strategic analysis, strategic choice, and strategic implementation.

1. Strategic Analysis

This is concerned with understanding the strategic situation of the organisation. This includes the examination of matters like changes in the organizational environment and its effects on the organisation, assessment of its resources and strengths in the context of these changes, effect of the changes on people and their present and future aspirations.

2. Strategic Choice

Strategic analysis provide a basis for strategic choice. This is concerned with the formulation of possible courses of action, their evaluation and the choice between them. This means that the strategic choice has three parts to it – generation of strategic options, evaluation of strategy and selection of strategy.

3. Strategic Implementation

This is concerned with translation of general directions of strategy into action. Implementation can be thought of as having several parts. This involves resource planning in which logistics of implementation are examined. It also takes into account the organisation structure needed to carry through the strategy and of course the systems and people who implement the strategy.

Q4. Explain the Functions of Strategic Management.

Ans :

Corporate strategy performs the following functions :

1. Provides Perspective

Strategic management provides the management a perspective which gives equal importance to present and future opportunities and problems and endeavor to exploit the global opportunities in optimal way and create an atmosphere in which the best can be drawn from the environmental changes.

2. Provides Mechanism

It provides the management mechanisms to cope with highly complex environment characterized by diversity of cultural, social, political, technological, competitive and economic forces existing in different countries. The mechanism is objectivating, linking and balancing.

3. Technique of Manage Changes

It offers way of thinking, a discipline and a technique to manages changes. The management is totally prepared to anticipates, respond and influence the firm's destiny regardless of the developments taking place in the business world.

4. Provide Approach to Problem Solving

Strategic management provides a dual approach to problem solving:

i) Exploitation of the most effective means to overcome difficulties and face competition; and

ii) The deployment of limited resources among critical activities as well as among different countries when the firm is operating its business with the intention of maximizing profits.

5. Provides Direction

Another function of strategic management is that it provides the right direction in which the firm should progress. It provides a broad framework within which the firm's operations within and across home turf should be planned and controlled.

6. Focuses Attention on Change in Organization

Finally strategic management focuses attention upon changes in the organizational set up, administration of organizational processes affecting behaviour and the development of effective leadership.

Q5. Explain the Need and benefits of Strategic Management.

Ans : **(Oct.-20)**

1. Provides guidelines for organizational functioning.
2. Develops field of study by resources.
3. probability for better performance.
4. Enhance systematic business decisions.
5. Improve communication, co-ordination, allocation or resources.
6. Helps managers to have a holistic approach towards business problems.
7. It helps to keep pace with the changing environment as by exploring opportunities and minimizing threats, it helps the business to achieve an optimum level of efficiency.
8. Strategic management by gearing up employees' efficiency makes things to happen, which would not otherwise take place.
9. Strategic management focuses on the determination of the major organizational objectives, by "identifying the things to be achieved," it furnishes a strong for unified making.

Benefits of Strategic Management

1. Strategic Directions are Futuristic

Strategies are essentially for the future. Strategic decisions are taken based on forecasts that are in turn based on available data on trends. The managers involved in strategic planning concentrate on developing projections that would take the company to better strategic position. The companies thus become protective, rather than being reactive to business situations.

2. **Strategies have Multi-functional and Multi-businesses Effects**

Every company has several business units. Strategic decisions are coordinative in nature among all the business units of the company. Many strategic decisions on product mix, competitive edge, organizational structure etc. Each of these units gets affected by the decision taken at the top level, regarding allocation of resources and deployment of personnel et. So, Business Strategy as a discipline focuses at the organization as one single unit.

3. **Strategies are Defined Based on Study of Environment**

The organization culture internal to the organization and also the external environment must be thoroughly scanned and studied to decide on strategies. The interaction between the organizations and the external environmental affects both of them. The organization tends to change the environment and the same environment makes an impact on the organization. The firms are part of the system, where customers, stake holders, competitors etc.

4. **Allocation of Resources and Improve Co-ordination**

Strategic planning ensures a rational allocation of resources and improves co-ordination between various divisions of the organization. It helps managers to think ahead and anticipate problems before they occur.

5. **Framework for Operational Planning**

Strategies provide the framework for plans by channeling operating decisions and often pre-deciding them. If strategies are developed carefully and understood property by managers, they provide more consistent framework for operational planning. If this consistency exists and applied, there would be deployment of organizational resources in those areas where they find better use. Strategies define the business area both in terms of customers and geographical areas served. Better the definition of these areas better will be the deployment of resources.

6. **Clarity in Direction of Activities**

Strategies focus on direction of activities by specifying what activities are to be undertaken for achieving organizational objectives. They make the organizational objectives more clear and specific.

7. **Increase Organizational Effectiveness**

Strategies ensure organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives within the given resources. Thus, for effectiveness, it is not only necessary that resources resources are put to the best of their efficiency but also, that they are put in a way which ensures their maximum contribution to organizational objectives.

Therefore, each resource of the organization has a specific use at a particular time. Thus, strategies ensure that resources are put in action in a way in which these have been specified. If this is done, organization will achieve effectiveness.

8. **Personnel Satisfaction**

Strategies contribute towards organization effectiveness by providing satisfaction to the personnel of the organization. In organization where formal strategic management process is followed, people are more satisfied by definite prescription of their roles thereby reducing role conflict and role ambiguity. Such clarity will bring effectiveness at the individual level and consequently at organizational level. Strategies provide all these things in the organization through which everything is made crystal clear.

There are Some other Benefits are

1. It helps to improve quality of strategic decisions through interaction due to specialized perspectives of group members.

2. Participation of employees in strategy formulation leads to better understanding and commitment and participation in formulating long-term goals.
3. It encourages organization to decentralize the management process involving lower level and employees.
4. It helps to improve financial performance in terms of profit and growth of firms.
5. It reduces the gaps and overlaps in the activities because of the understanding of the responsibility of individuals and groups.

Q6. What are the benefits of strategic management ?

Ans :

The two objectives in strategic management are,

1. Strategic objectives and
2. Financial objectives.

1. Strategic Objectives

Strategic objectives are concerned with positioning the firm in relation to external forces such as, customers bargaining power, supplier's bargaining power, threat from substitutes, threat from new entrants and impact of competition prevailing in the industry. Strategic objectives may comprises of increasing the market share, changing the firm's market position etc.

2. Financial Objectives

Usually, managers measure the strategic performance of the firm based on the achievement of financial objectives. In case if the strategic objective of the firm is to improve efficiency then its financial objective would be to improve return on capital or return assets.

Based on time, objectives of strategic management can be categorized into two types. They are,

(i) Long-term objectives and
(ii) Short-term objectives.

(i) Long-Term Objectives

Long-term objectives focus on achieving long -term position. Long-term objectives deal with development of a firm over many years. For instance, becoming a market leader, achieving sustainable growth etc., comes under long-term objectives.

(ii) Short-Term Objectives

Short-term objectives emphasis on monthly or yearly performance of the firm. Short-term objectives are tangible objectives which can be achieving within a short period of time. An objective to increase monthly sales comes under short term objectives.

1.2 Process of Strategic Management

Q7. Explain the process of strategic management.

Ans : **(Oct.-20, June-18)**

The process of strategy making is depicted through a model which consists of different phases; each phase having a number of elements. Most authors agree on dividing the strategic management process into four phases consisting of about twenty elements. The model of strategic management is provided in figure :

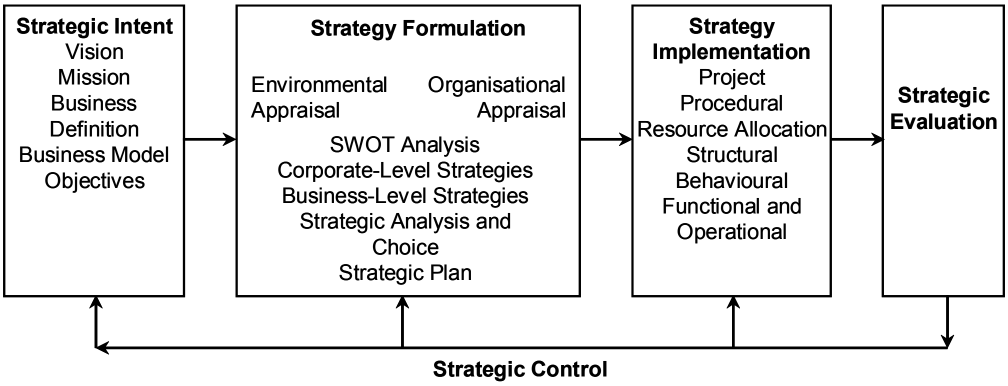


Figure : Comprehensive Model of Strategic Management

1. Strategic Intent

The hierarchy of strategic intent lays the foundation for the strategic management of any organisation. In this hierarchy, the vision, mission, business definition, business model, and objectives are established. The strategic intent makes clear what the organisation stands for. The element of vision in the hierarchy of strategic intent serves the purpose of stating what the organisation wishes to achieve in the long-run. The mission relates the organisation to the society. The business definition explains the businesses of the organisation in terms of customer needs, customer groups, and alternative technologies. The business model clarifies how the organisation creates revenue. The objectives of the organisation state what is to be achieved in a given time period. These objectives then serve as yardsticks and benchmarks for measuring organisational performance.

2. Strategy Formulation

Environmental and organisational appraisal deal with identifying the opportunities and threats operating in the environment and the strengths and weaknesses of the organisation in order to create a match between them in such a manner that opportunities could be availed of and the impact of threats neutralised and to capitalise on the organisational strengths and minimise the weaknesses.

Formulation of strategies takes place at four levels - corporate, business, functional, and operational. Among these levels, the major ones are the corporate- and business-level strategies. Corporate-level strategies relate to the strategic decisions regarding the management of a portfolio of businesses. Business strategies aim at developing a competitive advantage in the individual businesses that a company has in its portfolio.

Strategic alternatives and choice are required for evolving alternative strategies, out of the many possible options and choosing the most appropriate strategy or strategies in the light of environmental opportunities and threats and corporate strengths and weaknesses. Strategies are chosen at the corporate-level and the business-level. The process used for choosing strategies involves strategic analysis and choice. The end result of this set of elements is a strategic plan to be implemented.

3. Strategy Implementation

Strategy implementation is the translation of chosen strategy into organisational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organisation should develop, utilise, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.

Organisational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximise efficiency, quality, and customer satisfaction the pillars of competitive advantage. But, organisational structure is not sufficient in itself to motivate the employees.

For implementation of strategy, the strategic plan is put into action through six sub-processes, which are project implementation, procedural implementation, resource allocation implementation, structural implementation, behavioural implementation, functional and procedural implementation. The emphasis in the implementation phase of strategic management is on action.

4. Strategic Evaluation and Control

The last phase of strategic evaluation appraises the implementation of strategies and measures organisational performance. The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategies may be reformulated, if necessary.

1.3 Tasks of Strategic Management

Q8. Explain the Tasks of Strategic Management.

Ans :

1. Mission Statement

It should be prepared in a manner which continuously guide by providing direction and focus to plans and operation in organization.

2. Vision Statement

It must describe the hope of organization towards organization and customers.

3. Values Statement

It explains the priorities of organization to carry out its activities with stakeholders.

4. External Analysis

It focus on the trends which are effecting the organization such as trends economy, demographic trends etc.

5. Internal Analysis

It emphasize on major strengths and weaknesses of our organization and also on trends which influence the organization.

6. Strategic Issues

Organization must identify and address those issues which are immediate and important.

7. Strategic Objectives

Objective are made to solve the issues and achieve developmental goals. Objectives should be specific, measurable, acceptable to people who are trying to achieve the objectives.

8. Strategies to Reach Objectives

Identify the approaches to achieve objectives ensure that objectives are close aligned with our mission, vision and values.

9. Staffing Plan

Consider each strategy to achieve objectives and also consider the requirements to implement the strategies.

10. Action Plan

Enlist the objectives to be achieved at the time of implementing strategy, time for its completion and by whom it should be completed.

11. Operating Budget

Prepare a budget by considering the resources required, expenses and uses of resources.

12. Strategic Objectives to Performance Objectives

As soon as strategic objectives are identified, performance objectives of chief executive and other management staff must be updated. Decide the task for each board committees to address strategic objectives.

13. Impiementation of Plan

A reporting system is designed to know whether strategies and objectives are being achieved or not. It is also necessary to determine the current issues and additional resources to implement the plan.

14. Communicate the Plan

Everyone in the organization must be aware of the plan, so make the arrangements to make it possible.

Q9. Explain the challenges of strategic management.

Ans :

1. Often companies allow their activities to fall into a rut, performing business functions according to routine in order to fulfil a commitment, rather than as purposeful drivers of strategy.

   For example, a leading consumer electronics company remained focused on building growth in its traditional segments, without realizing that the industry around it was evolving or that it was threatened by multinational companies.

2 The second challenge to strategic management is the ability to understand and address contemporary issues. The current 'global village' paradigm of business has had a critical impact on the way companies work.

   For example, leading mobile phone maker Nokia has opened up a large facility near Chennai to serve the growing domestic market. Similarly, most of the world's leading auto manufacturers have set up facilities in India to take advantage of the low cost and easy availability of skilled labour. Conversely, many Indian entrepreneurs and companies have forayed into global markets.

3. The third contemporary issue is advancement of web-based technology and e-commerce models. Companies such as Amazon.com, eBay, and a host of others in the services segment have enabled transactions using e-commerce. This has changed the landscape of business, the delivery model, and customer engagement.

4. Another challenge that strategic management faces is the ability to forecast technology development and make it relevant to achieving a competitive edge. In most cases, the first mover would gain a huge advantage from new technology, at the risk of having a big investment failure. Hence companies must learn to balance the risks and rewards of technology through the strategic management process.

5. The fifth challenge that strategic management must address is the changing purpose of organizations. Earlier, organizations were focused on profit maximization and strategy devising was far simpler.

   Today, companies are increasingly run by professionals who focus on managerial utility maximization based on their drive, size, and market reach. Companies nowadays are increasingly subject to transparency protocols and public accountability. In addition, competitive moves have become easily imitable due to the easy availability of information and hence, the challenge to strategy makers is greater.

   The strategic process must also be engineered in such a way that the company is learning-driven and constantly develops its knowledge base. The need to maintain a shared vision, the right kind of leadership, and the proper implementation of stated strategy are constant challenges to the strategic management process.

1.4 Factors Shaping Strategy

Q10. What are the factors shaping strategy ?

(or)

Describe the factors shaping strategy .

Ans :

The strategies plays a pivotal role in the success of an organisation. So, they should be formulated by considering the prevailing competitions and the various factors which are harmful to the organisation.

The most important factors which should be taken into account while crafting the business strategies (apart from the vision-mission statement) are the six important groups which constitutes Porter's business competitions model. These six groups are as follows,

(i) Direct competition among competing sellers

(ii) Buyers

(iii) Suppliers

(iv) Potential and new entrants

(v) Different stakeholders group

(vi) Substitutes.

The careful consideration of these factors while crafting a strategy helps the firm to attain competitive advantage over its competitors for a long time.

Crafting strategy mainly deals with ascertaining whether to pursue follow or not to pursue follow any of the following,

(i) Focus on a single business or many businesses.

(ii) Satisfy the needs or demands of large number of customers or to concentrate on a specific market segment.

(iii) Create a broad or narrow product line.

(iv) Attain a competitive advantage depending on,

- (a) Low cost
- (b) Superior quality product
- (c) Distinctive organizational abilities
- (d) Unique or distinct products
- (e) Terms or conditions of payment
- (f) Service advantage.

In a broader sense, Thompson and Strickland recognized many factors which must be considered while crafting strategies.

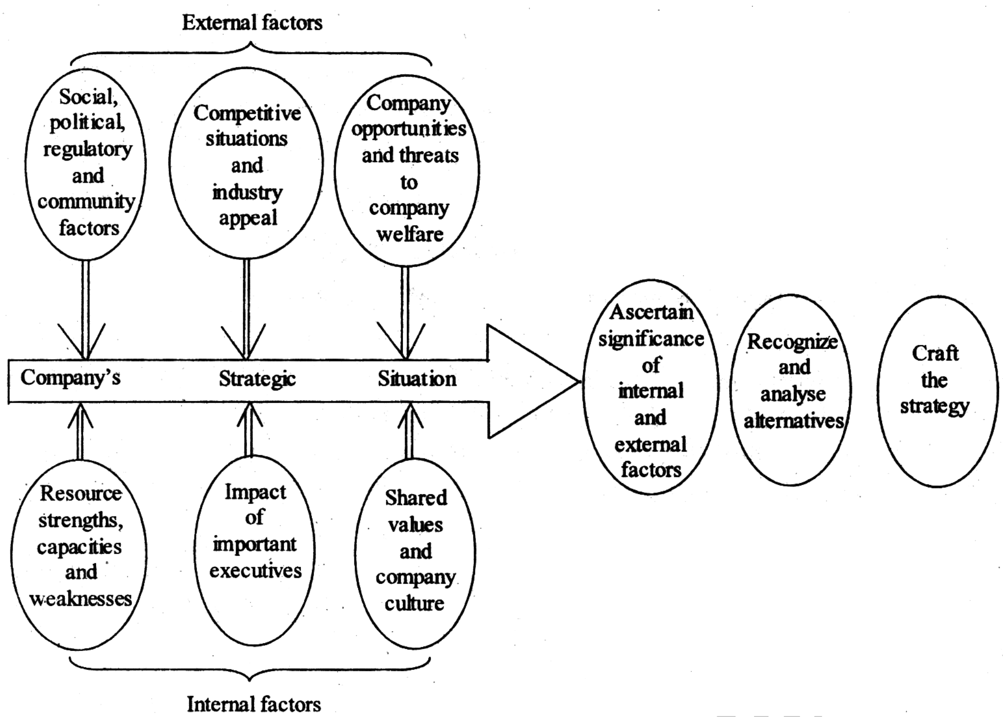


Fig. : Factors Crating the Choice of Company Strategy

These factors are categorized into internal and external factors which are as follows,

(i) External Factors

- Social, political, regulatory and community factors
- Competitive situations and industry appealing
- Company opportunities and threats to its welfare.

Internal Factors

- Resource strengths, capacities and weaknesses
- Impact of the important executives
- Shared values and company culture.

The figure given below depicts the factor shaping or crafting the choice of company strategy.

1.5 Developing Strategic Vision

Q11. Define vision.

Ans :

A vision statement is sometimes called a picture of your company in the future. Vision statement is your inspiration; it is the dream of what you want your company to accomplish.

A strategic vision is defined as an imaginary view of future which all the organizational members believe in and is not easily achieved. Strategic vision provides an overview of an organization in the coming future.

Definitions of Vision

Vision has been defined in several different ways.

1. **According to Kotter** "Description of something (an organization, corporate culture, a business, a technology, an activity) in the future."

2. **According to EI Namaki,** "Mental perception the kind of environment and individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception.

3. **According to Oren Harari,** "Vision should describe a set of ideals and priorities, a picture of the future, a sense of what makes the company special and unique, a core set of principles that the company stands for, and a broad set of compelling criteria that will help to define organisational success.

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

Q12. What are the characteristics of effective vision statement.

Ans :

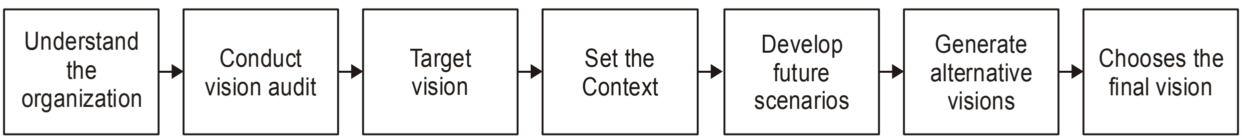
Graphic A well-stated vision paints a picture of the kind of company that management is trying to create and the market position the company is striving to stake out.

- **Directional** : A well-stated vision says something about the company's journey or destination and signals the kinds of business and strategic changes that will be forthcoming.
- **Focused** : A well-stated vision is specific enough to provide managers with guidance in making decisions and allocating resources.
- **Flexible :** A well-stated vision is not a once-and-for-all-time pronouncement-visions about a company's future path may need to change as events unfold and circumstances change.
- **Feasible** : A well-stated vision is within the realm of what the company can reasonably expect to achieve in the time.
- **Desirable :** A well-stated vision appeals to the long-term interests of stakeholders–particularly share owners, employees and customers.
- **Easy :** A well-stated vision is explainable is less than 10 minutes and ideally can be reduced to a communicate simple, memorable slogan (like Henry Ford's famous vision of "a car in every garage").

Q13. Outline the process of developing vision.

Ans :

Seven-step process for developing a vision :



Developing Vision

1. Understand the Organisation

To formulate a vision for an organization, strategic leader first must understand it. Essential questions to be answered include what its mission and purpose are, what value it provides to society, what the character of the industry is, what institutional framework the organisation operates in, what the organization's position is within the frame-work, what it takes for the organization to succeed, who the critical stakeholders are, both inside and outside the organization, and what their interests and expectations are.

2. Conduct a Vision Audit

This step involves assessing the current direction and momentum of the organization. Key questions to be answered include: Does the organization have a clearly stated vision? What is the organization's current direction? Do they key leaders of the organization know where the organization is headed and agree on the direction? Do the organization's structures, processes, personnel, incentives, and information systems support the current direction?

3. Target the Vision

This step involves starting to narrow in on vision. Key questions: What are the boundaries or constraints to the vision? What must the vision accomplish? What critical issues must be addressed in the vision?

4. Set the Vision Context

This is where strategic leader should look to the future, and where the process of formulating a vision gets difficult. Vision is a describe future for the organization. To craft that vision he must think about what the organization's future environment might look like. This doesn't mean he need to predict the future, only to make some informed estimates about what future environments might look like. First, categorize future developments in the environment which might affect vision. Second, list expectations for the future in each category. Third, determine which of these expectations is most likely to occur. And fourth, assign a probability of occurrence to each expectation.

5. Develop Future Scenarios

This step follows directly from the fourth step. Having determined as best can, those expectations most likely to occur, and those with the most impact on your vision, combine those expectations into a few brief scenarios to include the range of possible futures you anticipate. The scenarios should represent, in the aggregate, the alternative "futures" the organization is likely to operate within.

6. Generate Alternative Visions

Just as there are several alternative futures for the environment, there are several directions the organization might take in the future. The purpose of this step is to generate visions reflecting those different directions. Do not evaluate possible visions at this point, but use a relatively unconstrained approach.

7. Choose the Final Vision

Here's the decision point where strategic leader selects the best possible vision for your organization. To do this, first look at the properties of a good vision, and what it takes for a vision to succeed, including consistency with the organization's culture and values. Next, compare the visions generated with the alternative scenarios, and determine which of the possible visions will apply to the broadcast range of scenarios. The final, vision should be the one which best meets the criteria of a good vision, is compatible with the organization's culture and values, and applies to a broad range of alternative scenarious.

Q14. What are the benefits of strategic vision.

Ans :

1. Good visions are inspiring and exhilarating.
2. Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
3. Good visions help in the creation of a common identity and a shared sense of purpose.

4. Good visions are competitive, original and unique. They make sense in the marketplace as they are practical.
5. Good visions foster risk-taking and experimentation.
6. Good visions foster long-term thinking.
7. Good visions represent integrity; they are truly genuine and can be used for the benefit of people.

Q15. How to developed a vision ?

Ans : **(Imp.)**

Before creating a vision, it is very important for the leader to have complete knowledge about the organization's culture, values and requirements of the employees and other stakeholders. The following guidelines help the leaders to create a compelling vision for the organization.

1. Including Key Stakeholders

It is not possible for a single leader to develop a vision alone as he may not have complete knowledge about how to create a vision. So, the support of stakeholders, owners, suppliers, customers, investors, government agencies and other organizational members becomes necessary for a leader while creating a vision and accomplishing major changes in the organization. With the help of key stakeholders, the leaders can refine their ideas into vision.

2. Recognizing Strategic Objectives

Objectives are the expected results which an organization wants to achieve. A group discussion about strategic objectives helps the leaders by providing information about the values and ideals. The leaders should firstly help the employees to recognize certain performance objectives which are important to the organizational mission. Then he should understand the importance of various strategic objectives and help the employees to know the reasons for its importance. The shared values and ideals of the employees are regarded as basis for creating a vision.

3. Identify Useful Elements of the Old System

Change is considered as one of the important element for the organizational success, as it helps in transforming the organization. Though change is important for organization, there may be certain elements of the current system which can be retained. So, the leader should identify such ideals and values which can be useful for the organization in the future. Sometimes, many traditional values which are neglected can become a basis for creating a new vision, so a leader should take a note of all such useful elements of the system.

4. Connecting Vision with Core Competencies

The ability of the organization to carry out its operations extremely well in comparison to its competitors is its core competence. A leader should create a vision which is challenging and believable. A vision which makes too many promises is not possible to attain so, a leader should create a vision which includes new and difficult types of activities which are believable and should connect the vision with the core competencies of the organization.

5. Assessing and Refining Vision Continuously

A leader should assess and refine the vision continuously as successful and effective vision develops gradually over the time. If a leader continuously assess the vision, then the progress made towards achieving the vision helps in identifying new possibilities. The leaders should also refine the vision continuously as it helps to continuously search for the ways which make vision more challenging and believable.

1.6 Developing Strategic Mission

Q16. Define Mission Statement.

Ans :

Mission is what an organization is and why it exists. Organizations relate their existence to satisfying a particular need of the society. They do this in terms of their mission.

Mission is "a statement which defines the role that an organization plays in a society".

Definition of Mission

According to Thompson (1997) "Mission is the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business(es) it is in, and the customers it seeks to serve and satisfy".

According to Hunger and Wheelen (1999) "Mission is the purpose or reason for the organization's existence".

According to Drucker "Mission focuses the organization on action. It defines the specific strategies needed to attain goal. It creates a disciplined organization. The business purpose and business mission are so rarely given adequate thought, is perhaps the most important single cause of business failure and business frustration".

Q17. Describe the Essential characteristics of a mission statement.

Ans : **(Imp.)**

1. **It should be feasible**

   A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable its followers must find it to be credible. But feasibility depends on the resources available to work towards a mission.

2. **It should be precise**

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

3. **It should be clear**

   A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purposes. Many organizations do adopt such statements but probably they do so for emphasizing their identity and character.

4. **It should be motivating**

   A mission statement should be motivating for members of the organization and of the society, and they should feel it worthwhile working for such an organization or being customers.

5. **It should be distinctive**

   A mission statement, which is indiscriminate, is likely to have little impact. If all Scooter manufacturers defined their mission in a similar fashion, there it would not be much of a difference among them. But if one defines it as providing scooters that would provide value for money, for 1 year it creates an important distinction in the public mind.

6. **It should indicate major components of strategy**

   A mission statement, along with the organizational purpose, should indicate the major components of the strategy to be adopted.

7. **It should indicate how objectives are to be accomplished**

   Besides indicating the broad strategies to be adopted, a mission statement should also provide clue regarding the manner in which the objectives are to be accomplished. These mission statements specifically deal with objectives to be achieved within a given time period.

Q18. Explain the Need for mission statement.

Ans :

1. The mission statement gives a unified direction to the company's growth.
2. The utilization of the company's resources is also unified, and people get motivated to exploit these resources in a specific direction for the company's growth.

3. Allocation of resources is based on the mission statement.

4. The mission statement while giving a direction for growth also tends to build up a professional climate for maintenance and improvement of the company's status in any desired area.

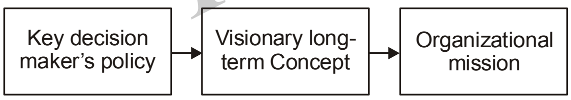
5. The mission statement outlines a framework for organizational planning, assigning definite tasks and responsibilities to each business unit.

6. The mission statement helps to setup and develops a control mechanism for achievement of objectives.

Q19. Outline the process of a strategic mission.

Ans :

Organizational mission encompasses the broad aims of the organization; it defines what for the organization strives. Therefore, the process of defining mission for any organization can be best understood by thinking about it as its inception. Truly speaking, an organization's mission lies in the basic philosophy of those who create and manage the organization as shown in figure below :



Mission Development

1. Philosophy

Philosophy, in the context of management of an organization, consists of an integrated set of assumptions and beliefs about the. Way the things are, the purpose of the activities, and the way these should (managers, specially the decision makers) become base for defining vision of the organization. These assumptions and beliefs are sometimes explicit, and occasionally implicit, in the minds of the decision makers.

2. Vision

Vision of an organization has a long-term orientation and is derived from organizational philosophy. Vision represents a challenging portrait of what the organization and its members can be in the future. Therefore, the organization should create projections about where it should go and what major changes lies ahead. Once the vision is established, persistent and enthusiastic communication of it throughout the organization is required so that various subsystems embrace it with commitment.

3. Organization's Mission

Key decision makers' philosophy and visionary long-term concept of the organizations taken together define organization's mission in the form of desires, beliefs and assumptions in the following form:

i) The product and service offered by the organization can provide benefits at least equal to its price.

ii) The product or service can satisfy the needs of the customers not adequately served by others presently.

iii) Technology used in producing product or service will be cost and quality competitive.

iv) The organization can grow and be profitable than just survive in the long run with the support of various constituents.

v) The organization will create favorable public image which will result in contributions from environment.

vi) Entrepreneur's self-concept of the business can be communicated and adopted by employees and stakeholders.

vii) The organization will be able to satisfy the entrepreneur's needs and aspirations which he seeks to satisfy through the organization.

At the initial stage, the components go into mission formulation. As the organization grows or is forced by competitive forces to alter its product, market, and technology, there may be need for redefinition of the mission. However, the revised mission will reflect the same set of elements as the original–like type of product to be offered, type of customer to be served, type of technology to be employed, growth of organization, favorable public image, self-concept of entrepreneur, and needs and aspirations of entrepreneur, though in modified form.

Q20. What are the elements in developing a mission statement? Write the criteria for a good mission statement.

Ans :

Key Elements for Developing Mission Statement

Following are the three key elements which are to be taken into consideration by the management while developing a mission statement.

(i) History of the Organisation

Any organisation whether it being a marilifacturing or service organisation, profit or non- profit, large or small, it will definitely have the history of its objectives, policies, achievements and failures. The important characteristics and the past events must be taken into account while designing and creating a mission statement.

(ii) Unique Competencies of the Organisation

Each and every organisation holds certain unique competencies which would help them to have a competitive advantage over its rivals. The organisation have unique competencies with respect to skills, knowledge, expertise, technology etc. The unique competencies of the firm must be used in a proper way and should not be used in unfavorable situations/cases.

(iii) Organisation's Environment

Before finalising the mission statement the firms management should identify the different opportunities offered and threats or challenges experienced due to the environment.

For example, rapid development of telecommunication industry, has effected various industries like, postal departments, transport industry, hotel industry and so on.

Hence, the postal department must take into consideration the growth in telecommunication industry before finalising its mission statement.

Criteria for Good Mission Statement

The criteria for good mission statement are as follows,

(i) The outcomes or the results must be clearly defined, and should be measurable with certain particular completion data.

(ii) A clear explanation as to how the activities of the organisation would achieve results must be given / provided.

(iii) The firm must maintain stability with the environment in which it is functioning or planning to function.

(iv) Achievability it may be achievable but difficult with the prevailing or achievable resources.

(v) Maintaining harmony with the policies, procedures and plans as they are applicable to the organization or business unit.

Q21. What are the difference between vision and mission.

Ans :

S.No.	Basis of Difference	Vision	Mission
1.	**Definition**	A vision statement is what the organisation wants to become.	A mission statement concerns what an organisation is all about.
2.	**Describes the Organisation**	A vision statement describes how the future will look if the organisation achieves its mission.	A mission statement answers three key questions: what do we do? For whom do we do it? What is the benefit?
3.	**Existence**	The vision statement generally lasts for the life of the organisation.	A mission statement should be revisited every two to three years to make sure that the means being used to attain the vision are still relevant.
4.	**Time**	A mission statement talks about the present leading to its future.	A vision statement talks about future.
5.	**Change**	Mission statement may change, but it should still tie back to core values, customer needs and vision.	As organisation evolves, company might feel tempted to change vision. However, mission or vision statements explain organisation's foundation, so change should be kept to a minimum.
6.	**Features of an Effective Statement**	Purpose and values of the organisation; Who are the organisation's primary "clients" (stakeholders)? What are the responsibilities of the organisation towards the clients?	Clarity and lack of ambiguity: describing a bright future (hope); Memorable and engaging expression; realistic aspirations, achievable; alignment with organisational values and culture.

1.7 Developing Objectives

Q22. Define objectives. Explain the classification of objectives.

Ans : **(Imp.)**

The term "strategic objectives" refers to an organisation's articulated aims or responses to address major change or improvement, competitiveness or social issues, and business advantages. Strategic objectives generally are focused both externally and internally and relate to significant customer, market, product, or technological opportunities and challenges (strategic challenges). Broadly stated, they are what an organisation must achieve to remain or become competitive and ensure long-term sustainability. Strategic objectives set an organisation's longer-term directions and guide resource allocations and redistributions.

Objectives represent a managerial commitment to achieve specified results in a specified period, of time. They clearly spell out the quantity and quality of performance to be achieved, the time period, the process and the person who is responsible for the achievement of the objective. Objectives help to define the organisation in its environment. They help in coordinating decisions and decision-maker and in formulating strategies. Objectives also provide standards for assessing organisational performance

Definitions

i) According to Robert L. Trewatha and M. Gene Newport, "Objectives may be defined as the targets people seek to achieve over various time periods".

ii) According to H. Igor Ansoff, "Objectives are decision rules which enable management to guide and measure the firm's performance towards its purpose".

iii) According to Russell L. Ackoff, "Objectives are states or outcomes of behaviour that are desired. An organisation may desire either to obtain something that it does not currently have or to retain something it already has. Hence, objectives may be either acquisitive or retentive".

1. Primary Objectives

These objectives have direct relation with primary beneficiaries and fulfillment of consumer needs. It is an ultimate long-term goal of the business (e.g., survival, profit maximisation, diversification and growth). They are often referred to as strategic objectives.

2. Secondary Objectives

An organisation determines secondary objectives for their satisfaction. Organisations set the goal to provide good salary, bonus, honourable work conditions, and fulfillment of employee's expectations. It is a day-to-day objective, and it makes a direct contribution to meeting the primary objectives (e.g., increase sales by 5% each year, keep labour turnover at less than 4%). They are often referred to as tactical objectives.

3. Short-Term Objectives

It will often differ from long-term objectives, especially if the business is experiencing poor financial performance at present. A short-term objective may be to consolidate, or even simply to survive the difficult trading conditions that it is experiencing. Short-term objectives are generally those relating to that financial year, in a timeframe from now to the end of the year (i.e., upto a year away). **For example,** raise turnover by 8% and profit by 9% by the end of the financial year.

4. Medium-Term Objectives

These objectives are generally those that relate to a period from 18 months to three years or sometimes five years (whichever is appropriate for the organisation and people setting the objectives). These objectives will therefore be broader, can be reviewed and may need to be amended with time. **For example,** relocate to brand new premises of 20,000 square feet by March 2009. Of course the medium-term will become short-term with the passage of time, and should be reviewed and updated with this in mind.

5. Longer-Term Objectives

These are generally more aspirational in nature and so tend to relate to a period of five years plus. Often, for owners and/or managers these can tie closely in with personal goals and work/life balance.

For example, sell the business for £5 million before the owner/manager is 60.

6. Financial Objectives

Financial strategic business objectives are some of the most prevalent types. They can be related to increasing profitability for a specific period, such as a year, or for a particular product line.

For example, a company may establish the goal of growing sales by 10 per cent in a certain region. Another example of a financial objective would be to increase market share for a product line by 12 per cent over the course of a year.

7. Non-Financial Objectives

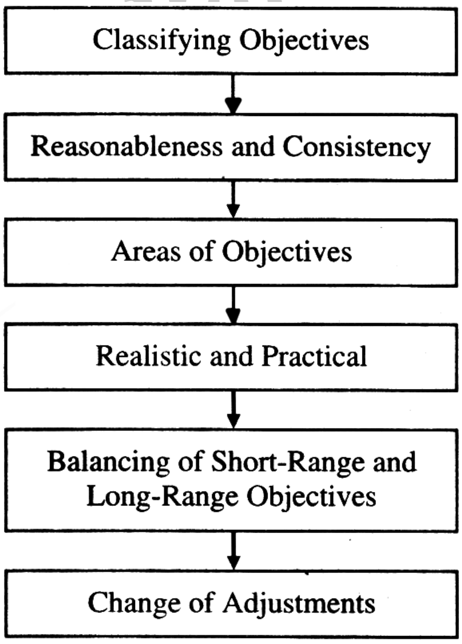
These objectives can have a greater impact on measuring non-tangible business approaches that are just as vital to the health, stability and long-term success of the business. Even though many of these approaches are not focused on revenue generation, they can ultimately have a positive impact on the business' finances.

1.7.1 Setting of Objectives

Q23. Discuss the process of setting of objectives.

Ans :

Process of setting the objectives can be broken in the following steps:



Step 1: Classifying Objectives

First of all, objectives should be classified in major and derivative goals, and long-range and short-range objectives. Major objective are broad in scope, wide in character and are applicable throughout an organisation. Then objectives should be broken down into departmental, sectional and individual objectives. Major objectives should be translated step by step down to the lowest level of the organisation so as to indicate the contribution of each segment and individual towards the enterprise objectives.

Step 2: Reasonableness and Consistency

The selected objectives must represent hopes or wishes but must be responsible and attainable. Most enterprises have multiple goals at a time. So each must be established in the light of the others. They must be consistent.

Step 3: Areas of Objectives: According to Peter Drucker

"There are eight areas in which objectives of performance and results have to be set - market standing, innovation, productivity, physical and financial resources, profitability, manager performance and development, workers' performance and attitudes, and public responsibility". Specific planning objectives must be deducted from broader enterprise objectives.

Step 4: Realistic and Practical

Objective should be set in realistic terms-" rather than in idealistic terms. Realistic objectives based on measured expectations provide incentive, job satisfaction for high performance.

Step 5: Balancing of Short-Range and Long-Range Objectives

Short- range objectives should be recognised as a distinct step in the realisation of long-range objectives, otherwise the achievement of long-range objectives becomes difficult if not impossible. There is a necessity of balancing the various objectives for removing their conflicts. Pressing and dominant objectives should be given more care than long-range and distant objectives.

Step 6: Change of Adjustments

Dynamic business environment makes the company objectives dynamic in nature and objectives call for changes along with changing time and situations. Although objectives are more stable than other plans, periodic adjustment of objectives becomes necessary to keep pace with the progress in time and to cope with the expanding size of the business.

Q24. What are the factors influencing the objectives.

Ans :

1. Objectives of the Past

The starting point of new strategy and objectives are the existing or past strategy and objectives. It is not a matter of starting the work fresh but continuation after updating and modifying the existing objective and the parallel strategy.

2. External Environment and the Power Relations

The external environment is made of both micro and macro forces. Micro- environment and power equations involve the forces of creditors, suppliers, consumers and trade unions. Macro forces involve factors external to the organisation, such as economic, demographic, socio-cultural factors etc.

3. Internal Resources and Power-Relations

Internal resources here comprise of shareholders, managers, employees and the strategists themselves either as individuals or units they represent.

4. Realities of Enterprise's Resources and Internal Power Relationships

This means that objectives are dependent on the resource capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources. Resources, both material and human, place restrictions on the objective-achieving capability of the organisation and these have to be considered in order to set realistic objectives. Internal power relationships have an impact on objectives in different ways.

5. Value System of Top Executive

This has an impact on the corporate philosophy that organisations adopt with regard to strategic management in general and objectives in particular. Values, as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or undesirable. This applies to the choice of objectives too.

For example, entrepreneurial values may result in prominence being given to profit objectives while a philanthropic attitude and values of social responsibility may lead to the setting of socially-oriented objectives.

6. Awareness by Management

Awareness of the past objectives and development of a firm leads to a choice of objectives that had been emphasised in the past due to different reasons.

For example, a dominant chief executive lays down a set of objectives and the organisation continues to follow it, or deviates marginally from it in the future. This happens because; organisations do not depart radically from the paths that they had been following in the recent past. Whatever changes occur in their choice of objectives takes place incrementally in an adaptive manner.

Q25. Explain the importance of objectives.

Ans : **(Imp.)**

Importance of an organisation's objectives is discussed as follows:

1. Defines Relationship with Environment

By stating its objectives, an organisation commits itself to what it has to achieve for its employees, customers and society at large.

2. Help to Pursue Vision and Mission

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

3. Provide the Standards for Performance Appraisal

By stating the targets to be achieved in given time period, and the measures to be adopted to achieve them, objectives lay down the standards against which organisational as well as individual performance could be judged.? In the absence of objective, an organisation would have no clear and definite basis for evaluating its performance.

4. Helps in Defining Legitimacy

Objectives describe the purpose of the organisation so that people know what it stands for and will accept its existence and continuance. Thus, Ford sells 'American transportation', Chrysler sells 'know-how' and Godrej sells 'quality products'. Objectives help to legitimize the presence of organisation in its environment.

5. Provides Direction

Objectives provide guidelines for organisational efforts. They keep attention focused on common purposes. Once objectives are formulated, they become the polar star by which the voyage is navigated. Every activity is directed toward the objectives, every individual contributes to meet the goals.

6. Helps in Coordination

Objectives keep activities on the right track. They make behaviour in organisations more rational, more coordinated and thus more effective, because everyone knows the accepted objectives to work toward.

7. Benchmarks for Success

Objectives serve as performance standards against which actual performance may be checked. They provide a benchmark for assessment. They help in the control of human effort in an organisation.

8. Gives Motivation

Objectives are motivators. The setting of an objective that is both specific and challenging leads to an increase in performance because it makes it clear to the individual what he is supposed to do. He can compare how well he is doing now ***versus*** how well he has done in the past and in some instance how well he is performing in comparison to other.

Q26. Explain the approaches available in developing objectives with merits and demerits.

Ans :

There are two approaches available for setting and developing the objectives of an organisation. They are,

i) Top Down Approach

In this type of approach the general objectives of an organization are set, taking into consideration the purpose of the business and what an organization would like to be in future.

At the next level the overall objectives as specified by top management are more specifically defined and are divided into divisional objectives, departmental objectives and individual objectives.

The managers at this level will be responsible for translating the objectives into practice. So the managers are given freedom and responsibility in the formation of objectives for divisions, departments and individuals. After the decision of the managers on the objectives, the lower level of the hierarchy strive to achieve these objectives with the help of strategies and policies that are set along the process of formulation of objectives.

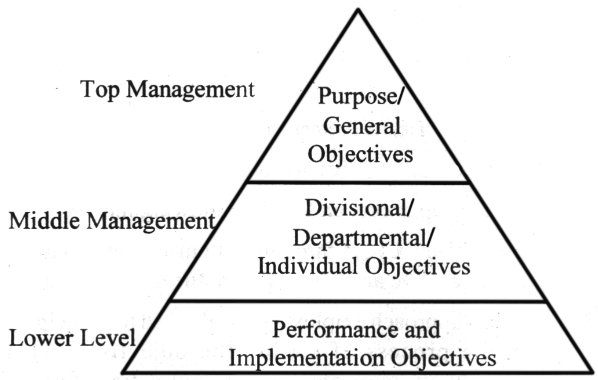


Figure: Top Down Approach

Merits of Top-down Approach

The top-down approach has the following merits,

1. Top-down approach helps the management in bringing connectivity between the strategic and objectives of various departments of the same organisation.
2. It helps in bringing together all the efforts of employees to move the organisation towards the selected strategic course of action.

Demerits of Top-down Approach

Some of the demerits of top-down approach are as follows,

1. The objectives set by the top-level management are not flexible in nature. They cannot be changed quickly and easily.
2. Employees are not at all allowed to participate in the process of setting objectives.
3. The objectives set by top-level management are highly ambition and impractical.

ii) Bottom Up Approach

This approach is the reverse of top-down approach. In this approach the objectives are formulated by the lower level taking into consideration their individual objectives which are presented to their higher level managers, departmental supervisors and divisional managers. The managers integrate all the individual objective and formulate them as an overall objectives of the organization. This approach is based on the assumption that subordinates at lower levels will be motivated to accomplish organizational goals as the objectives formulated are based on their initiation.

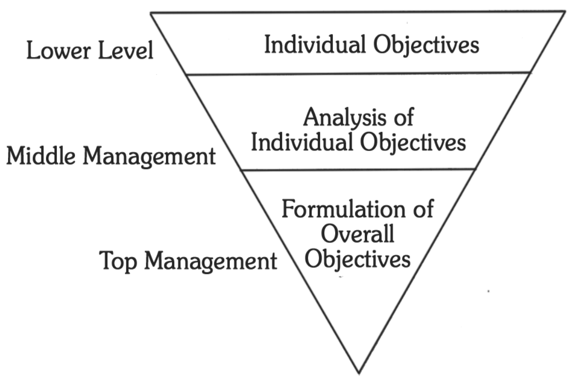


Figure: Bottom Up Approach

Merits of Bottom-up Approach

Bottom-up approach has the following merits,

1. The objectives set through bottom-up approach are more realistic and acceptable in the organisation.
2. In this approach employees are allowed to participate in the process of setting the objectives. This opportunity motivates them to put extra efforts in accomplishing the stated objectives.

Demerits of Bottom-up Approach

Some of the demerits of bottom-up approach are as follows,

1. There may be a lack of cohesion between the set objectives and organisation's mission.
2. Lack of direction and focus is found in organisations adopting bottom-up approach.
3. As the objectives are formulated by the employees under bottom-up, they may not be challenging and ambitions.

1.8 Crafting and Executing Strategy

Q27. What is Strategy ? Explain the need and criteria for effective strategy.

Ans :

In simple terms, strategy is a planned or emergent course of action that is expected to contribute to the achievement of organizational goals. Strategy can also be an idea or a thought that is viewed to be productive to complete a course of action. **A strategy is defined** as, "a unified, comprehensive, and integrated plan that relates to the strategic advantages of the firm and to the challenges of the environment. It is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organisation."

Alfred D. Chandler defines strategy as, "the determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals."

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

According to James Brain Quinn defines the term strategy as, "the pattern of plan that integrates an organisation's major goals, policies and action sequences into a cohesive whole.

The analysis of various definitions of strategy presents the following points:

- Strategy is a central understanding of the strategic management process.
- Strategy is the determination of basic long-term goals and objectives of an organisation.
- It helps in determining the courses of action to attain the predetermined goals and objectives.
- It points to allocation of necessary resources for implementing the course of action.
- It develops the company from its present position to the desired future position.
- It is a set of decision-making rules having a common thread.
- The common thread pulls the policies, plans, goals, objectives of the different functional areas of business such as finance, marketing, production/operations and human resource together and interweaves them as a unified comprehensive and integrated plan, action and evaluation.
- It sets a clear direction.
- It is a course of unified actions either planned and/or emerged.
- Enterprise knows its strengths and weaknesses compared with those of its competitors.
- Enterprise devotes its hard-won resources to projects that employ its set of core competencies, the primary skills within the organisation.
- Identifies factors in the political and social environment that requires careful monitoring.
- Recognises which competitor's actions need critical attention.
- The competitive firm should have a rational, clear-headed notion, purged of wishful thinking of
  - (i) its mission
  - (ii) its external competitive environment (for analysing opportunities and threats) and
  - (iii) its internal capabilities (including strengths and weaknesses). Now, we turn our discussion to the dimensions of the strategy, criteria for effective strategy, forms and kinds of strategies.

Need for Strategy

All the organizations formulate their strategies and the formulation of strategies is required for the following reasons,

i) To frame the rules which directs the employees in identifying new opportunities both within and outside the firm.

ii) For taking qualitative project decisions.

iii) To acquire and enhance internal ability for predicting the change.

iv) To make sure that the resource allocation procedure is carried out productively by the firm.

v) To setup measures which helps in determining whether a specific opportunity is rare or unusual or whether a more preferable one should be created in future or not.

vi) To make effective utilization of money, time and expert knowledge of an executive.

vii) To use the delay principle which delays the obligation till an opportunity is available.

viii) To recognize, create and make use of potential opportunities.

Criteria for Effective Strategy

Even though, every situation is different or distinct, there is a common criteria which elucidates an effective strategy. The criteria for effective strategy are as follows,

1. Clear and Decisive Objectives

It is not necessary for a firm to maintain all the goals in the written format or to explain them consecutively accurate.

But, they should be vividly understood, decisive and achievable, so that all the strategists can drive their efforts towards such type of goals.

2. Concentration

The strategy centralizes the superior power at the place and time which are likely to settle an issue quickly. The strategy should clearly outline the factors which makes the organisation superior in power, and excellent in crucial dimensions in connection with its competitors. The organisation having unique capabilities can attain higher success with small amount of resources.

3. Surprise

To counterattack the unready rivals at an unpredictable time, the strategy should deploy intelligences speed and concealment. Hence, surprise and correct time are very crucial for a strategy.

4. Coordinated and Committed Leadership

While choosing the leaders, it is very essential to match their own interest and values with the needs of their roles. The strategy must offer a dependable, committed and coordinating leadership for its significant goals. Hence, commitment and the more acceptance is the main prerequisite of a strategy.

5. Security

It is very essential for the firm to secure or maintain the resources needed and to administer all the functional units of the organisation and a proficient intelligence system for avoiding the impact of the surprises given by the competitors.

6. Flexibility

A strategy should intentionally include resources, shock absorbing devices or buffers and flexibility dimensions. The use of reserved abilities planned operations and repositioning facilitates helps the firm to utilize minimum resources by placing the rivals at a disadvantageous position.

7. Maintaining the Initiative

The strategy protects the freedom of action and increases commitment. It sets the speed and ascertains the course of events instead of reacting to them.

Q28. Why are crafting and executing strategy important ?

Ans : **(June-19)**

The following two reasons explains why crafting and executing strategy are regarded as the most important managerial activities.

1. The managers have a strong need to operatively shape or craft the way in which the business of the company will be carried out.

   - If the strategy is explicit, then it acts as a prescription to the management for carrying out the business.
   - It also acts as a road map for achieving competitive advantage and a gameplan for attracting the customers and attaining the performance targets.
   - If the strategy is powerful, then it helps the firm to move from a lagging position to a leading position and to rule the market. For attaining success in the market the strategy of the firm should be perfectly designed, opportunistic and should help the firm to overcome the innovations of the competitors by taking the advantage of it and securing a superior powerful position in the market.
   - But if a company follows the strategies which are copied from others or follows the strategies which are based on the fearful actions then it will not be able to attain the superior position in the market.
   - Highly performing organisations produces their products based on their clever, intelligent, creative and proactive strategy which makes it unique from the competitors and helps them in attaining the competitive advantage.

- Few companies also attains superior position in the market with their luck and this good luck enables them to enter the right market at right time with the right product.

2. The company which gives top priority to the strategy will be the leading ruler of the market when compared to the company which considers strategy as insignificant and gives least priority to it.

   - The quality of managerial strategy formulation and strategy execution has a positive influence on revenue growth, earnings and return on investment.
   - The company whose direction is not clear and whose performance targets are indefinite and ill defined have a defective or confusing strategy. The company having such type of strategy will be ineffective, its business will be at long term risk and its management will be extremely lacking.
   - On the other hand, when the firm crafts and executes a winning strategy, then the management can completely focus on the functioning of the business and can have higher chances of integrating the initiatives and tasks of various divisions, departments, managers and work groups into an organised group effort.
   - If the company deploys all its resources for implementing the selected strategy and for attaining the targeted performance then it can rule the market. Thus, crafting and executing strategy are the most important managerial functions on which the success or failure of the company rely on.
   - Effective strategy and effective strategy execution are the most reliable indications of effective management.

1.9 Concept of Strategic Intent

Q29. What is the Strategic Intent. Explain the Hierarchy of Strategic Intent.

Ans : **(Imp.)**

Definition

According to Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession- with an organisation—an obsession with having ambitions that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation while sustaining that obsession in the quest for global leadership. They explain the term 'strategic intent' like this:

"On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress. At the same time, strategic intent is more than simply unfettered ambition. The concept also encompasses an active management process that includes: focusing the organization's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations.

1. **Mission** helps explain the distinctiveness of an institution and represents assumptions and purposes that guide its planning and activities. It describes the organization's "reason for being".

2. **Vision** is a pretense statement that communicates where an organization believes it will be within a stated time period.

3. **Desired Outcomes** are observable, measurable and specific results that provide

evidence that an organization is moving toward the institutional vision and achieving the stated mission.

4. **Strategic Imperatives** are defined as a maximum of ten broad, long-term, relevant, clear and obtainable objectives essential to an organization achieving its outcomes. These imperatives are interdependent.

5. **Strategies** are a specific, measurable, obtainable set of plans carefully developed with involvement by an institution's stakeholders. These action statements are linked to an individual or individuals who are accountable and empowered to achieve the stated result in a specific desire time frame (usually two-five years). This is the how strategic imperatives are to be achieved.

6. **Tactics** are specific techniques or actions developed by the stakeholders used to achieve a planned strategy (usually a one year time frame). Tactics are how the strategic are to be achieved.

7. **Stakeholders** are any individuals internal or external to an organization who have a "stake" in the success of the institution (i.e., students, faculty, staff, system administration, college council, employers, families, etc.). Metrics are processes used to measure the success of outcomes.

The Hierarchy of Strategic Intent

The process used to list priorities created a "Hierarchy of Strategic Intent". At the top of the hierarchy is the organization's vision and mission, both of which should be long lasting and motivating.

At the bottom of the hierarchy are the projects and short-term tactics that faculty and staff members will use to achieve the mission. One should be able to look down the hierarchy to determine the method of affecting the higher levels of the pyramid.

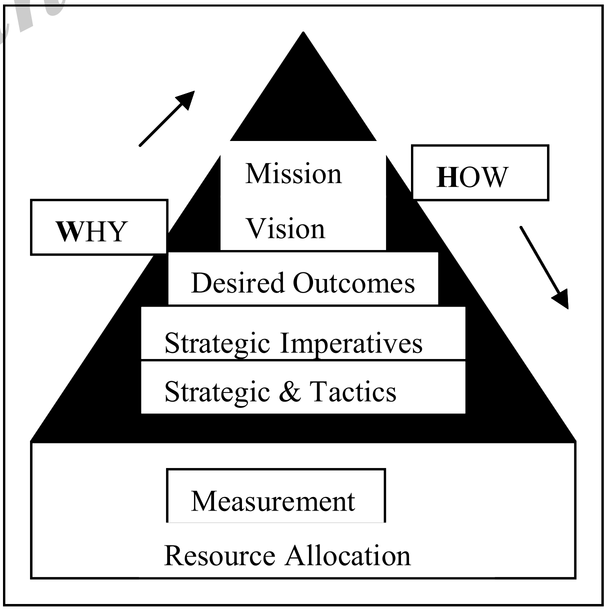


Table showing the hierarchy of Strategic Intent

Term	Definition	A Personal Example
Mission	Overriding purpose in line with the values or expectations of stakeholders	Be healthy and fit
Vision or strategic	Desired future state: the aspiration of the organization	To run the London Marathon
Goal	General statement of aim or purpose	Lose weight and strengthen muscles
Objective	Quantification (it possible) of more precise statement of the goal	Lose 5 kilos by 1 September and run the marathon next year
Unique resources and core competencies	Resources, processes or skills which provide 'competitive advantage'	Proximity to a fitness centre, supportive family and friends and past experience of successful diet
Strategies	Long-term direction	Associate with a collaborative network (e.g. join running club), exercise regularly, compete in marathons locally, stick to appropriate diet
Control	The monitoring of action steps to •Assess effectiveness of strategies and actions •Modify strategies and/or actions necessary	Monitor weight, kilometers run and measure times: if progress satisfactory, do nothing, if not, consider other strategies and actions

Table : Hierarchy of strategic Intent

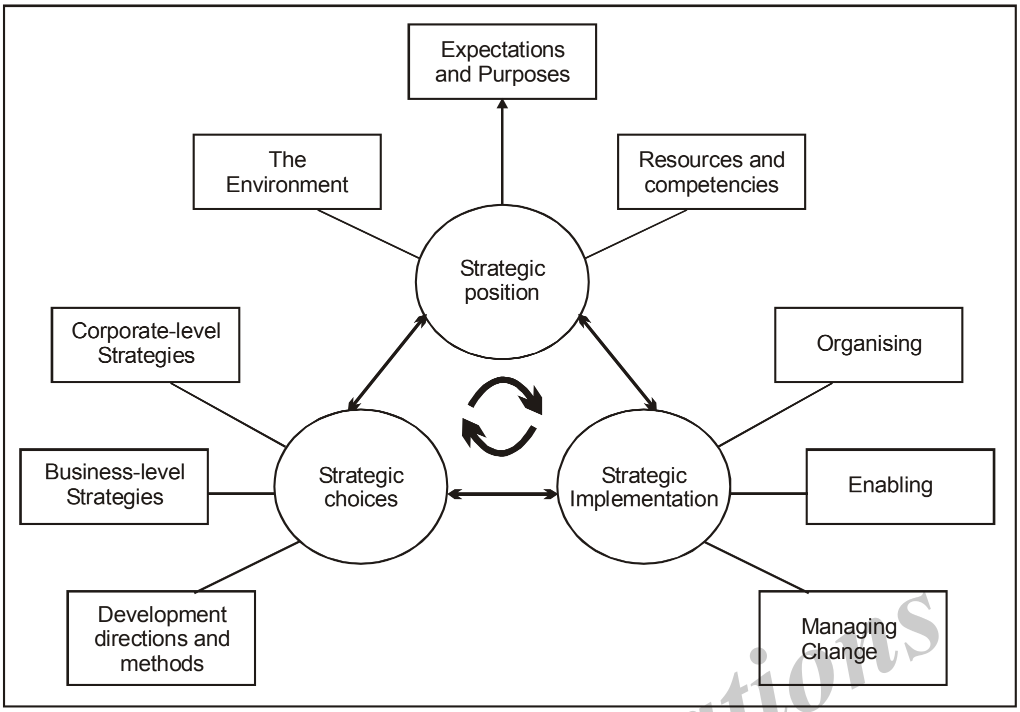
1.10 A Model of Strategy and Elements Developing Strategic Model

Q30. Explain in detail about the Model of Elements of Strategic Management.

Ans :

Strategic management deals with the complexities occurring from uncertain and non-routine conditions that arises all over the organisation instead of operation-specific implications. The scope of strategic management is under than that of any one specific area of operational management.

As strategic management is complicated it is very essential to make the decisions and judgements on the basis of the conceptualisation of the complex issues. Strategic management generally involves comprehending the strategic position of an organisation, strategic choices for the future and transforming strategy into action. The figure given below departs all these elements.



i) Strategic Analysis / Strategic Position

Strategic analysis is concerned with understanding the strategic position of the organisation. What changes are going on in the environment, and how will they affect the organisation and its activities? What is the resource strength of the organisation in the context of these changes? What is it that those people and groups associated with the organisation -- managers, shareholders or owners, unions and so on -- aspire to, and how do these affect the present position and what could happen in the future.

ii) Strategic Choice

Strategic choices give more importance to the decisions relating to the future of the organisation and the manner in which it needs to respond to other pressures and influences. It deals with comprehending the fundamental bases for future strategy at business level as well as corporate levels and the different choices for developing a strategy. There are strategic choices with respect to the way in which the organisation tries to compete at the business level. But this criteria needs an ascertainment of bases of competitive advantage by understanding the market customer, and the strategic capability of the organisation. The organisations mostly have several business units which compete in various markets wherein the customers or clients have distinct needs and requires different products or services. For understanding the business-level strategy it is very essential to recognise the SBUs in an organisation. The key elements of business-level strategies are base competition (i.e., price, differentiation, hybrid and focus), achieving competitive advantages and game (i.e., sustainability, hypercompetition, collaboration theory) and detailed choices (involving directions and methods).

iii) Strategy Implementation / Strategy into Action

Strategy implementation is concerned with the translation of strategy into action. Implementation can be thought of as having several parts.

a) Planning and allocating Resources

b) Organisation Structure and Design

c) Managing Strategic Change

1.10.1 Strategic Position

Q31. Explain briefly about Strategic Position.

Ans : **(June-18)**

Strategic analysis is concerned with understanding the strategic position of the organisation. What changes are going on in the environment, and how will they affect the organisation and its activities? What is the resource strength of the organisation in the context of these changes? What is it that those people and groups associated with the organisation -- managers, shareholders or owners, unions and so on -- aspire to, and how do these affect the present position and what could happen in the future.

The aim of strategic analysis is, then, to form a view of the key influences on the present and future well-being of the organisation and therefore on the choice of strategy. These influences are discussed briefly below. Understanding these influences is an important part of the wider aspects of strategic management.

a) The Environment

The organisation exists in the context of a complex commercial, economic, political, technological, cultural, and social world. This environment changes and is more complex for some organisations than for others. Since strategy is concerned with the position a business takes in relation to its environment, an understanding of the environment's effects on a business is of central importance to strategic analysis. The historical and environmental effects on the business must be considered, as well as the present effects and the expected changes in environmental variables.

b) The Resources of the Organisation

Just as there are outside influences on the firm and its choice of strategies, so there are internal influences. One way of thinking about the strategic capability of an organisation is to consider its strengths and weaknesses (what it is good or not so good at doing, or where it is at a competitive advantage or disadvantage, for example). These strengths and weaknesses may be identified by considering the resource areas of a business such as its physical plant, its management, its financial structure, and its products. Again, the aim is to form a view of the internal influences and constraints on strategic choice.

c) The Expectations of Different Stakeholders

The expectations are important because they will affect what will be seen as acceptable in terms of the strategies advanced by management. However, the beliefs and assumptions that make up the culture of an organisation, though less explicit, will also have an important influence.

The environmental and resource influences on an organisation will be interpreted through these beliefs and assumptions; so two groups of managers, perhaps working in different divisions of an organisation, may come to different conclusions about strategy, although they are faced with similar environmental and resource implications. Which influence prevails is likely to depend on which group has the greatest power, and understanding this can be of great importance in recognising why an organisation follows or is likely to follow, the strategy it does.

1.10.2 Strategic Choice

Q32. Describe briefly about Strategic Choice.

Ans : **(June-18)**

Strategic choices give more importance to the decisions relating to the future of the organisation and the manner in which it needs to respond to other pressures and influences. It deals with comprehending the fundamental bases for future strategy at business level as well as corporate levels and the different choices for developing a strategy. There are strategic choices with respect to the way in which the organisation tries to compete at the business level. But this criteria needs an ascertainment of bases of competitive advantage by understanding the markete customer, and the strategic capability of the organisation. The organisations mostly have several business units which compete in various markets wherein the customers or clients have distinct needs and requires different products or services. For understanding the business-level strategy it is very essential to recognise the SBUs in an organisation. The key elements of business-level strategies are base competition (i.e., price, differentiation, hybrid and focus), achieving competitive advantages and game (i.e., sustainability, hypercompetition, collaboration theory) and detailed choices (involving directions and methods).

The corporate-level strategy which is presented at the highest-level in an organisation generally, focuses on the scope of the organisational strategies. It also deals with the relationship existing between the different parts of the business and way in which the corporate parent adds value to these different parts. The corporate strategy consists of the decisions relating to the portfolio of products and/or businesses and the spread of markets. So for many organisations, the international strategies serve as an important part of corporate-level strategy.

Corporate strategy involves two central concerns. The first central concern is the strategic decisions relating to the scope of an organisation which includes products diversity, international diversity, corporate parenting roles and managing the portfolio. The second central concern of corporate level strategy is the way in which the value added at the corporate level is different from business level in organisations.

The survival and success of the organisation depends on its competency to respond to the competing pressures from the business environment, strategic capability and cultural and political conditions. These three pressures develop motives behind attaining these strategies. These motives are based on the environment, capability and expectations. Direction is persuaded as a strategic alternative available to an organisation with respect to the products and market coverage by considering the strategic capability of the organisation and the expectations of stakeholders.

1.10.3 Strategy into Action

Q33. What is Strategy into Action?

Ans : **(June-18)**

Strategy implementation is concerned with the translation of strategy into action. Implementation can be thought of as having several parts.

(a) Planning and allocating Resources

Strategy implementation is likely to involve resource planning, including the logistics of implementation. What are the key tasks needing to be carried out? What changes need to be made in the resource mix of the organisation? By when? And who is to be responsible for the change?

(b) Organisation Structure and Design

It is also likely that changes in organisational structure will be needed to carry through the strategy. There is also likely to be a need to adapt the systems used to manage the organisation. What will different departments be held responsible for? What sorts of information system are needed to monitor the progress of the strategy? Is there a need for retraining of the workforce?

(c) Managing Strategic Change

The implementation of strategy also requires managing of strategic change and this requires action on the part of managers in terms of the way they manage change processes, and the mechanisms they use for it. These mechanisms are likely to be concerned not only with organisational redesign, but with changing day-to-day routines and cultural aspects of the organisation, and overcoming political blockages to change.

Q34. Explain the issues in strategy into actions.

Ans :

The three important issues involved in strategy into action are as follows,

(a) Structuring

(b) Enabling and

(c) Managing strategy.

(a) Structuring

The process of structuring helps the organisation to attain effective performance. Structuring generally involves three key issues i.e., organisational structures, processes and relationships. The managers presents their organisations by drawing an organisation chart and mapping out its formal structures. These structural chart outlines the different levels and roles in an organisation. The seven basic organisational structural types are functional, multi divisional, holding, matrix, transnational, team and project. However, within every structure the formal and informal organisational processes helps the organisation to carry out its operations effectively. The control processes are divided into two ways. Firstly, they focus either on control over inputs (or) control over outputs. An input control processes deals with the resources which are used in the strategy. Particularly the financial resources and human commitment, while output control processes emphasize on assuring satisfactory outcomes. The second subdivision is made between direct and indirect controls. Direct controls deals with close supervision (or) monitoring, while indirect controls develops certain conditions wherein the desired behaviors are attained semi-automatically. It is also important for the organisations to build and maintain internal and external relationships for responding to any uncertain environment.

(b) Enabling

Enabling success deals with the two way relationship between the overall business strategies and the strategies in different resource areas like people, information, finance and technology. The reverse/ converse also plays a key role in the success specifically the degree to which the new strategies are formulated on a specific resource and competence strengths of an organisation. The knowledge and experience of individuals act as the important factors enabling the success of strategies. Presently, the knowledge creation and information management are key issues with which the managers are enhancing their competitiveness. The strategic success depends on finance and the manner in which is managed. The three key issues of managing finance are managing for value, finding strategies and financial expectations. The technological development can take many different forms which provide benefits to organisations in specific ways. A technological path recognises the key factors that are affecting the technological developments.

(c) Managing Strategy

The management of strategy deals with change. It basically deals with the management tasks and process which are used in different changing strategies. For managing the strategy it is very essential for a firm to understand the way in which the organisation can affect the approach to change and different roles for people in managing change. It is also very essential to consider different styles which can be used for managing change and the even through which change can be influenced. The four important elements in managing strategic change are diagnosing the change situation, change management, levers for change and pitfalls of strategic change.

Short Question and Answers

1. Definitions of Strategic Management.

Ans :

1. **According to Alfred Chandler,** "Strategic management is concerned with the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of course of action and allocation of resources necessary for carrying out these goals"
2. **According to Glueck and Jaunch** "Strategic management is a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives"
3. **According to Fed R. David** "Strategic management is a process of formulating implementing and evaluating cross-functional decisions that enable an organization to achieve its objective"
4. **According to Pearce and Robinson, 1988** "Strategic management is the set of decisions and actions resulting in the formulation and implementation of plans designed to achieve a company's objectives."
5. **According to Johnson and Sholes, 2002** "Strategic management includes understanding the strategic position of an organization, making strategic choices for the future and turning strategy into action."
6. **According to Dess, Lumpkin & Taylor, 2005** "Strategic management consists of the analysis, decisions, and actions an organisation undertakes in order to create and sustain competitive advantages."

2. Functions of Strategic Management.

Ans :

1. Provides Perspective

Strategic management provides the management a perspective which gives equal importance to present and future opportunities and problems and endeavor to exploit the global opportunities in optimal way and create an atmosphere in which the best can be drawn from the environmental changes.

2. Provides Mechanism

It provides the management mechanisms to cope with highly complex environment characterized by diversity of cultural, social, political, technological, competitive and economic forces existing in different countries. The mechanism is objectivating, linking and balancing.

3. Technique of Manage Changes

It offers way of thinking, a discipline and a technique to manages changes. The management is totally prepared to anticipates, respond and influence the firm's destiny regardless of the developments taking place in the business world.

3. Need of strategic management.

Ans :

1. Provides guidelines for organizational functioning.
2. Develops field of study by resources.
3. probability for better performance.
4. Enhance systematic business decisions.
5. Improve communication, co-ordination, allocation or resources.
6. Helps managers to have a holistic approach towards business problems.
7. It helps to keep pace with the changing environment as by exploring opportunities and minimizing threats, it helps the business to achieve an optimum level of efficiency.

4. Strategy Formulation.

Ans :

Environmental and organisational appraisal deal with identifying the opportunities and threats operating in the environment and the strengths and weaknesses of the organisation in order to create a match between them in such a manner that opportunities could be availed of and the impact of threats neutralised and to capitalise on the organisational strengths and minimise the weaknesses.

Formulation of strategies takes place at four levels - corporate, business, functional, and operational. Among these levels, the major ones are the corporate- and business-level strategies. Corporate-level strategies relate to the strategic decisions regarding the management of a portfolio of businesses. Business strategies aim at developing a competitive advantage in the individual businesses that a company has in its portfolio.

Strategic alternatives and choice are required for evolving alternative strategies, out of the many possible options and choosing the most appropriate strategy or strategies in the light of environmental opportunities and threats and corporate strengths and weaknesses. Strategies are chosen at the corporate-level and the business-level. The process used for choosing strategies involves strategic analysis and choice. The end result of this set of elements is a strategic plan to be implemented.

5. Define vision.

Ans :

A vision statement is sometimes called a picture of your company in the future. Vision statement is your inspiration; it is the dream of what you want your company to accomplish.

A strategic vision is defined as an imaginary view of future which all the organizational members believe in and is not easily achieved. Strategic vision provides an overview of an organization in the coming future.

Definitions of Vision

Vision has been defined in several different ways.

1. **According to Kotter** "Description of something (an organization, corporate culture, a business, a technology, an activity) in the future."
2. **According to EI Namaki,** "Mental perception the kind of environment and individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception.
3. **According to Oren Harari,** "Vision should describe a set of ideals and priorities, a picture of the future, a sense of what makes the company special and unique, a core set of principles that the company stands for, and a broad set of compelling criteria that will help to define organisational success.

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

6. Define Mission Statement.

Ans :

Mission is what an organization is and why it exists. Organizations relate their existence to satisfying a particular need of the society. They do this in terms of their mission.

Mission is "a statement which defines the role that an organization plays in a society".

Definition of Mission

According to Thompson (1997) "Mission is the essential purpose of the organization, concerning particularly why it is in existence, the nature of the business(es) it is in, and the customers it seeks to serve and satisfy".

According to Hunger and Wheelen (1999) "Mission is the purpose or reason for the organization's existence".

According to Drucker "Mission focuses the organization on action. It defines the specific strategies needed to attain goal. It creates a disciplined organization. The business purpose and business mission are so rarely given adequate thought, is perhaps the most important single cause of business failure and business frustration".

7. Define objectives.

Ans :

The term "strategic objectives" refers to an organisation's articulated aims or responses to address major change or improvement, competitive-ness or social issues, and business advantages. Strategic objectives generally are focused both externally and internally and relate to significant customer, market, product, or technological opportunities and challenges (strategic challenges). Broadly stated, they are what an organisation must achieve to remain or become competitive and ensure long-term sustainability. Strategic objectives set an organisation's longer-term directions and guide resource allocations and redistributions.

Objectives represent a managerial commitment to achieve specified results in a specified period, of time. They clearly spell out the quantity and quality of performance to be achieved, the time period, the process and the person who is responsible for the achievement of the objective. Objectives help to define the organisation in its environment. They help in coordinating decisions and decision-maker and in formulating strategies. Objectives also provide standards for assessing organisational performance

Definitions

i) **According to Robert L. Trewatha and M. Gene Newport,** "Objectives may be defined as the targets people seek to achieve over various time periods".

ii) **According to H. Igor Ansoff,** "Objectives are decision rules which enable management to guide and measure the firm's performance towards its purpose".

iii) **According to Russell L. Ackoff,** "Objectives are states or outcomes of behaviour that are desired. An organisation may desire either to obtain something that it does not currently have or to retain something it already has. Hence, objectives may be either acquisitive or retentive".

8. What is the Strategic Intent.

Ans :

Definition

According to Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession with an organisation—an obsession with having ambitions that may even be out of proportion to their resources and capabilities. This obsession is to win at all levels of the organisation while sustaining that obsession in the quest for global leadership. They explain the term 'strategic intent' like this:

"On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organisation will use to chart its progress. At the same time, strategic intent is more than simply unfettered ambition. The concept also encompasses an active management process that includes: focusing the organization's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change and using intent consistently to guide resource allocations.

9. Strategic Position.

Ans :

Strategic analysis is concerned with understanding the strategic position of the organisation. What changes are going on in the environment, and how will they affect the organisation and its activities? What is the resource strength of the organisation in the context of these changes? What is it that those people and groups associated with the organisation -- managers, shareholders or owners, unions and so on -- aspire to, and how do these affect the present position and what could happen in the future.

The aim of strategic analysis is, then, to form a view of the key influences on the present and future well-being of the organisation and therefore on the choice of strategy. These influences are discussed briefly below. Understanding these influences is an important part of the wider aspects of strategic management.

Choose the Correct Answer

1. The goals which state the reason for the company's existence are, [a]

   (a) Official goals (b) Operative goals

   (c) Operational goals (d) None

2. The criteria for effective strategy are, [d]

   (a) Clear and decisive objectives (b) Flexibility

   (c) Concentration (d) All the above

3. The strategy which explains how to compete successfully in specific markets is, [b]

   (a) Corporate-level strategy (b) Business-level strategy

   (c) Operational strategies (d) Strategic business unit

4. Environment, strategic capability and expectations & purposes are the issues involved in [c]

   (a) Strategy into action (b) Strategic choices

   (c) Strategic position (d) None

5. The modes of strategic management which are used by managers in planning and implementing strategies are, [d]

   (a) Adaptive approach (b) Planning approach

   (c) Entrepreneurial approach (d) All the above

6. The strategic alternative which results out by matching opportunity with corporate capability at an acceptable level of risk is, [a]

   (a) Economic strategy (b) Political strategy

   (c) Social strategy (d) None

7. The main aspects of corporate strategy are, [d]

   (a) Formulation of strategy (b) Strategy implementation

   (c) Objectives of strategy (d) Both (a) and (b)

8. A plan which lays out the company's future direction, performance targets and strategy is, [b]

   (a) Organisational plan (b) Strategic plan

   (c) Entrepreneur plan (d) National plan

9. This phase of the strategy management process which acts as the trigger point for deciding whether to continue or change the company's vision, objectives, strategy, is, [c]

   (a) Setting of objectives (b) Crafting a strategy

   (c) Evaluating performance (d) Implementing strategy

10. The strategies which are concerned with narrow strategic initiatives and approaches for managing key operating units are, [a]

    (a) Operating strategies (b) Business strategies

    (c) Functional-area strategies (d) Corporate strategy

Fill in the blanks

1. _______ is a set of decisions and actions which resulting in the formulation and implementation of strategies which are designed to achieve the goals.
2. _______ statement defines the role that an organization plays in a society.
3. A _______ is a set of decision-making rules for guiding the organizational behaviour.
4. The CEO or the manager acts as a _______ and _______ of strategy making.
5. _______ is defined as a "description of something (an organization, corporate culture, a business, a technology an activity) in the future".
6. CEO of google company _______.
7. _______ clearly explains, what a company expects from its workers and what they can expect form the company.
8. _______ deals with the overall scope of an organisation and how value is being added to the different parts of the organisation.
9. The strategic capability of the organisation comprises _______ and _______.
10. _______ is the final step of strategic management process.

Answers

1. Strategic management
2. Mission
3. Strategy
4. Visionary and chief designer
5. Vision7
6. Sundar Pichai
7. Policies
8. Corporate-level strategy
9. Resources and competence
10. Strategy evaluation

UNIT II

Environmental Analysis for Strategy

Strategic Position; Evaluating a company's External and Internal Environmental analysis for creating strategy, Macro Environmental factors; Demographic elements, Political forces, Economic elements, Socio-cultural factors, Technological Issues. Industry analysis; BCG, GE and Add Little models for understanding Industry, Key Drivers for a Change ; SWOT analysis, Porter's Diamond Model, Value chain analysis, Core competencies- Cost Efficiency, Capability building and Management

2.1 Strategic Position

Q1. Describe Strategic Position that impact on organization.

Ans :

Strategic analysis is concerned with understanding the strategic position of the organisation. What changes are going on in the environment, and how will they affect the organisation and its activities? What is the resource strength of the organisation in the context of these changes? What is it that those people and groups associated with the organisation -- managers, shareholders or owners, unions and so on -- aspire to, and how do these affect the present position and what could happen in the future?

The aim of strategic analysis is, then, to form a view of the key influences on the present and future well-being of the organisation and therefore on the choice of strategy. These influences are discussed briefly below. Understanding these influences is an important part of the wider aspects of strategic management.

(a) The environment. The organisation exists in the context of a complex commercial, economic, political, technological, cultural, and social world. This environment changes and is more complex for some organisations than for others. Since strategy is concerned with the position a business takes in relation to its environment, an understanding of the environment's effects on a business is of central importance to strategic analysis. The historical and environmental effects on the business must be considered, as well as the present effects and the expected changes in environmental variables.

(b) The resources of the organisation: Just as there are outside influences on the firm and its choice of strategies, so there are internal influences. One way of thinking about the strategic capability of an organisation is to consider its strengths and weaknesses (what it is good or not so good at doing, or where it is at a competitive advantage or disadvantage, for example). These strengths and weaknesses may be identified by considering the resource areas of a business such as its physical plant, its management, its financial structure, and its products. Again, the aim is to form a view of the internal influences -- and constraints -- on strategic choice.

(c) The expectations of different stakeholders: The expectations are important because they will affect what will be seen as acceptable in terms of the strategies advanced by management. However, the beliefs and assumptions that make up the culture of an organisation, though less explicit, will also have an important influence.

The environmental and resource influences on an organisation will be interpreted through these beliefs and assumptions; so two groups of managers, perhaps working in different divisions of an organisation, may come to different conclusions about strategy, although they are faced with similar environmental and resource implications. Which influence prevails is likely to depend on which group has the greatest power, and understanding this can be of great importance in recognising why an organisation follows or is likely to follow, the strategy it does.

2.2 Evaluating a Company's External and Internal Environmental Analysis for Creating Strategy

Q2. What is an environment ? What are the characteristics of environment?

Ans :

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists.

The environment of any organisation is "the aggregate of all conditions, events and influences that surround and affect it". Since the environment influences an organisation in multitudinous ways, it is of crucial importance to understand it.

Characteristics of Environment

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

1. **Environment is complex**

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

2. **Environment is dynamic**

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

3. **Environment is multi-faceted**

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

4. **Environment has a far-reaching impact**

   The environment has a far-reaching impact on organisations. The growth and profitability of an organisation depends critically on the environment in which it exists. Any environmental change has an impact on the organisation in several different ways.

Q3. Explain the Classification of Environment.

Ans :

We are using three-category classification of environment. These are International, General (national) and Industrial Environment.

A) International Environment

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

1. **Trend towards Globalization :** The trend towards internationalization and globalization has emerged around the world. Consequently, the concept of global village has emerged. The nations have evolved economic policies around self-reliance and export-oriented business development. These factors resulted in the close and direct of international environment on the national business firms.

2. **Impact of International Environment on Domestic Business :** Global environment consists of international political environment, policies of various governments, level of

technology, social and cultural factors, level of economic development of different countries, level of industrial development etc., has its impact on the business organizations of the domestic country.

B) General (National) Environment

The purpose of general (national) environmental analysis is to predict the state of external events of the future, which will shape the organization's environment. The prediction serves three important purposes :

i) It enables the firm to review and revise the mission and objectives concerning how it wishes to interact with future events.

ii) It identifies the fundamental requirements for success in future, and

iii) It permits the firm to formulate strategy to accomplish the goals within the constraints of the fundamental requirements for success.

The national environment consists of

1. **Economic Environment :** Economic environment refers to all those economic factors which have a bearing on the functioning of a business. Economic environment and business are mutually interdependent.

2. **Political Environment :** The political system prevailing in a country dictates policies and control of business. The democratic political system promotes and encourages business while the authoritarian political system controls the business very much. A stable, honest, and efficient political system is a primary and essential factor for economic development in general and business growth in a particular. The basic political philosophies are democracy and totalitarianism. The democratic societies provide freedom for business development while the totalitarianism or authoritarian societies impose controls on business.

3. **Technological Environment :** Technological environment exerts significant influence on business. Revolutionary technological changes like computer engineering, thinking computers, robotics, unnamed factories, miracle drugs, space communications, lasers, cloning, satellite networks, fiber optics and electronic fund transfers are having a dramatic impact on organizations. New microprocessor-based equipment and process technologies are burgeoning, computer aided design and manufacturing (CAD/CAM), direct numerical control (DNC), computer technology and computer integrated manufacturing.

4. **Socio-cultural Environment :** Socio and cultural environment refers to the influence exercised by social factors which are beyond the company's gate. The socio-cultural factors include: attitude of people to work, attitude to wealth, family, marriage, religion, education and ethics.

5. **Natural Environment :** Natural environmental factors like climate, soil, mineral and material resources, land form, rivers, seas, oceans, coast lines, natural resources (like forest resources) flora and fauna have considerable influence on business. These factors affect the strategic decisions like location of the factory, expansion and diversification mode of transportation, storage of bulk materials and types of products and services demanded based on physical and biological conditions.

C) Industry Environment

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

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

   - Product design, configuration, demand, packing, uses, life-cycle etc.

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

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

3. **Demographic Factors :** The demographic factors that influence the industry analysis include :

   i) Changes in population size and structure;

   ii) Age shifts in the population; and

   iii) Income distribution and changes of the population.

4. **Geographic Factors :** The strategies should also analyze the geographic environment to know the opportunities and threats as part of analyzing customer sector. The strategist should think of extending the market to new locations.

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

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

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

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

5. **Competitors :** The strategists analyses the demand for any supply of the product that the firm produces. Further, he examines the level and nature of competition the firm faces and will face. Factors to be examined regarding competition are:

   i) Entry and exit of major competitors,

   ii) Substitutes and complements for current products and services and

   iii) Major strategic changes by current competitors.

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

   i) Product differentiation;

   ii) Economics of scale;

   iii) Absolute cost advantages;

   iv) Likely reaction of current firms.

Q4. Discuss the advantages in the process of environmental analysis relating to a strategic decision.

Ans : **(June-19)**

Environmental Analysis is described as the process which examines all the components, internal or external, that has an influence on the performance of the organization. The internal components indicate the strengths and weakness of the business entity whereas the external components represent the opportunities and threats outside the organization.

Advantages of Environmental Analysis

The internal insights provided by the environmental analysis are used to assess employee's performance, customer satisfaction, maintenance cost, etc. to take corrective action wherever required. Further, the external metrics help in responding to the environment in a positive manner and also aligning the strategies according to the objectives of the organization.

Environmental analysis helps in the detection of threats at an early stage, that assist the organization in developing strategies for its survival. Add to that, it identifies opportunities, such as prospective customers, new product, segment and technology, to occupy a maximum share of the market than its competitors.

Steps Involved in Environmental Analysis

1. **Identifying:** First of all, the factors which influence the business entity are to be identified, to improve its position in the market. The identification is performed at various levels, i.e. company level, market level, national level and global level.
2. **Scanning:** Scanning implies the process of critically examining the factors that highly influence the business, as all the factors identified in the previous step effects the entity with the same intensity. Once the important factors are identified, strategies can be made for its improvement.
3. **Analysing:** In this step, a careful analysis of all the environmental factors is made to determine their effect on different business levels and on the business as a whole. Different tools available for the analysis include benchmarking, Delphi technique and scenario building.
4. **Forecasting:** After identification, examination and analysis, lastly the impact of the variables is to be forecasted.

2.2.1 External Environmental Analysis

Q5. What do you mean by external environment and its opportunities and threats? Discuss the various components of external environment analysis.

Ans : **(June-18)**

External Environment

All the parties, organisations, institutions and factors influencing them constitutes the external environment of business. Such factors hold both individual and combined impact on the constituents of both micro and macro environment.

The macro economic environment of any business includes those players and factors who which have a direct impact on the operation of the companies. On the other hand micro environment refers to the suppliers, employees, customers and competitors of business.

Opportunities and Threats

Opportunities are those favourable conditions in a firm's environment which help the firm in strengthen its position in market. Whereas, threats are those unfavourable conditions in a firm's environment which may impose a risk or damage the firm's position in market.

Components/Activities of External Environment

The key components or inputs which helps the managers to become environmentally aware are forecasting, scanning, monitoring and gathering competitive intelligence. The figure below shows the relationships between these key components/ activities inputs,

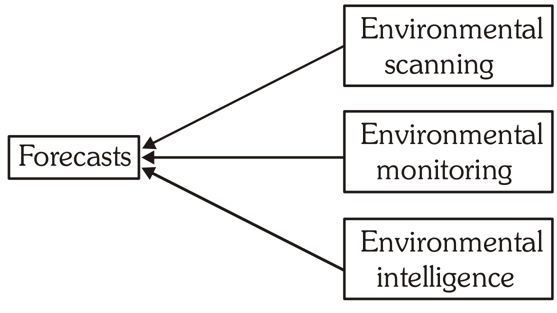


Fig. : Components/Activities of External Environment

1. Environment scanning

The scanning of environment deals with the analysis of the external environment of a firm for estimating the environmental changes in future and for recognising the already existing changes. A successful environmental scanning provides information to the organisation about the critical trends and events before the changes have actually established any identifiable pattern and before competitors identify them.

2. Environmental Monitoring

The environmental monitoring monitors the evolution of environmental trends, series of events or sequences of activities. But these aspects are not involved in the environmental scanning process. A firm may come across these aspects either eventually or by the trends which were brought to its attention from outside the firm. The environmental scanning provides information about the trends, which needs close monitoring and closer evaluation. The process of monitoring helps the firm to analyze how drastically the environmental trends are changing the competitive perspective.

3. Competitive Intelligence

A competitive intelligence assist an organisation to avoid surprises or shocks by predicting moves and decreasing the response time of competitors. It facilitates the firms in determining and defining their industry and recognising the strengths and weaknesses of rival industries. It involves assembling of competitive intelligence related with gathering data on competitors and predicting such data for taking managerial decisions. The internet has rapidly increased the speed at which the firms can acquire competitive intelligence. But aggressive attempts made by the firm for collecting competitive intelligence may result in unethical or illegal behaviours.

4. Environmental Forecasting

The above inputs are more useful only when the forecasting is done appropriately. The environmental forecasting deals with the improvement of probable projections about the direction, scope; speed and degree of environmental change. Few forecasting issues are highly specific to a particular firm and the industry in which it competes. But the main risk of forecasting is that the managers may neglect some important areas while forecasting. They either presume that the world is certain and open to the accurate predictions or they presume the world as uncertain and unpredictable. The major issue is that under estimating the uncertainty can result in strategies which neither protects against threats nor takes the benefits

Q6. How do you analyze the external environment of an organisation?

Ans :

The strategic analysis process deals with the evaluation of different external environments in which the organisations carryout their operations. This evaluation process is sometimes known as the "scanning" of the external environment. The analysing process of external environment is expressed as PEST analysis. PEST stands for "Political, Economic, Social and Technological" factors which exists within the external environment. The PEST analysis concept is very simple but apart from the four factors covered by PEST analysis, there are several variables which a firm must consider.

The following points helps us to know the analysis of some of key external environment,

1. Demographics

The demographics basically involves all markets and economic trends. The external environment in which an organisation carryout its operations relies on the way in which the population build and the individuals who are involved in it. The key factors that are affected by the demographics are the type and features of consumer behavior, marketing and promotion, staff recruitment, the development of enterprise capability and competence and the wider process of future strategic planning.

2. National and International Economic Conditions

The organisations mostly tries to assess and examine the prospective outcomes of the economic conditions faced by them if for instance it may evaluate the following aspects,

(a) The various trends in economic growth and Gross Domestic Product (GDP).

(b) The relative rates of inflation.

(c) The interest rates.

(d) The international variations in relative currency values.

(e) The employment levels and prospect.

(f) The unemployment trends.

(g) Trends in the international trade management.

The key determinants of the existing economic conditions are the policies of governments and international institutions.

3. Industry and Sector Structure

It is very essential for the strategic planners to have adequate knowledge about the trade or industry structure in which the firm carryout its operations. The firms mostly have an adequate knowledge about its domestic market, but it is essential for the enterprise to analys the structure of overseas markets in which it is planning to grow.

4. Markets

The markets in which an organisation carryout its operations are the important elements of the external environment. An effective market analysis is required for the formulation of a strategy and for taking strategic decisions in any business organisation or a public sector body or a non-profit organisation. The reason for this is that the nature and beharviour of markets influences or limits the selection of strategies and the methods through which they are executed. The market analysis process involves following aspects,

(a) Market research

(b) The assessment of business risk

(c) Sales and market forecasting

(d) A consumer and buyer behavior analysis

(e) Market segmentation.

5. Technology

The strategic and operational decisions are taken on the basis of the existing technological conditions and on the degree of change in the knowledge and technology foundation of the external environment. The competitive position and technological adaptation are closely associated in the markets like electronics, computing, telecommunications, fast moving consumer goods, data management and security services.

6. Social and Cultural Factors

The social and cultural factors directly affect the attitudes of individuals, consumer and business behavior. The organisational operations are affected by the social trends, changes in education or the attitudes to work and leisure and the changing expectations. Usually, the firms do not operate as a closed system, instead they operate as a open system which is influenced by the changes that exists within its external environment. The values of an organisation are basically build by the ethics and standards which signifies the society. The attitudes and behavioural patterns are build on the basis of the ethical and moral standards.

7. The Political and Legislative Environment

The political decisions influences the economic and social trends, markets, industrial structure and employment law. It is very essential for an organisation to have knowledge about the political and legislative environments of all the countries in which it is performing its operations.

2.2.1.1 Macro Environmental Factors (Demo-graphic elements, Political forces, Economic elements, Socio-cultural factors, Technological Issues)

Q7. Discuss about Macro Environmental Factors.

Ans : **(Oct.-20)**

Macro Environment

Economic and non-economic factors which influences the business activities and those which provides information regarding the various opportunities so as to promote their business.

The role of macro environment from the point of view of the business may be both positive and negative. This implies that the larger forces in the company's environment do not always provide wider space for business opportunities. They often impose restraints on the business activities on the firm.

The macro environment can be broadly classified into economic environment and non-economic environment.

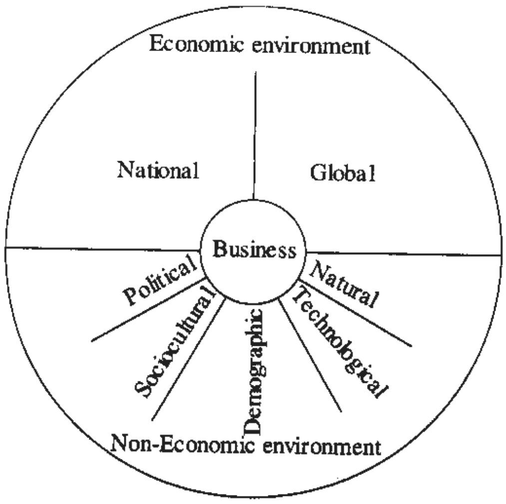


Fig.: Macro Environment of Business

Since business is basically an economic activity, the natural and global economic environment of business is of strategic importance. In the economic environment of the country's economic system, macro economic scenario, phases of business cycle, organisation of the financial system and economic policies are important.

Natural Environment

Natural environment consists of,

a) Economic system

b) Business cycles

c) Financial system

d) Economic policies.

In the present scenario, global economic environment is as much important as national economic environment. The notable features of global environment are as follows,

a) Globalization

b) Deep economic crisis of East and South East Asia

c) Under development of Russia and East Europe

d) Crash of Japanese economy

e) Global recession etc.

Factors Influencing Macro Environment

These factors not only determine the opportunities of business but also at times have serious constraining effect.

1) Social Factors

As explained in the introduction, business and society have a symbiotic relationship. Both of them need and benefit each other. Therefore, business has a social responsibility towards the society in which it exists society has many social factors like culture, values, taster, preferences and so on and all of these must be addressed by the business organisation as business is for the people.

2) Cultural Factors

Every country has a different set of values beliefs, customs. They may very from region to region and from individual to individual. So the business must consider the culture of a community or country must therefore be considered by a business manager while formulating policies and marketing products.

3) Economic Factors

Business depends on the economy of a country, Economic factors are infrastructure per capital income, money supply, price level, employment generation, propensity to consume, etc. They all have a bearing on the business environment. Business therefore should have all the information required and study the impact of these factors on the business.

4) Geographic/Demographic Factors

Geographic factors are locational factors like population, location of the business, sex-ratio (male-female ratio), birthrate, mortality rates and geographical distribution of the population. These geographic factors must be considered analytically as they influence the policies of a government regarding the location of industries.

5) Technological Factors

Each day brings new technology, old ones becomes obsolete. Technology makes the business simple. The government has realized the importance, so policies concerning different aspects of the technology have been formed. Business managers should keep abreast of the rapid technological changes, because this information is vital for its functioning.

6) Political Factors

Business growth depends on the political environmental factors. If the environment is conductive then only will the business flourish. There is always an element of risk associated with these political factors. Risk could be in terms of the type of government in power and its business policies, perception in matters of foreign investment and how it regulates the market. The business organisation therefore has to keep in mind the political aspect while making a foray into the market.

7) Legal Factors

There is a low concerning every aspect of business, this is order to provide safety and security. There are various rules and regulations regarding different business processes. It could be foreign exchange management, essential commodities act, patents, copy right, labour laws, corporate management, consumer protection act and so on. Business firms must conform to the law if they want to be on the good side of the government.

8) Ecological Factors

Whenever a business firm or industry is set up in a location, it must ensure that it is not harming the environment that is polluting it. For this purpose the Indian government has enacted pollution acts such as - The Water Act 1974, The Air Act 1981 and The Environment (Protection) Act 1986, one of the social responsibilities of business is to ensure that the environment in which they operate is kept free of smoke and effluents to prevent environmental detenoration.

2.2.1.2 Industry Analysis

Q8. Define Industry Analysis. Explain the importance of Industry Analysis.

Ans : **(Imp.)**

Introduction

A definition marketing strategy includes an industry analysis, identifies key success factors and includes focusing on managing SWOT (strengths, weaknesses, opportunities and threats). Understand your industry strategies through online strategy guides or a strategic management model.

The importance of industry analysis

1. Industry – related factors have a more direct impact on the firm than the general environment.
2. An industry's dominant economic characteristics are important because of their implication for crafting strategy.
3. Industry analysis reveals industry attractiveness and its prospects for growth.
4. It helps the firm to identify such aspects as:
   - Current size of the industry
   - Product offerings
   - Relative volumes
   - Performance of the industry in recent years
   - Forces that determine competition in the industry.
5. If focuses attention on the firm's competitors.
6. It helps to determine key success factors.
7. A thorough understanding of the industry provides a basis for thinking about appropriate strategies that are open to the firm.

Important Aspects in Industry Analysis

The following are the aspects to be covered in the above analysis :

1. Industry Features

Industries differ significantly. So, analyzing a company's industry begins with identifying the industry's dominant economic features and formatting a picture of the industry landscape. An industry's dominant economic features include such factors as

- Overall size
- Market growth rate
- Geographic boundaries of the market
- Number and sizes of competitors
- Pace of technological change
- Product innovations etc.

Getting a handle on an industry features promotes understanding of the kinds of strategic moves that managers should employ. For example, in industries characterized by one product advance after another, a strategy of continuous product innovation becomes a condition for survival. Examples of such industries are video games, computers and pharmaceuticals.

2. Industry Boundaries

All the firms in the industry are not similar to one another. Firms within the same industry could differ across various parameters, such as :

- Breadth of market
- Product/service quality
- Geographic distribution
- Level of vertical integration
- Profit motives

3. Industry Environment

Based on their environment, industries are basically of two types

a) **Fragmented Industries :** A fragmented industry consists of a large number of small or medium sized companies, none of which is in a position to determine industry price. Many fragmented industries are characterized by low entry barriers and commodity type products that are hard to differentiate.

b) **Consolidated Industries :** A consolidated industry is dominated by a small number of large companies (an oligopoly) or in extreme cases, by the just one company (a monopoly). These companies are in a position to determine industry prices. In consolidated industries, one company's competitive actions or moves directly affect the market share of its rivals, and thus their profitability. When one company cuts prices, the competition also cut prices. Rivalry increases as companies attempt to undercut each other's prices or offer customers more value in their products, publishing industry profits down in the process. The consequence is a dangerous competitive spiral.

According to Michael Porter, industries can be categorized into :

1. **Emerging industries :** Are those in the industry and growth phases of their life cycle.
2. **Mature industries :** Are those who reached the maturity stage of their life cycle.
3. **Declining industries :** Are those in the transition stage from maturity to decline.
4. **Global industries :** Are those with manufacturing bases and marketing operations in several countries.

Competition varies during each stage of industry life cycle.

4. Industry Structure

Defining an industry boundaries is incomplete without an understanding of its structural attributes. Structural attributes are the enduring characteristics that given an industry its distinctive character.

Industry structure consists of four elements :

a) **Concentration :** It means that extent to which industry sales are dominated by only a few firms. In a highly concentrated industry (i.e. an industry whose sales are dominated by a handful of firms), the intensity of competition declines over time. High concentration serves as a barrier to entry into an industry, because it enables the firms to hold large market shares to achieve significant economies of scale.

b) **Economies of Scale :** This is an important determinant of competition in an industry. Firms that enjoy economies of scale can charge lower prices than their competitors, because of their savings in per unit cost of production. They also can create barriers to entry by reducing prices temporarily or permanently to deter new firms entering the industry.

c) **Product differentiation :** Real perceived differentiation often intensifies competition among existing firms.

d) **Barriers to entry :** Barriers to entry are the obstacles that a firm must overcome to enter an industry, and the competition from new entrants depends mostly on entry barriers.

These features determine the strength of the competitive forces operating in the industry. Trends affecting industry structure are important considerations in strategy formulation.

5. Industry Attractiveness

Industry attractiveness is dependent on the following factors :

- Profit potential
- Growth prospects
- Competition
- Industry barriers etc.

As a general proposition, if an industry's profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is considered unattractive. If the industry and competitive situation is assessed as attractive, firms employ strategies to expand sales and invest in additional facilities as needed to strengthen their long-term competitive position in business. If the industry is judged as unattractive, firms may choose to invest cautiously, look for ways to protect their profitability. Strong companies may consider diversification into more attractive businesses. Weak companies may consider merging with a rival to bolster market share and profitability.

6. Industry Performance

This requires an examination of data relating to :

- Production
- Sales
- Profitability
- Technological advancements etc.

7. Industry Practices

Industry practices refer to what a majority of players in the industry do with respect to products, pricing, promotion, distribution etc. This aspect involves issues relating to :

- Product policy
- Pricing policy
- Promotion policy
- Distribution policy
- R&D policy
- Competitive tactics.

8. Industry's Future Prospects

The future outlook of an industry can be anticipated based on such factors as :

- Innovation is products and services
- Trends in consumer preferences
- Emerging changes in regulatory mechanisms
- Product life cycle of the industry
- Rate of growth etc.

Q9. Explain the factors determining an Industry analysis.

Ans :

1. Features and Conditions of the Industry

General features / basic conditions of the industry include factors such as current size of the industry, product categories/sub cate-gories, their relative volumes, performance of the industry in recent years, etc.

2. Industry Environment

Industries can be classified based on their settings/environment. Porter classified industries as fragmented, emerging, matured, declining and global industries.

3. Industry Structure

Industry structure essentially means the underlying fundamental economic and technical forces of an industry. Each company will have its own key structural features such as number of players, market size, relative shares of the player, nature of the competition, differentiation practiced by the various players in the industry, cost structure of the players, etc. These features determine the strength of competitive forces operating in the industry and thereby serve as direct indicators to the attractiveness or profitability of the industry.

4. Industry Attractiveness

The various determinants of industry attractiveness are industry potential, industry growth, industry profitability, future pattern of the industry barriers and forces shaping the competition in the industry.

5. Industry Performance

Industry perfor-mance entails looking at production, sales, profitability and technological development.

6. Industry Practices

Industry practices refer to what a majority of the players do in the industry with respect to essential aspects of the business such as distribution, pricing, promotion, methods of selling, service field support, R&D and legal tactics.

7. Emerging Trends

The emerging trends/likely future pattern of the industry can be discerned by analyzing issues such as the product life cycle, stage of the industry, rate of growth, changes of buyer needs, innovation in product/process, entry and exit of firms and emerging changes in the regulatory environment governing the industry.

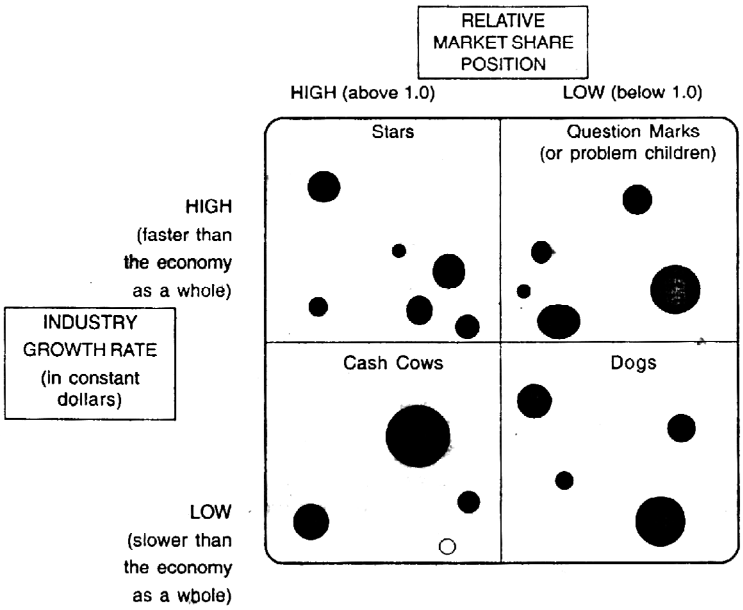
2.2.1.3 BCG Matrix

Q10. How to you evaluate the strategic alternatives using the BCG Matrix ?

Ans :

The Boston Consulting Group - a leading management consulting firm devised a four-square grid. This grid was first portfolio matrix to be widely used. The BCG - type matrix is presented in Fig. The matrix is formed using industry growth rate on the vertical axis and relative market share on the horizontal axis. Each business unit appears as a circle on the four cell matrix with the size of each circle scaled to the per cent of revenues it represents in the overall corporate portfolio.

Relative market share is the ratio of business's market share to the market share held by the largest rival company in the industry, with market share measured in terms of quantity of sales but not value of sales. In other words, relative market share is calculated by dividing a business's percentage share of total industry's sales volume by the percentage share held by its largest rival.



1. **Question Marks :**

   BCG labeled the business units falling in the upper right quadrant of the growth-share matrix as "question marks" or "problem children." Rapid market growth makes such businesses attractive from an industry stand point. But their low relative market share raises a question about whether, they can compete successfully against larger and most cost-efficient rivals. Hence, the BCG designated such business units as question marks or problem children. Question mark businesses are also 'cash hogs' as the cash needs of such businesses are high. This is because of investment requirements of rapid growth and product development. Further, the internal cash generation of such businesses is low due to low market share, absence of large scale economies and low profit margins. Large inflow of cash is required for a question mark or cash hog businesses just to keep up with rapid market growth.

2. **Stars**

   Business units falling in the upper left quadrant (high relative market position and high industry' growth rate) of the growth share matrix were labeled by BCG as, "Stars." They offer excellent profit and growth opportunities. The company can depend on these business units to increase overall performance of the total portfolio. Stars, generally require large cash investments to expand production facilities and meet working capital requirements.

   Stars generate their own large internal cash flows in view of:

   (i) low cost advantage,

   (ii) large scale economies, and

   (iii) cumulative production experience.

   BCG designated the businesses with a high relative market share in a low growth market as "cash cows." Cash cow business units fall in the lower left quadrant of the Fig.

3. Cash cows

Cash cow business units generate substantial cash surpluses than what it needs for reinvestment and expansion. This is due to the low industry growth rate and as much the fresh investment opportunities are less. The cash cow business unit generates more cash flows and profits due to high relative market share and industry leadership. But the reinvestment opportunities are less.

- Dividend payments
- Investing in emerging stars
- Finance acquisitions
- Investing in problem children that be groomed as future stars.

4. Dogs

Business units falling under the lower right quadrant of the growth share matrix were labeled by BCG as "Dogs." Dogs are the businesses with a low relative market share in a slow growth industry. These business units are called dogs because of:

i) their dim growth prospects,

ii) their trailing market position,

iii) squeeze that being behind the leaders.

These business units fail to generate cash flows on long-term basis. These units, sometimes fail even to generate cash flows that are necessary for working capital requirements. Therefore, BCG suggests that weak dog businesses be havested, divested or liquidated depending upon the ability of the strategy to yield more cash.

Q11. Explain the strength and weaknesses of BCG Matrix.

Ans :

Strengths of the BCG Matrix

The BCG business portfolio matrix has the following strengths:

(i) It makes definite contribution to the strategist's tool kit.

(ii) It provides strategy-situation match by prescribing broad guidelines and providing direction to the companies.

(iii) It provides guidelines for maximising the financial performance of a diversified company.

(iv) It highlights the interaction within a corporate portfolio.

(v) It helps for fixing priorities for corporate resource allocation.

(vi) It provides rationalisation for both invest, expand and divest strategies.

Weaknesses of BCG Matrix

The legitimate shortcomings of the BCG Matrix are:

(i) This matrix based on ' high-low classifications ignores many businesses with an average growth rate.

(ii) The matrix has classified all businesses into four categories, viz., stars, problem children, cash cow and dog. But, some market share leaders have never really been stars in terms of profitability. All businesses with low relative market shares are not dogs or question marks. In many cases runner-up firms have proven track records in terms of growth, profitability and competitive ability. Therefore, a key characteristic to assess a firm is the trend in a firm's relative market share.

(iii) The BCG Matrix is not a reliable indicator of relative investment opportunities across business units. For example, investing in a star is not necessarily more attractive than investing in a lucrative cash cow.

(iv) Being a market leader in a slow growth industry does not guarantee cash cow status.

(v) Strategists should examine more than just industry growth and relative market share variables to assess the long term attractiveness of the portfolio's business units.

(vi) The relationship between relative market share and profitability is not as tight as the experience curve effect implies. The significance of length production experience in lowering production cost per unit varies from industry to industry. Sometimes, the large market share is due to cost advantage and sometimes it is not.

2.2.1.4 GE Matrix

Q12. Define GE Matrix. Explain the strength and weakness of GE Matrix.

Ans : **(June-19)**

The alternative approach is the nine-cell matrix, based on the two dimensions of long-term industry attractiveness and business strength/ competitive position. This approach is pioneered by General Electric as a way to analyse its own portfolio. This analysis was developed with the help of the consulting firm of Mckinsey and Company. The dimensions of the matrix, viz., long-term industry attractiveness and business strength/competitive position are a composite of several considerations as opposed to a single factor.

The factors that influence the criteria for determining long-term industry attractiveness include:

(i) market size and growth rate,

(ii) technological requirements.

(iii) the intensity of competition,

(iv) entry and exit barriers,

(v) seasonality and cyclical influences,

(vi) capital requirements,

(vii) emerging industry threats and opportunities,

(viiii) historical and projected industry profitability,

(ix) social, environmental and regulatory influences.

The selected measures are assigned weights based on their significance to management and their role in the diversification strategy. The sum of the weights must be 1.00. Use the 1–10 rating scale and assign appropriate weights to each factor. Then multiply the weights with the rating concerned. The product will be the weighted industry rating. Then add the weighted industry ratings of all the factors. The sum will be the industry attractive rating. It presents the procedure for calculation of industry attractiveness rating. Attractiveness ratings are calculated for each industry represented in the corporate portfolio.

The factors that influence the business strength/competitive position include :

(i) market share,

(ii) relative cost position,

(iii) ability to match rival firms on quality and service,

(iv) knowledge of customers and markets,

(V) possession of desirable core competencies,

(vi) adequacy of technological know-how,

(vii) caliber of management,

(viii) profitability relative to competitors.

The industry attractiveness and business strength scores provide the basis for placing a business in one of the nine ceils of the matrix. The area of the circles is proportional to the size of the industry and the pie slices within the circles reflect the business's market share in the GE attractiveness strength matrix. The long-term industry attractiveness is shown on vertical axis and from low to high.

Corporate Strategy Implications: The attractive strength matrix helps in deciding internet priorities in different businesses of a company. The important strategic implications of the matrix are:

(i) Industry attractiveness and business strength/ competitive positions are high in the upper left three cells. Top investment priority should be given to the businesses in these three cells. Therefore, the strategic prescription for the business in these three cells is "grow and build?

(ii) The second priority comes to the three diagonal cells stretching from the lower left to the upper right {i.e., the lower-left cell, the middle cell and the upper right ceil). Medium priority should be given to the businesses falling in these cells. Funds should be invested steadily in these businesses to protect and maintain their industry position. If any business in these three cells has high attractiveness, it should be given top priority in investment and be given go-ahead to employ a more aggressive strategic approach.

(iii) The business in the three cells in the lower-right corner do not receive any investment decisions. Rather, the strategies of harvest or divest may be employed for these businesses. However, if there are any exceptional cases for turnaround, the strategy of turnaround may be employed.

Strengths and Weaknesses of GE Matrix

(a) Strengths

This matrix has three strengths:

(i) It allows for intermediate ranking between high and low and between strong and weak.

(ii) It incorporates a much wider variety of strategically relevant variables, whereas the BCG Matrix is based totally on two considerations — industry growth rate and relative market share.

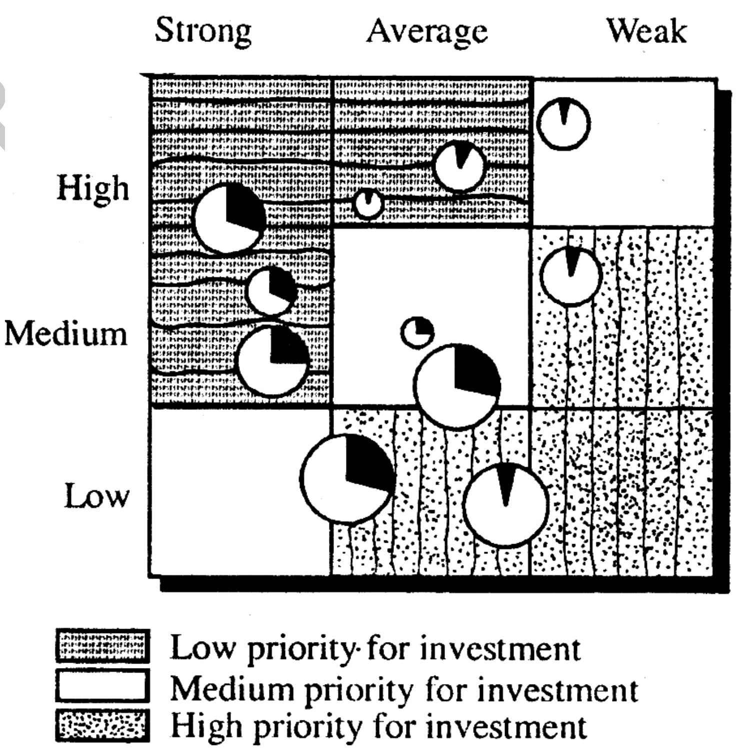
(iii) It stresses the channeling of corporate resources to businesses with greatest probability of achieving competitive advantage and superior performance. That is top investment priority for the businesses in the three upper left cells, medium priority for the businesses in the three diagonal cells stretching from the lower left to the upper right and adopting turnaround, harvest and divest strategies for the businesses in the three lower right cells.

(b) Weaknesses

Though the GE Matrix is better than the BCG Matrix, it also suffers from some weaknesses. They are:

(i) The nine-cell GE Matrix provides no real guidance on the specific business strategy. This matrix also suggests general strategy like — aggressive expansion, fortify-and-defend or harvest divest. These strategies do not address the issue of strategic coordination between businesses, specific competitive approaches and strategies to be adopted at the business unit level.

(ii) The GE method tends to obscure business that are about to become winners because their industries are entering the take off stage.



2.2.1.5 Add Little models

Q13. Explain about Arthur D Little (ADL) Strategic Condition Matrix ?

Ans :

The Arthur D Little (ADL) Strategic Condition Matrix offers a different perspective on strategy formulation. ADL has two main dimensions – competitive position and industry maturity.

Competitive position is driven by the sectors or segments in which a Strategic Business Unit (SBU) operates. The product or service which it markets, and the accesses it has to a range of geographically dispersed markets that are what makes up an organization's competitive position i.e. product and place.

	Stages of Industry Maturity			
Company's Competitive Position	Embryonic	Growth	Maturity	Ageing
Dominant				
Strong				
Favourable				
Tenable				
Weak				

AD Little Competitive Position/Industry Maturity Matrix

It is a combination of the two aforementioned dimensions that helps us to use ADL for marketing decision-making. Now let's consider options in more detail. Competitive position has five main categories:

1. **Dominant:** This is a particularly extraordinary position. Often this is associate with some form of monopoly position or customer lock-in e.g. Microsoft Windows being the dominant global operating system.
2. **Strong:** Here companies have a lot of freedom since position in an industry is comparatively powerful e.g. Apple's iPod products.
3. **Favourable:** Companies with a favourable position tend to have competitive strengths in segments of a fragmented market place. No single global player controls all segments. Here product strengths and geographical advantages come into play.
4. **Tenable:** Here companies may face erosion by stronger competitors that have a favourable, strong or competitive position. It is difficult for them to compete since they do not have a sustainable competitive advantage.
5. **Weak:** As the term suggests companies in this undesirable space are in an unenviable position. Of course there are opportunities to change and improve, and therefore to take an organization to a more favourable, strong or even dominant position.

2.2.1.6 Key Drivers for a Change

Q14. What are the Key Drivers of Change that effects market and industries?

Ans :

The different forces which influences the structure of an industry, sector or market are known as key drivers of change and identifying such key drivers of change is an essential task Inspite of the changes prevailing in the macro-environment of several organisations, it will be the integrated impact of few factors which will be more significant than the individual factors. Some of the important key drivers of change are as follows,

1. **Market Globalisation**

   There are many different reasons behind the increasing trend of market globalisation. It has been observed that customers needs and preferences are becoming almost similar in few markets. When markets globalise, the firms which are carrying out their operations in such markets becomes the global customers and may look for the suppliers who carryout their operations on global basis. The development of global communication and distribution channels may direct/drive globalisation and may in turn provide opportunities for transferring the global brands all over the countries. The marketing policies, brand names and identities and advertising can be globally opportunities for transferring the global developed and may create global demand and expectations from customers and may also offer marketing cost advantages for global operators.

2. **Cost Globalisation**

   Cost globalisation may lead to competitive advantage as few organisations will have greater access or more knowledge about these advantages than other organisations. Sometimes the cost advantages, can be attained from the experience gained from the wider-scale operations. The other cost advantages can be attained through central sourcing efficiencies from lowest-cost suppliers all over the world. The country- specific costs like labour or exchange rates motivates the businesses to search globally for low cost for the purpose of meeting the costs of competitors which attains such benefits from their location. The other businesses faces high costs of product development and may consider the benefits which can be obtained by operating globally with few products instead of incurring the costs of many different types of products on limited geographical scale.

3. **Governments**

   The government activities and policies also acts as driver's of globalisation of industry. The globalisation process is promoted by technical standardization among the countries of several products like automobile, aerospace and computing industries. The host governments tries to motivate the global operators to base themselves in their countries.

4. **Global Competition**

   Basically the global competition is increased by the changes in the macro-environment. This intum drives globalisation. When the levels of exports and imports among the countries are high, then it increases the communication among the competitors globally. In few cases, the interdependence of company's operations globally also promotes the globalisation of its competitors have the above mentioned were the key driver's of change that affects the industries and markets. It is very essential for all the multinational corporations to understand and have knowledge about all these drivers of change for carrying out its operations globally effectively.

2.2.1.7 SWOT Analysis

Q15. Explain briefly about SWOT Analysis.

Ans : **(Oct.-20, June-18)**

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.

SWOT Analysis is the most renowned tool for audit and analysis of the overall strategic position of the business and its environment. Its key purpose is to identify the strategies that will create a firm specific business model that will best align an organization's resources and capabilities to the requirements of the environment in which the firm operates. In other words, it is the foundation for evaluating the internal potential and limitations and the probable/likely opportunities and threats from the external environment.

It views all positive and negative factors inside and outside the firm that affect the success. A consistent study of the environment in which the firm operates helps in forecasting/predicting the changing trends and also helps in including them in the decision-making process of the organization.

An overview of the four factors (Strengths, Weaknesses, Opportunities and Threats) is given below -

1. Strengths

Strengths are the qualities that enable us to accomplish the organization's mission. These are the basis on which continued success can be made and continued/sustained. Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise in, the traits and qualities your employees possess (individually and as a team) and the distinct features that give your organization its consistency. Strengths are the beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty. Examples of organizational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. Weaknesses

Weaknesses are the qualities that prevent us from accomplishing our mission and achieving our full potential. These weaknesses deteriorate influences on the organizational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet. Weaknesses in an organization may be depreciating machinery, insufficient research and development facilities, narrow product range, poor decision-making, etc. Weaknesses are controllable. They must be minimized and eliminated. For instance - to overcome obsolete machinery, new machinery can be purchased. Other examples of organizational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

3. Opportunities

Opportunities are presented by the environment within which our organization operates. These arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable. Organizations can gain competitive advantage by making use of opportunities.

Organization should be careful and recognize the opportunities and grasp them whenever they arise. Selecting the targets that will best serve the clients while getting desired results is a difficult task. Opportunities may arise from market, competition, industry/government and technology. Increasing demand for telecommunications accompanied by deregulation is a great opportunity for new firms to enter telecom sector and compete with existing firms for revenue.

4. Threats

Threats arise when conditions in external environment jeopardize the reliability and profitability of the organization's business. They compound the vulnerability when they relate to the weaknesses. Threats are uncontrollable. When a threat comes, the stability and survival can be at stake. Examples of threats are - unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits; etc.

Advantages of SWOT Analysis

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

a. It is a source of information for strategic planning.

b. Builds organization's strengths.

c. Reverse its weaknesses.

d. Maximize its response to opportunities.

e. Overcome organization's threats.

f. It helps in identifying core competencies of the firm.

g. It helps in setting of objectives for strategic planning.

h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

SWOT Analysis provide information that helps in synchronizing the firm's resources and capabilities with the competitive environment in which the firm operates.

Exhibit : SWOT Analysis — What to Look for in Sizing up a Company's Strengths, Weaknesses, Opportunities, and Threats

Potential Internal Strengths

- Core competencies in key areas
- Adequate financial resources
- Well thought of by buyers
- An acknowledged market leader
- Well-conceived functional area strategies
- Access to economies of scale
- Insulated (at least somewhat) from strong competitive pressures
- Proprietary technology
- Cost advantages
- Better advertising campaigns
- Product innovation skills
- Proven management
- Ahead on experience curve
- Better manufacturing capability
- Superior technological skills
- Others

Potential Internal Weaknesses

- No clear strategic direction
- Obsolete facilities
- Super profitability because?
- Lack of managerial depth and talent
- Missing some key skills or competencies
- Poor track record in implementing strategy
- Plagued with internal operating problems
- Falling behind in R&D
- Too narrow a product line
- Weak market image
- Weak distribution network
- Below-average marketing skills
- Unable to finance needed changes in strategy
- Higher overall unit costs relative to key competitors
- Others

Potential External Opportunities

- Serve additional customer groups
- Enter new markets or segments
- Expand product line to meet broader range Of customer needs
- Diversify into related products
- Vertical integration (forward or backward)
- Falling trade barriers in attractive foreign markets
- Complacency among rival firms
- Faster market growth
- Others

Potential External Threats

- Entry of lower-cost foreign competitors
- Rising sales of substitute products
- Slower market growth
- Adverse shifts in foreign exchange rates and trade policies of foreign governments
- • Costly regulatory requirements
- Vulnerability to recession and business cycle
- Growing bargaining power of customers or suppliers ,
- Changing buyer needs and tastes
- Adverse demographic changes ?
- Others

Q16. Explain the pitfalls of SWOT analysis.

Ans :

The following are some of the pitfalls of SWOT analysis,

1. lit may not be simple while implementing it in a real-life situations.
2. It is just acting as a list of strengths, weaknesses, opportunities and threats. It does not state measures to utilize or to eliminate the listed items.

   Example: Threats.
3. It only represents the analyst's views, which may be misinterpreted for being self-biased or poorly analyzed.
4. It involves high rate of ambiguity due to the false interpretations of threats with weaknesses or opportunities with threats.
5. It restricts the organisations in developing the new strengths instead encourages them to match existing strengths with the emerging opportunities.

2.2.1.8 Porter's Diamond Model

Q17. Explain the concept of Michael Porter five force model.

Ans :

An industry is a group of firms producing products that are close substitutes. In the course of competition, these firms influence one another. Typically, industries include a rich mix of competitive strategies that companies use in pursuing strategic competitiveness and above-average returns. In part, these strategies are chosen because of the influence of an industry's characteristics. The Strategic Focus on the global competitive nature of the automobile industry illustrates the difficulties that firms are having with the competitive forces in an industry.

As illustrated in the Strategic Focus on the global auto industry, compared with the general environment, the industry environment often has a more direct effect on the firm's strategic competitiveness and above-average returns. The intensity of industry competition and an industry's profit potential are functions of five forces of competition: the threats posed by new entrants, the power of suppliers, the power of buyers, product substitutes and the intensity of rivalry among competitors.

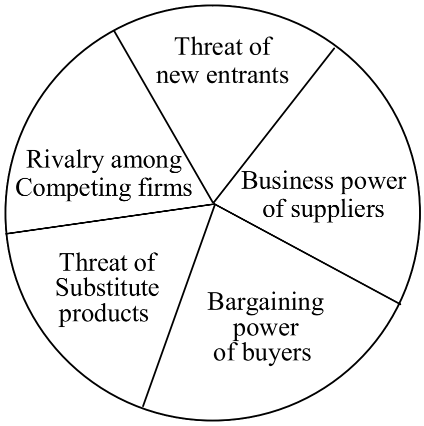


Fig. : The Five Forces of Competition Model

The five forces model of competition expands the arena for completive analysis. Historically, when studying the competitive environment, firms concentrated on companies with which they competed directly. However, firms must search more broadly to identify current and potential competitors by identifying potential customers as well as the firms serving them. Competing for the same customers and thus being influenced by how customers value location and firm capabilities in their decisions is referred to as the market microstructure. Understanding this area is particularly important, because in recent years industry boundaries have become blurred.

The five forces model recognizes that suppliers can become a firm's competitors (by integrating forward), as can buyers (by integrating backward). Several firms have integrated forwards in the pharmaceutical industry by acquiring distributors or wholesales. In addition, firms choosing to enter a new market and those producing products that are adequate substitutes for existing products can become a company's competitors.

I. Threat of New Entrants

Identifying new entrants is important because they can threaten the market share of existing competitors. One reason new entrants pose such a threat is that they bring additional production capacity. Unless the demand for a good or service is increasing, additional capacity holds consumers' costs down, resulting in less revenue and lower returns for competing firms. Often, new entrants have a keen interest in gaining a large market share. As a result, new competitors may force existing firms to be more effective and efficient and to learn how to compete on new dimensions (for example, using an Internet-based distribution channel).

The likelihood that firms will enter an industry is a function of two factors barriers to entry and the retaliation expected from current industry participants. Entry barriers make it difficult for new firms to enter an industry and often place them at a competitive disadvantage even when they are able to enter. As such, high entry barriers increase the returns for existing firms in the industry and may allow some firms to dominate the industry.

A) Barriers to Entry

Existing competitors try to develop to entry. For example, cable firms are entering the phone service business. Accordingly, local firm services such as SBC Communications are developing a bundling strategy to prevent customer turnover. They offer high-speed Internet services, satellite television, and wireless services in a single package that could cost $100 per month. In doing this they are creating switching costs for their customers to prevent defections to alternative substitute-product cable providers (see Strategic Focus on cable companies). Potential entrants such as the cable firms seek markets in which the entry barriers are relatively insignificant. An absence of entry barriers increases the probability that a new entrant can operate profitably. There are several kinds of potentially significant entry barriers.

a) **Economies of Scales :** Economies of scale are derived from incremental efficiency improvements through experience, as a firm gets larger. Therefore, as the quantity of a product produced during a given period increases, the cost of manufacturing each unit declines. Economies of scale can be developed in most business functions, such as marketing, manufacturing, research and development, and purchasing. Increasing economies of scale enhances a firm's flexibility. Some competitive conditions reduce the ability of economies of scale to create an entry barrier.

b) **Product Differentiation :** Over time, customers may come to believe that a firm's product is unique. This belief can result from firm's service to the customer, effective advertising campaigns or being the first to market a good or service.

c) **Capital requirements :** Competing in a new industry requires a firm to have resources to invest. In addition to physical facilities, capital is needed for inventories, marketing activities, and other critical business functions. Even when competing in a new industry is attractive, the capital required for successful market entry may not be available to pursue an apparent market opportunity.

d) **Switching Costs :** Switching costs are the one-time costs customers incur when they buy from a different supplier. The costs of buying new ancillary equipment and of retraining employees, and even the psychic costs of ending a relation ship, may be incurred in switching to a new supplier. In some cases, switching costs are low, such as when the consumer switches to a different soft drink. Switching costs can vary as a function of time.

If switching costs are high, a new entrant must offer either a substantially lower price or a much better product to attract buyers. Usually, the more established the relationship between parties, the greater is the cost incurred to switch to an alternative offering.

e) **Access to Distribution Channels :**

Over time, industry participants typically development effective means of distributing products. Once a relationship with its distributors has been developed, a firm will nurture it to create switching costs for the distributors.

Access to distribution channels can be a strong industries and in international markets.

f) **Cost Disadvantages Independent of Scale :** Sometimes, established competitors have cost advantages that new entrants cannot duplicate. Proprietary product technology, favorable access to raw materials, desirable locations, and government subsides are examples. Successful competition requires new entrants to reduce the strategic relevance of these factors. Delivering purchases directly to the buyer can counter the advantage of a desirable location; new food establishments in an undesirable location often follow this practice.

g) **Government Policy :** Through licensing and permit requirements, governments can also control entry into an industry. Liquor retailing, radio and TV broadcasting, banking, and trucking are examples of industries in which government decisions and actions affect entry possibilities. Also, governments often restrict entry into some industries because of the need to provide quality service or the need to protect jobs.

B) Expected Retaliation

Firms seeking to enter an industry also anticipate the reactions of firms in the industry. An expectation of swift and vigorous competitive responses reduces the likelihood of entry. Vigorous retaliation can be expected when the existing firm has a major stake in the industry, when it has substantial resources, and when industry growth is slow or constrained. For example, any firm attempting to enter the auto industry at the current time can expect significant retaliation from existing competitors due to the overcapacity.

II. Bargaining Power of Suppliers

Increasing prices and reducing the quality of their products are potential means used by suppliers to exert power over firms competing within an industry. If a firm is unable to recover cost increases by its suppliers though its own pricing structure, its profitability is reduced by its suppliers' actions. A supplier group is powerful when

- It is dominated by a few large companies and is more concentrated than the industry to which it sells.
- Satisfactory substitute products are not available to industry firms.
- Industry firms are not a significant customer for the supplier group.
- Supplier's goods are critical to buyers' marketplace success.
- The effectiveness of suppliers' products has created high switching costs for industry firms.
- It poses a credible threat to integrate forward into the buyers' industry. Credibility is enhanced when suppliers have substantial resources and provide a highly differentiated product.

The airline industry is an example of an industry in which suppliers' bargaining power is changing. Though the number of suppliers is low, the demand for the major aircraft is also relatively low. Being and Airbus strongly compete for most orders of major aircraft. However, the shift in airline strategy to short-haul flights and low costs has enhanced the fortunes of other aircraft manufacturers who make smaller and more efficient aircraft.

III. Bargaining Power of Buyers

Firms seek to maximize the return on their invested capital. Alternatively, buyers (customers of an industry or a firm) want to buy products at the lowest possible price the point at which the industry earns the lowest acceptable rate of return on its invested capital. To reduce their costs, buyers bargain for higher quality, greater levels of service, and lower prices. These outcomes are achieved by encouraging competitive battles among the industry's firms. Customers (buyer groups) are powerful when

- They purchase a large portion of an industry's total output.
- The sales of the product being purchased account for a significant portion of the seller's annual revenues.
- They could switch to another product at little, if any, cost.
- The industry's products are undifferentiated or standardized, and the buyers pose a credible threat if they were to integrate backward into the sellers' industry.

Armed with greater amounts of information about the manufacturer's costs and the power of the Internet as a shopping and distribution alternative, consumers appear to be increasing their bargaining power in many industries.

IV. Threat of substitute Products

Substitute products are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces. For example, as a sugar substitute, NutraSweet places an upper limit on sugar manufacturers' prices NutraSweet and sugar perform the same function, though with different characteristics.

V. Intensity of Rivalry among Competitors

Because an industry's firms are mutually dependent, actions taken by one company usually invite competitive responses. In many industries, firms actively compete against one another. Competitive rivalry intensifies when a firm is challenged by a competitor's actions or when a company recognizes an opportunity to improve its market position.

Firms within industries are rarely homogeneous; they differ in resources and capabilities and seek to differentiate themselves from competitors. Typically, firms seek to differentiate their products from competitors' offerings in ways that customers value and in which the firms have a competitive advantage. Visible dimensions on which rivalry is based include price, quality, and innovation.

Factors affect the Intensity of Firms Rivatries

A) Slow Industry Growth

B) High fixed Costs or High Storage Costs.

C) Lack of Differentiation or Law Switching Costs.

D) High Strategic Stakes

E) High Exit Barriers

Interpreting Industry Analyses

Effective industry analyses are products of careful study and interpretation of data and information from multiple sources. A wealth of industry-specific data is available to be analyzed. Because of globalization, international markets and rivalries must be included in the firm's analyses. In fact, research shows that in some industries, international variables are more important than domestic ones as determinants of strategic competitiveness. Furthermore, because of the development of global markets, a country's borders no longer restrict industry structures. In fact, movement into international markets enhances the chances of success for new ventures as well as more established firms.

2.2.2 Internal Environmental Analysis

Q18. What do you mean by internal environment? What are the factor influencing internal environment of organization?

Ans :

Internal Environment

Internal environment of an organization is characterized by resource, capabilities, and competencies, of an organization. The internal environment plays, a key role in the strategic management process of the organization. It is very important for a firm to perform its intemal analysis.

Internal environment includes the strengths and opportunities like knowledge, skills, capabilities, communication, coordination etc. Determination or diagnosis of intemal environment includes identification of strengths and weaknesses.

Strengths are the internal capabilities of the business organization in comparison with that of its competitors. The strengths may be the company's image, brand image, business synergies and functional areas of marketing, finance, production, R&D (Research and Development) and most important strength of human resources.

Weaknesses includes those factors which tend to reduce the capabilities or competencies of the organization when compared to its competitors. It could be poor product quality, obsolete technology, high cost of production, poor marketing, financially weak and ineffective management.

Factors influencing Internal Environment

The following factors influencing intemal environmental,

(i) Human Resources

Availability of personal, their skills, capabilities, knowledge, motivational levels, group dynamics are to be well diagnosed and arc to be effectively utilised.

(ii) Financial Resources

Extent of investment, assets level, shareholders capacities etc. should be diagnosed.

(iii) Infrastructural Facilities

This includes diagnosing availability of equipments, their capacity, raw materials, their inflow, finished products, their outflow etc.

(iv) Technological Capabilities

The extent of technology prevailing in the organization, its usage and technology required are analyzed.

(v) Other Factors

These include, Leadership style, Superior-subordinate relations, Communication, Coordination, Motivational level, Group dynamics etc.

Q19. Describe the process of internal environment analysis.

Ans :

In an international economy factors such as labor cost, financial resources, raw material and so an are the internal factors which acts as the main source of competitive advantage. Based on that analyses of such factors strategies formed in order to withstand the global competition. While analysing the internal organization it is must for the organisations to adopt and keep global mind-set wherein the managers need to analyse, understand and manage the internal affairs of an organisation from the global market prospective.

A global mind-set is the capability of the firm to examine, understand, manage the internal organisation. In such a manner that it is does not rely upon to the beliefs of a single nation, culture or context.

There, the process of analysing firm's internal organisation needs to examine collection of different resource in such a manner that it is does not rely upon different resources and capabilities. On the basis of this information the firm decide as to what resource and capabilities it possess when compared to other companies.

Challenges in Analysing Internal Organization

The following are some of the challenges which are faced while analysing the internal organisation,

1. Decision Making

It is a difficult task for a manager to scrutinize the firm's internal organisation on the based of which effective decisions are made. It is quite clear that decision making is a difficult task and involves many challenges from the fact that one-half of the organisations decision fail. The process of decision making involves the following points which needs to be taken into consideration,

(i) The task of recognising promoting allocating safeguarding the resources capabilities and core competencies might be easy but in reality it is a challenging and a difficult task for a manager.

(ii) The manager due to pressure from top manager faces difficulty in examining the internal organization.

(iii) Misidentification and mistakes might result is the creation of barriers in achieving the competitive advantages.

2. Conditions

Under critical situations managerial decisions are categorised into three conditions as follows,

(i) Uncertainty

In organization uncertainty may take place due to quickly changing economic and political trends, change in customer demands, transformation in societal values innovations in technologies and so on. All these factors together results in uncertainty and the managers faces greak difficulty in the decision making process.

(ii) Complexity

Complexities might occur due to environmental uncertainty and it may create large number of issues in examining and studying the internal environment.

(iii) Intraorganizational Conflict

Intraorganizational conflict might take place at the time of decision making process by management. A proper care must be taken while making decision so that no one is affected by it.

Finally after analysing the three conditions judgement has to be made i.e.,. The process of transforming ideas into successful decisions. While exercising judgement the decision maker must be a value of the risk and competitive advantage involved in it.

2.2.2.1 Value Chain Analysis

Q20. What is value chain analysis ? What are the elements of value chain analysis ?

Ans : **(Oct.-20, June-18)**

Value is the amount buyers desire to pay for what a firm provides to them in the form of a product/service/product-cum-service. Creating value for buyers that exceeds the cost of manufacturing, marketing and other operations is one of the basic goals of any business unit's generic strategy. Business activities that transform inputs into desired output that customers value reflect the value chain. Value chain analysis examines and enhances the efforts of the business operations that contribute to the value to the customers. Value chain analysis views the business as a process of activities from the stage of raw material/inputs to the final stage of delivering the product including sales service to the customer.

Michael E. Porter contributed to identifying building blocks, assessing the value addition from each of the activities and linking their organisation's competitive advantage. The value chain display consists of total value of activities and margin. Value activities are of two types, viz., primary activities and support activities.

I) Primary Activities

Primary activities are those business activities that relate and contribute directly to the manufacture, marketing of the product and creating and adding value in the chain of operations. Thus, primary activities form the sequence or chain through which raw materials/inputs are transformed into final product/service that the customers use including the post-sales service. Primary activities, thus, include.

a) Inbound Logistics

Inbound logistics include quality verification of raw material at the source, transportation in good condition and efficiently, storage and warehousing economically and efficiently controlled. These activities ensure the quality of raw material that can contribute to the quality the final product. In addition to performing these activities on time, ensure the timely distribution the product to market intermediaries and the customer. Further efficient handling of these activities, better negotiations and maintenance of sound relationship with the supplier reduce the cost inbound logistics. Inbound logistics contribute significantly to enhancement of value as raw materials account for more than 50% of product cost in majority of products.

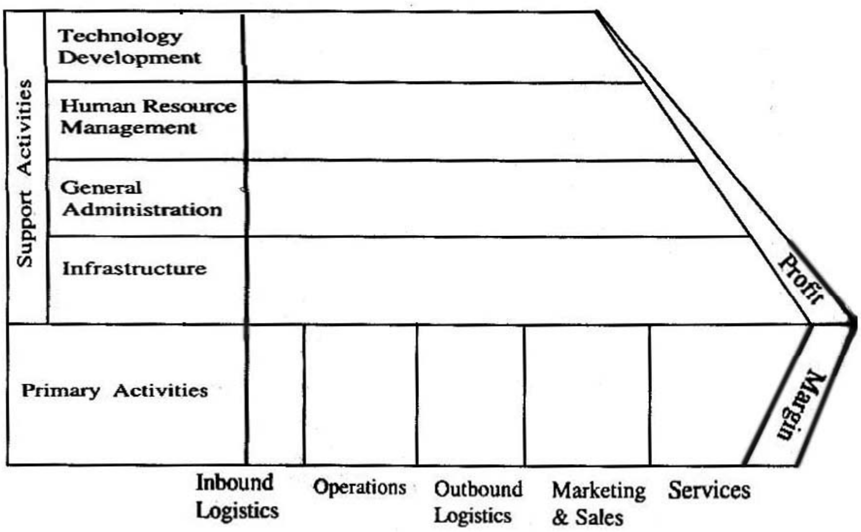


Fig. : The Value Chain

b) Operations

Operations/production deal with the conversion process that transforms the inputs into output. Value is added or created when the input is converted into output. Operations aim at creation and innovation which in turn enhances the value of the product. Further the objectives of zero defect products ensure quality and dependability of the product.

c) Outbound Logistics

Outbound logistics begin after the completion of the production process and end with the distribution of the product either to the market intermediaries in case of indirect marketing and to the customer in case of direct marketing. Thus, the activities of outbound logistics include storage/ warehousing, transportation, handling of products, negotiation with market intermediaries inventory management. Efficient performance of these activities enables the firm to deliver on products in taste to the customer, reduce delivery time and storage. Thereby, it reduces the cost inventory.

d) Marketing and Sales

Marketing and sales activities include product development and mix, pricing, place of markets including channels of distribution like wholesalers, retailers, sales force and network marketing and promotional mix including advertising, personal selling and sales promotion. Companies select different marketing strategies like leader or follower strategies, total market or niche or focus strategies, single product line or multiple product line strategy, direct marketing or indirect marketing strategies and specified place marketing or online marketing.

Companies select the strategies in order to reduce the marketing costs and enhance the convenience and comfort to the customers. Some of the hotels in India in order to enhance the convenience to the customer introduced phone ordering and home delivery. Even super markets follow this strategy. Most of the airlines including Singapore Airlines, Indian Airlines and Air Nuigini introduced online ticket booking in order to reduce the marketing cost and thereby ticket price and enhance customer convenience. Even Indian Railways and many road transport companies introduced online ticket booking. Firms advertise online using Internet that reduces cost and reaches customers fast.

e) Service

Pre-sales and post-sales services are quite essential for consumer durable, convenience luxury goods. Customers would be willing to pay more when the service and thereby the continuous and perfect functioning of the product is guaranteed and/or ensured. For example, automobiles, refrigerators, TVs, educational instruments like computers, overhead projectors/multimedia projectors and photocopying machines need after sales services. Excellent after sales service ensures continuous and perfect functioning of the product and thus, enhances customer's value.

II) Support Activities:

Other activities of the business are support activities which provide support to the primary activities of the business, and hence, they are referred to as support activities. Support activities help the company enhance the customer value and reduce the cost bringing coordination among primary activities and providing necessary inputs for the primary activities. Support activities include:

a) Technology development

b) Human resource management

c) General administration

d) Infrastructure

a) Technology Development

Technology is improved continuously both in production and in other operations. It is developed through innovation and continuous up-gradation. Technology revolution including the revolution in the information technology brought paradigm shifts in the production process, product functions and utilities, speed of manufacturing, quality of products in terms of zero-defect production, fast delivery of the products and information processing. Technology development enables the companies to add multiple functions to the product. For example, mobile phone today carries the functions of a clock, alarm, calculator, tape recorder, camera and video camera. Similarly, multiple functions are added to computers. Thus, technology development enhances the customer value by adding a variety of functions to the existing product. In addition, it reduces the cost of the product in terms of the utility of all functions put together. Technology development supports the primary activities. Inbound logistics are helped by transportation technology, materials handling technology, and storage technologies. For example, containerisation made the sea transportation become more convenient.

b) Human Resource Management

Human resource plays a dominant role in the successful and profitable performance of a firm. In fact, human resource makes or mars the performance of company. The motivated, committed and efficient human resources significantly support primary activities Skilled and trained human resources provide necessary support for all primary activities. In fact, all primary activities are performed by human resources.

c) General Administration

General Administration includes organizational structure, management style, leadership style, policies and procedures. General administrative policies and practice can be enabling or disabling. Enabling policies and practices include: flat and horizontal structure, employees empowerment, decentralisation, empowerment of employees in decision-making, strategy formulation and implementation, employee motivation, leading the employees progressively and development of commitment. These enabling policies of general administration support the primary activities, which in turn contribute to the reduction of cost and enhancement of value and profit margin.

d) Infrastructure

Infrastructural activities include accounting, finance, information system, pay roll, legal affairs, public relations and corporate governance. Expenditure on these activities is called overhead expenses as this expenditure can not be isolated. Infrastructure activities contribute to the value addition by supporting and enabling the primary activities. In addition, the efficient functioning of infrastructure activities contributes to the cost reduction, and thereby increase profit margin.

Q21. What are the advantages and limitations of value chain analysis.

Ans :

Advantages of Value Chain Analysis

The use of value analysis technique helps in providing many direct and indirect benefits which are as follows,

1. Value analysis helps in decreasing the cost of the existing products or systems.
2. It helps in avoiding the unwanted cost in the new products or systems.
3. The use of value analysis results in overall cost consciousness and develops a general attitude towards costs.
4. It encourages import substitution.
5. It helps in enhancing the value of the product by using new materials and processes.
6. It is a faster cost reduction technique.
7. It helps the firms to save costs and attain higher profits.
8. As value analysis team can be formed from the staff who are available in different sections or departments. Therefore, it needs very less expenditure.
9. Value analysis improves the utility of the product by simplifying it, by using better material and by using efficient and easier manufacturing methods.
10. It helps in recognizing the useless functions and tries to eliminate them.
11. It helps in avoiding duplication and additional costs by integrating common functions in between different elements into fewer ones.
12. It helps in determining the components and materials which can replace the costly items.

Limitations of Value Chain Analysis

The disadvantages of value chains are as follows,

1. It is not clear about the suitability of the processes.
2. Sometimes in more than one value chain it may use similar processes.
3. It is highly expensive.

2.2.2.2 Core Competencies

Q22. What are Core Competencies. How many Core Competencies are required for a company.

Ans : **(June-19)**

Core competencies are a company's resources and capabilities that enable the firm to burte competitive advantage over the competitors. Companies build competitive advantage by procuring and multiplying resources, create abilities over them, and developing synergy of resources and capabilities. Core competencies enable the companies to formulate strategies and draw strategic actions by converting competencies into business activities. Thus, the companies achieve their goals of earning an expected profit, improve market share and satisfy their employees by using their core competencies.

For example, Vodafone India utilised its technical manpower and financial resources to build towers in Indian villages. This competency enabled the company to increase its share in the rural market and thereby its total market in India by 2% between 2005 and 2009. Similarly, Digicel (PNG) Ltd., also built towers in rural areas of Papua New Guinea in addition to urban centres by utilising its Financial, technical and resources. This capability enabled the company to acquire core competency over Be-Mobile Ltd., which was enjoying monopoly in mobile phone service in Papua New Guinea until 2007.

Thus, core competencies are those capabilities and resources that enable the company to perform and act to achieve its goals by adding or creating unique value to its goods and/or services better compared to its competitors in the long term. Therefore, all the resources and capabilities of a company need not result in competencies. It does mean that the resources and capabilities could be utilised in building a competitive advantage. These resources have competitive value and potential to serve as competitive advantage. Thus, some resources would represent a liability as the company may be weak over competitors in that resource area. Similarly, the firm may fail to utilise such resource during a particular time to build its competencies. For example, Deccan Airlines could not use its capabilities of seating capacity as its competitors like King Fisher due to its inabilities in maintaining punctuality during 2006.

When companies fail to convert certain resources into competencies, due to competition and external environmental threats, companies should find other markets or portfolios of business where such resources become capabilities. For example, Toyota introduced its outdated model and technology of home country in India and other developing countries.

Q23. How to build core competencies?

Ans :

Competencies of Some Selected Companies

Company	Core Competencies
McDonald	Real estate, restaurant operations, marketing and global infrastructure
Ford	Design, branding, sales, service operations
Honeywell	Technology, customer service
Brady Corporation	Safety, graphics, special products
Vodafone	Extensive coverage, technology, low cost
Dr. Reddy's Lab	Low cost, quality, wide range of product

All capabilities need not be core competencies. Two tools help us to know whether a particular capability is a core competency or not. The first one consists of four specific criteria and the second one is value chain analysis.

Four criteria for determining core capabilities include:

i) Valuable capabilities

ii) Rare capabilities

iii) Costly-to-imitate capabilities

iv) Non-substitutable capabilities

i) Valuable capabilities

Valuable capabilities create and add value by exploiting opportunities provided by external environment to the company. Digicel (PNG) Ltd.'s appropriate technical and financial capabilities enabled it to exploit the opportunities provided by the Papua New Guinea's environment like high cost of mobile services as well as instrument costs.

Similarly, non-availability of required quantity of petrol and other Petroleum products in Indian market were exploited by the technical, financial and skilled human resources of Reliance Petrochemicals Ltd. The vast experience of expertise of Wal-Mart in- Retail Super-Market malls enabled it to exploit the retail market business in India.

The following exhibit presents the valuable capabilities of various companies and the opportunities that were exploited by them.

ii) Rare

Rare capabilities are those that are possessed by the competitors rarely. In fact, 7 companies possess valuable capabilities, but not rare. Even having an innovative idea is also a rare capability. Companies with rare capabilities exploit external opportunities to a significant extent, compared to their competitors. The following capabilities possessed by the companies are viewed as rare capabilities.

iii) Costly to Imitate Capabilities

Costly to imitate capabilities are those capabilities that pose complexity and thereby heavy cost to competitors to imitate. These capabilities include unique organisational culture, brand name, interpersonal relations, trust, network with customers, suppliers, creditors, etc.

The following exhibit presents the capabilities that are costly to imitate of some selected nies.

Other reasons for the costly capabilities to imitate include:

- Casual ambiguity in linking a company's capabilities, competencies and competitive advantage.
- Social complexity: Social complexity involves complex social relations among managers, suppliers, creditors, market intermediaries and government officials.

Companies that developed social complexity as a competitive advantage include Tata group, Reliance Industries, Hewlett-Packard, Sony, Walt Disney Company, Merck, Harvey Norman, General Electric and Toyota.

iv) Non-substitutable

Non-substitutable capabilities are those that do not have strategic equivalents. Non-substitutable capabilities include company's specific capacities like trust, relationships, product attributes, knowledge and expertise. Coca Cola's formula can be regarded as non-substitutable capability

The following table presents the possible outcomes from combinations of criteria for sustainable competitive advantage.

2.2.2.3 Cost Efficiency

Q24. Explain the concept of Cost Efficiency.

Ans :

In any organisation, the most significant strategic capability is to assure that the firm adequately focuses on attaining and enhancing the cost efficiency continuously. For this process, adequate resources and the competencies must be available for managing the costs. The customers can obtain the advantages from cost efficiency in terms of lower prices or more product attributes for the same price. But, several organisations in different markets for this concept is becoming a threshold strategic capability for the following two reasons.

(a) The customer do not give importance to the product attributes at any price. When price increases, the customers will be ready to forgo value and select a lower priced product. So, the main challenge is to assure that an adequate value is given at an acceptable price.

(b) The competitive rivalry will force the firms to reduce the costs as the competitors will decrease their costs for making their rivals underprice and offers the same value at lesser price.

The cost efficiency is ascertained with the help of many cost drivers as shown in figure,

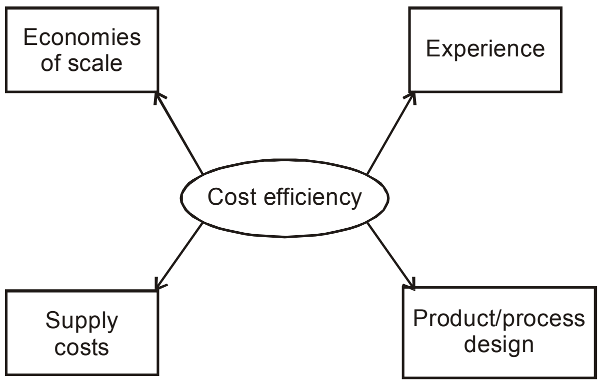


Fig.: Sources of Cost Efficiency

1. Economies of Scale

The economies of scale is a key source of cost advantage in the manufacturing organisation, as the high capital costs of plant should be recovered over a high level of output. Traditionally, the manufacturing sectors, in which this have played a crucial role are motor vehicles, chemicals and metals. The economies of scale are also significant in distribution or marketing of other industries like drinks, tobacco and food. In other sectors like textiles and leather goods, the economies of scale is of less importance.

2. Supply Costs

The supply costs affect the overall cost position of an organisation. The location can affect the supply costs. The supply costs are of great significance to the organisations which serve as intermediaries and the value added through their own activities is less and the need for recognizing and managing input costs is essential for success.

3. Product/Process Design

The product/process design also affects the cost position. The efficiency gains in the processes of production have been accomplished by several organisations by making enhancements in capacity- bill, labour productivity, yield or working capital utilisation. The main issue in product/process design is gaining the knowledge for comprehensing the significance of every single item to maintain a competitive position.

4. Experience

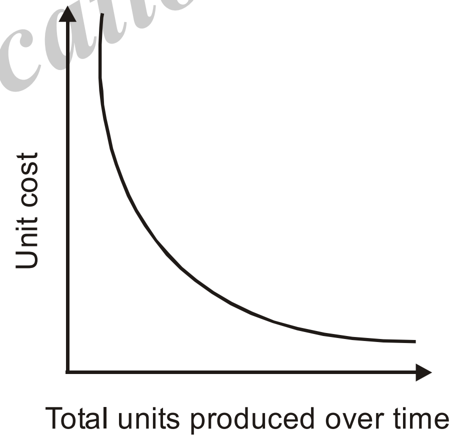
In certain situation, the experience acts as an important source of cost efficiency and helps in attaining competitive advantage over rivals. Several studies have been conducted on the relationship between the cumulative experience acquired by an organisation and its unit costs. This is considered as the experience curve and is shown in figure (2).

Experience curve states that an organisation which performs any activity learns to do it efficiently only after certain experience and creates core competences in this activity. As the companies with high level of market share have more cumulative experience, it is very essential to gain and maintain market share. There are key implications about the concept of experience curve which can affect the competitive position of an organisation they are as follows,

i) In several markets, growth is not considered as optional.

ii) The organisations should assume that their real unit costs will reduce after every year.

iii) The first mover advantage can be crucial. The organisation which moves downwards in the experience curve is capable of decreasing its cost base due to, the experience it had acquired/ gained over its rivals by standing first.



iv) The chances of sustained advantage through experience curve benefits are low.

v) In competitive markets the continuous reduction in costs is essential for organisations.

vi) Through outsoucring, it is possible to reduce the costs of the activities in which an organisation does not have any experience but other organisations are more experienced.

2.2.2.4 Capability Building and Management

Q25. Define organizatiional capabilities with its types.

Ans :

Capabilities arise as a consequence of integration of resources for performing specific tasks. The basis of organisational capabilities lies in the following,

(a) Knowledge, skills and distinctive attributes of work force

(b) Functional expertise of employees.

(a) Knowledge, Skills and Distinctive Attributes of Work Force

Human resource plays an important role in handling organisational capabilities and deriving competitive advantages from them. Thus, the knowledge and skills possessed by employees needs to be effectively utilized and shared.

(b) Functional Expertise of Employees

Certain employees possess functional expertise in the core areas of business such as research and development and production and marketing. By maintaining effective coordination among these areas enable the organisation to successfully formulate and implement the organisational capabilities. Core competencies that are valuable, costly to imitate and non-substituable acts as the sources of organisational capabilities.

Types of Capabilities

Following are the types of capabilities,

1. Valuable Capabilities

(i) Valuable capabilities are those capabilities which helps in effective utilisation of external opportunities and eliminating the threats associated with them.

(ii) They give more importance to the human capital in the organisation.

(iii) They gain customer satisfaction by giving value to the customers.

2. Rare Capabilities

There are few valuable capabilities that a solely firm possesses and no other competitor has it. They are rare in gaining unique and valuable competitive advantage.

3. Costly to Imitate Capabilities

Limitation of these capabilities is a costly affair. There are three reasons for a firm to develop costly capabilities.

(a) They are as a matter of historical significance of the company's Origin, they develop expensive cultures and strategies.

(b) Due to ambiguous relation in firms capabilities and competitive advantage.

(c) Social complexity, wherein capabilities are an amalgamation of social phenomenons, postly capabilities are generated that are difficult to imitate.

4. Non-substitutable Capabilities

These capabilities cannot be substituted by any other capabilities, hence strategic value of these capabilities is high and allows no substitutions.

These are kept hidden from the competitor's and are codified for safety reasons. These capabilities form to be the firm's unique feature and bear firm specific knowledge and information.

Q26. What are the methods of analysing and diagnosing the corporate capabilities?

Ans :

Corporate capabilities could be analyzed and diagnosed through the two important methods.

1. Functional area profile and resources deployment matrix.

2. Strategic advantage profile.

1. Functional Area Profile and Resources Deployment Matrix

(i) It involves formulation of a matrix consisting of functional areas with common functions.

(ii) It deals with the analysis of strategic deployment of funds and the existing strengths and weaknesses when compared with that of competitors.

(iii) It also assesses the past, present and future strengths and weaknesses of organisation's policies and strategies.

(iv) Analysis is carried out specifically for each activity without integrating it with other activities. Whereas, the relationship between the strengths and weaknesses need to be determined.

(v) Impact of identified strengths and weaknesses on the organisational effectiveness.

(vi) The evaluation strategists aim to find out there company's strategic position in relation to their competitors.

(vii) It also identifies the various external factors influencing the functioning of an organisation.

2. Strategic Advantage Profile

Formulation of a strategic advantage profile provides a closer view to all the critical areas which are closely related to the strategic future of an organisation.

Minute details about a firm's weakness areas and areas of strengths can be extracted through this profile.

Several preventive measures can be applied for solving the futuristic problems and for the formulation of strategies.

The SAP technique is also a threat as it directly draws onto conclusions for present strategies.

The SAP technique covers internal areas of,

(a) Marketing

Examples: Computation of sales/sales status, changes in the preferences and tastes of consumers, personal selling measures and so on.

(b) Finance

Example: Profitability ratios, level of credit worthiness, rate of dividends and favourable behaviours of stock markets.

(c) Production

Example: Nature of technology, sources of raw materials quality of products.

(d) Human Resources

Example: Capability skills of employees, compensation packages.

(e) Research and Development

Example : Innovation of technology

(f) General Management

Example: Style of Management These above mentioned areas are critically evaluated to identify their competitive strengths (as positives) and their weaknesses (as negatives). A neutral nature of these areas is represented as 'O', implying a neutral effect on the organisational strategies.

Short Question and Answers

1. Characteristics of Environment.

Ans :

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

1. Environment is complex

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

2. Environment is dynamic

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

3. Environment is multi-faceted

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

4. Environment has a far-reaching impact

The environment has a far-reaching impact on organisations. The growth and profitability of an organisation depends critically on the environment in which it exists. Any environmental change has an impact on the organisation in several different ways.

2. Macro Environment.

Ans :

Economic and non-economic factors which influences the business activities and those which provides information regarding the various opportunities so as to promote their business.

The role of macro environment from the point of view of the business may be both positive and negative. This implies that the larger forces in the company's environment do not always provide wider space for business opportunities. They often impose restraints on the business activities on the firm.

The macro environment can be broadly classified into economic environment and non-economic environment.

3. Factors Influencing Macro Environment.

Ans :

These factors not only determine the opportunities of business but also at times have serious constraining effect.

1) Social Factors

As explained in the introduction, business and society have a symbiotic relationship. Both of them need and benefit each other. Therefore, business has a social responsibility towards the society in which it exists society has many social factors like culture, values, taster, preferences and so on and all of these must be addressed by the business organisation as business is for the people.

2) Cultural Factors

Every country has a different set of values beliefs, customs. They may very from region to region and from individual to individual. So the business must consider the culture of a community or country must therefore be considered by a business manager while formulating policies and marketing products.

3) Economic Factors

Business depends on the economy of a country, Economic factors are infrastructure per capital income, money supply, price level, employment generation, propensity to consume, etc. They all have a bearing on the business environment. Business therefore should have all the information required and study the impact of these factors on the business.

4. Factors determining an Industry analysis.

Ans :

1. Features and Conditions of the Industry

General features / basic conditions of the industry include factors such as current size of the industry, product categories/sub categories, their relative volumes, performance of the industry in recent years, etc.

2. Industry Environment

Industries can be classified based on their settings/environment. Porter classified industries as fragmented, emerging, matured, declining and global industries.

3. Industry Structure

Industry structure essentially means the underlying fundamental economic and technical forces of an industry. Each company will have its own key structural features such as number of players, market size, relative shares of the player, nature of the competition, differentiation practiced by the various players in the industry, cost structure of the players, etc. These features determine the strength of competitive forces operating in the industry and thereby serve as direct indicators to the attractiveness or profitability of the industry.

4. Industry Attractiveness

The various determinants of industry attractiveness are industry potential, industry growth, industry profitability, future pattern of the industry barriers and forces shaping the competition in the industry.

5. Industry Performance

Industry performance entails looking at production, sales, profitability and technological development.

6. Industry Practices

Industry practices refer to what a majority of the players do in the industry with respect to essential aspects of the business such as distribution, pricing, promotion, methods of selling, service field support, R&D and legal tactics.

5. Explain the strength and weaknesses of BCG Matrix.

Ans :

Strengths of the BCG Matrix

The BCG business portfolio matrix has the following strengths:

(i) It makes definite contribution to the strategist's tool kit.

(ii) It provides strategy-situation match by prescribing broad guidelines and providing direction to the companies.

(iii) It provides guidelines for maximising the financial performance of a diversified company.

(iv) It highlights the interaction within a corporate portfolio.

(v) It helps for fixing priorities for corporate resource allocation.

(vi) It provides rationalisation for both invest, expand and divest strategies.

Weaknesses of BCG Matrix

The legitimate shortcomings of the BCG Matrix are:

(i) This matrix based on ' high-low classifications ignores many businesses with an average growth rate.

(ii) The matrix has classified all businesses into four categories, viz., stars, problem children, cash cow and dog. But, some market share leaders have never really been stars in terms of profitability. All businesses with low relative market shares are not dogs or question marks.

In many cases runner-up firms have proven track records in terms of growth, profitability and competitive ability. Therefore, a key characteristic to assess a firm is the trend in a firm's relative market share.

6. What are the Key Drivers of Change ?

Ans :

1. Market Globalisation

There are many different reasons behind the increasing trend of market globalisation. It has been observed that customers needs and preferences are becoming almost similar in few markets. When markets globalise, the firms which are carrying out their operations in such markets becomes the global customers and may look for the suppliers who carryout their operations on global basis. The development of global communication and distribution channels may direct/drive globalisation and may in turn provide oppurtunities for transferring the global brands all over the countries. The marketing policies, brand names and identities and advertising can be globally opportunities for transferring the global developed and may create global demand and expectations from customers and may also offer marketing cost advantages for global operators.

2. Cost Globalisation

Cost globalisation may lead to competitive advantage as few organisations will have greater access or more knowledge about these advantages than other organisations. Sometimes the cost advantages, can be attained from the experience gained from the wider-scale operations. The other cost advantages can be attained through central sourcing efficiencies from lowest-cost suppliers all over the world. The country- specific costs like labour or exchange rates motivates the businesses to search globally for low cost for the purpose of meeting the costs of competitors which attains such benefits from their location. The other businesses faces high costs of product development and may consider the benefits which can be obtained by operating globally with few products instead of incurring the costs of many different types of products on limited geographical scale.

3. Governments

The government activities and policies also acts as driver's of globalisation of industry. The globalisation process is promoted by technical standardization among the countries of several products like automobile, aerospace and computing industries. The host governments tries to motivate the global operators to base themselves in their countries.

7. Advantages of SWOT Analysis.

Ans :

SWOT Analysis is instrumental in strategy formulation and selection. It is a strong tool, but it involves a great subjective element. It is best when used as a guide, and not as a prescription. Successful businesses build on their strengths, correct their weakness and protect against internal weaknesses and external threats. They also keep a watch on their overall business environment and recognize and exploit new opportunities faster than its competitors.

SWOT Analysis helps in strategic planning in following manner-

a. It is a source of information for strategic planning.

b. Builds organization's strengths.

c. Reverse its weaknesses.

d. Maximize its response to opportunities.

e. Overcome organization's threats.

f. It helps in identifying core competencies of the firm.

g. It helps in setting of objectives for strategic planning.

h. It helps in knowing past, present and future so that by using past and current data, future plans can be chalked out.

8. Explain the pitfalls of SWOT analysis.

Ans :

The following are some of the pitfalls of SWOT analysis,

1. lit may not be simple while implementing it in a real-life situations.
2. It is just acting as a list of strengths, weaknesses, opportunities and threats. It does not state measures to utilize or to eliminate the listed items.

   Example: Threats.
3. It only represents the analyst's views, which may be misinterpreted for being self-biased or poorly analyzed.
4. It involves high rate of ambiguity due to the false interpretations of threats with weaknesses or opportunities with threats.
5. It restricts the organisations in developing the new strengths instead encourages them to match existing strengths with the emerging opportunities.

9. What do you mean by internal environment?

Ans :

Internal environment of an organization is characterized by resource, capabilities, and competencies, of an organization. The internal environment plays, a key role in the strategic management process of the organization. It is very important for a firm to perform its intemai analysis.

Internal environment includes the strengths and opportunities like knowledge, skills, capabilities, communication, coordination etc. Determination or diagnosis of intemai environment includes identification of strengths and weaknesses.

Strengths are the internal capabilities of the business organization in comparison with that of its competitors. The strengths may be the company's image, brand image, business synergies and functional areas of marketing, finance, production, R&D (Research and Development) and most important strength of human resources.

Weaknesses includes those factors which tend to reduce the capabilities or competencies of the organization when compared to its competitors. It could be poor product quality, obsolete technology, high cost of production, poor marketing, financially weak and ineffective management.

10. Advantages of Value Chain Analysis.

Ans :

1. Value analysis helps in decreasing the cost of the existing products or systems.
2. It helps in avoiding the unwanted cost in the new products or systems.
3. The use of value analysis results in overall cost consciousness and develops a general attitude towards costs.
4. It encourages import substitution.
5. It helps in enhancing the value of the product by using new materials and processes.
6. It is a faster cost reduction technique.
7. It helps the firms to save costs and attain higher profits.
8. As value analysis team can be formed from the staff who are available in different sections or departments. Therefore, it needs very less expenditure.

Choose the Correct Answer

1. The foundation of strategic capability is based on, [d]
   (a) Resources and competencies
   (b) Threshold capabilities
   (c) Unique resources and core competence
   (d) All the above

2. The ambiguity in which the significance of the characteristic is difficult to discern or comprehend is [a]
   (a) Characteristic ambiguity (b) Linkage ambiguity
   (c) Causal ambiguity (d) None of the above

3. The driver of change which gives the potential for competitive advantage is [b]
   (a) Market globalisation (b) Cost globalisation
   (c) Globalisation of competition (d) Globalisation of government policies

4. The organisations within an industry or sector with similar strategic characteristics, following similar strategies or competing on similar bases are, [c]
   (a) Strategic gaps (b) Activity maps
   (c) Strategic groups (d) Value network

5. The activities related with receiving, storing and distributing the inputs to the product or service are, [a]
   (a) Inbound logistics (b) Outbound logistics
   (c) Operations (d) Service

6. Support activities can be divided into, [d]
   (a) Procurement and firm infrastructure (b) Technology development
   (c) Human resource management (d) All the above

7. Some of the examples for barriers to entry are, [c]
   (a) Economies of scale (b) Experience
   (c) Both (a) and (b) (d) None of the above

8. __________ helps the firm to define and understand their industry and identify the rivals, strengths and weaknesses. [b]
   (a) Environmental monitoring (b) Competitive intelligence
   (c) Environmental scanning (d) Environmental forecasting

9. The competitive environment consists of, [d]
   (a) Competitors (b) Customers
   (c) Suppliers (d) All the above

10. When both core activities and core assets face the threat of obsolescence then it leads to, [a]
    (a) Radical change (b) Creative change
    (c) Intermediate change (d) Progressive change

Fill in the blanks

1. ________ is a group of firms producing the same principal product.
2. The organisations which produce, similar product services and aims at the same customer group are known as, ________ .
3. A ________ is an opportunity in the competitive environment which is not fully exploited by the competitors.
4. BCG stands for ________.
5. ________ are the activities that support competitive advantage and are difficult for the competitors to imitate or obtain.
6. ________ segment is concerned with a population age, size, geographic distribution and ethics.
7. In SWOT analysis O stands for ________.
8. ________ involves surveillance of a firm's external environment to predict the environmental changes to come and to detect changes already under way.
9. The "five-forces" model was developed by ________ .
10. ________ analysis aims to relate the strengths and weaknesses of the organisation based on an internal audit of the firm's capabilities against the opportunities and threats thrown up by the analysis of the external environment.

Answers

1. Industry
2. Competitive rivals
3. Strategic gap
4. Boston Consulting Group
5. Core competencies
6. Demographic
7. Opportunity
8. Environmental scanning
9. Michael E.Porter
10. SWOT.

UNIT III

Strategy Formulation and Sustenance

Strategy Formulation; Business-Level strategy- Creating and Sustaining Competitive advantages; Generic strategies, Choice based strategies, Industry Life Cycle, Stages, Emerging Industry, Maturing Industry, Stagnant industry, Fragmented Industry, Competitive analysis; Tailoring Strategy to fit specific industry, Strategy for Leaders, Runner-Up firms, weak and crisis Business

3.1 Strategy Formulation

Q1. What is strategy formulation ? Explain how is a strategy formulated.

Ans : **(Oct.-20, June-18)**

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision.

The process of strategy formulation basically involves six main steps. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

Steps in Strategy Formulation Process

1. Setting Organizations' Objectives

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

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

2. Evaluating the Organizational Environment

The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line.

The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.

3. Setting Quantitative Targets

In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

4. Aiming in context with the divisional plans

In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.

5. Performance Analysis

Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

6. Choice of Strategy

This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

3.2 Business Level Strategy

Q2. Define business level strategy.

Ans :

Business strategies are the courses of action adopted by a firm for each of its businesses separately to serve identified customer groups and provide value to the customer by a satisfaction of their needs.

- In the process the firm uses its competencies to gain, sustain, and enhance its strategic or competitive advantage.
- The source of competitive advantage for any business operating in an industry arises from the skillful use of its core competencies.
- These competencies are used to gain a competitive advantage against rivals in an industry. Competitive advantage results in above-average returns to the company. Businesses need a set of strategies to secure competitive advantage.
- Michael E Porter is credited with extensive pioneering work in the area of business strategies or, what he calls, competitive strategies.
- First of all, let us see what Porter has to say about competition. He believes that the basic unit of analysis for understanding competition is the industry, which, according to him, is a group of competitors producing products or services that compete directly with each other. It is the industry where competitive advantage is ultimately won or lost.
- Through competitive strategy, the firms attempt to define and establish an approach to compete in their industry.
- The dynamic factors that determine the choice of a competitive strategy, according to Porter, are two, namely, the industry structure, and the positioning of a firm in the industry.
- Industry structure, according to Porter, is determined by the competitive forces. These forces are five in number: the threat of new entrants; the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers, and the rivalry among the existing competitors in an industry.

- The second factor that determines the choice of a competitive strategy of a firm is its positioning within the industry.
- Porter terms positioning as the firm's overall approach to competing.
- It is designed to gain sustainable competitive advantage and is based on two variables: the competitive advantage and the competitive scope.
- Competitive advantage can arise due to two factors: lower cost and differentiation. Competitive scope can be in terms of two factors: broad target and narrow target.

Q3. Explain the various steps involved in strategic planning process implemented at business unit level.

Ans :

Strategic planning involves a longer period by the top management. This plane helps in identifying organizational primary goals and objectives so that emphasis can be laid onto the whole organisation.

Following are the steps of strategic planning process occurred at business unit level.

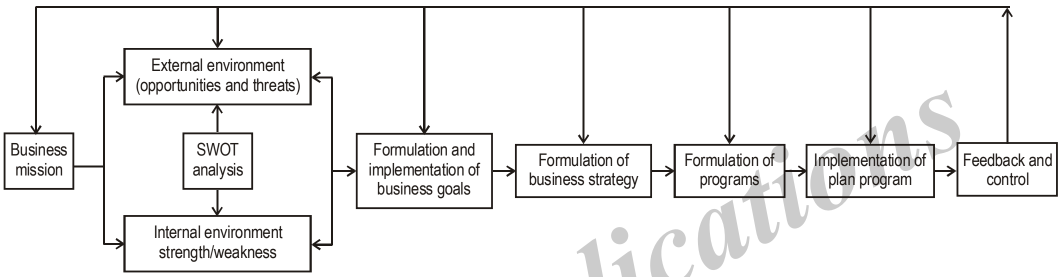


Figure : Strategic Planning Process Implemented at Business Unit Level

Steps in Strategic Planning Process

This TQM article provides an insight of a typical Strategic Planning Process that was used in several organizations and proven to be very practical in implementation. The key processes of this typical Strategic Planning Process are lined up into 7 steps. Detail of each steps are illustrated below:-

Step 1 - Review or develop Vision & Mission

Able to obtain first hand information from various stakeholders (Shareholders, customers, employee, suppliers communities etc).

You may use templates to evaluate how the stakeholders think about your organization. To find out whether their action are aligned with the organization's objectives.

To review or develop company's Vision and Mission with the involvement of other stakeholders to ensure it is still current with the business changes and new challenges. Also use this session as a mean for communication.

Step 2 - Business and operation analysis (SWOT Analysis etc)

One of the key consideration of strategic planning is to understand internal (own organization) Strengths and Weaknesses as well as external Threats and Opportunities. These are commonly known as the four factors of a SWOT analysis.

Involvement from various stakeholders to provide their points of view about your organization is key. In the process, you will gain better buy-in from these implementers of strategies and policies.

Step 3 - Develop and Select Strategic Options

You may use templates to develop several key possible strategies to address the organization's objectives. More important, these possible strategies are develop based on the inputs from stakeholders (step 1) and Business and Operation analysis (step 2).

It is often several possible strategies are developed and everyone of them seems important. Since it is quite normal that an organization would have several key issues to tackle, you will be able to use a proper tools to select a few from the possible strategies. You will be able to apply several prioritizing tools as introduced in this step.

Step 4 - Establish Strategic Objectives

During this step, you will be able to view the overall picture about the organization and able to select a few strategic options objectively. Template may be used to understand various strategic options, set key measures and broad time line to ensure the selected strategic options are achieved.

While it is quite common that measures and timeline is given by top management, it is the intention of this step 4 that these measures and timeline is SMART . What it meant was Specific (S), Measurable (M), Achievable (A), Realistic (R) and Time-bound (T). when the strategic options are SMART, it will help to ease the communication toward the lower level of the organizational hierarchy for implementation.

Step 5 - Strategy Execution Plan

Many organization failed to realize its full potential of its strategies are due to weak implementation. In this Step 5, a proper deployment plan is developed to implement these strategies.

Step 6 - Establish Resource Allocation

Very often, management team assigned selected strategies to key personnel and left it to the individual to carry out the task. While most organizations operate with minimum resources, it often ends up work overloaded by individual.

Step 7 - Execution Review

One of the key success factors for an effective strategy deployment is constant review of its progress and make decision for any deviations to plan. It is vital to decide what to review and with who the review is done. New decision may be required as the status of the strategies progressed.

3.3 Creating and Sustaining Competitive Advantage

Q4. What is competitive advantage ? Explain the nature and significance of competitive advantage.

Ans : **(June-19)**

Competitive Advantage

Competitive advantage represents the superior position enjoyed by a firm with respect to its certain functions or factors or activities when compared to its competitors.

This superiority enables the firm to occupy suitable position in its respective industry and this superiority can be in terms of anyone of large number of functions or activities undertaken by the firm i.e., the firm can attain the competitive advantage in various ways.

For instance, Few firms are specialized in performing manufacturing activities whereas, the others may be possessing advanced technology. Such specialization may be associated with the various features of a given function,.

Nature and Significance of Competitive Advantage

Competitive advantage is closely related to the firms strategy and it acts as a fit between the firm and its strategy.

Both of them go hand-in-hand and cannot exist without maintaining assistance and cooperation between them.

1. If the firm does not have any suitable competitive advantage then it is not able to implement the selected strategy.
2. Lack of major sources for gaining competitive advantage for the execution of the strategy leads to the failure of even a well designed strategy in the firm.
3. Strategy and competitive advantage are closely associated with one another. If the firm has an effective and efficient strategy then it can attain its competitive advantage thereby leading to the execution of its strategy.
4. Without competitive advantage, it may not be possible for the firm to attain its corporate objectives. The successful strategy of any firm is constructed based on its method of competitive advantage.
5. A strong and continuous competitive advantage helps the firm to win the completion and also to protect itself against competition.
6. Competitive advantage also helps the firm to optimally and successfully exploit its opportunities and to avoid threats and risks.

In simple firms competitive advantage acts as the "heart of strategy".

Q5. Discuss about the sustainability of competitive advantage at business level.

Ans :

It is not possible for a firm to sustain its competitive advantage just by using its available resources and capabilities. The two features which ascertains the sustainability of a firm's core competencies are,

i) Durability

ii) Instability

i) Durability

Durability refers to the rate at which the firm's basic core competencies (i.e., its resources and capabilities) depreciate or become obsolete.

Generally, the advancement in technology makes the existing core competencies of the firm obsolete or outdated.

For instance, introduction of DVD players made the CD players outdated.

ii) Instability

Imitability refers to the rate at which the firm's basic core competencies i.e., its resources and capabilities "are copied by others.

The competitor makes several efforts like reverse engineering (i.e., purchasing the competitor's product to understand how it works), hiring employees of the competitor and outright patent infringement for initiating the firm's activities.

A firm's core competency can be easily initiated if it is transparent, transferable and replicable.

a) **Transparency:** Transparency means the speed with which the other firms understands the relationship of resources and capabilities which strengthens the successful firm's strategy.

b) **Transferability:** It is the competitor's capability to collect resources and capabilities which are needed to overcome the competition in the market.

c) **Replicability:** It is the competitor's capacity to duplicate the resources and capabilities and uses them for initiating the success of other firms.

If the firm's core competencies are developed from explicit knowledge then the competitor can easily learn and imitate them as they are easily understandable and communicated.

Whereas if the firm's knowledge is developed from the knowledge then the competitors cannot copy them easily as they are based on employees experience and are firmly established in a corporation's culture. As tacit knowledge is difficult to initiate, by the competitors, it is highly valuable and can lead to the sustainable competitive advantage.

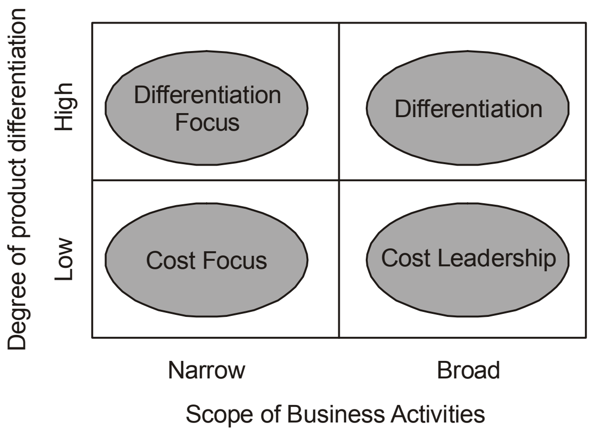
Q6. Explain different types of competitive strategies.

Ans :

1. Competitive Strategies

The competitive forces in an industry, Michael Porter suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of a businesses' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The four strategies are summarized in the figure below :



The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

2. Strategy - Differentiation

This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product - often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

3. Strategy - Cost Leadership

With this strategy, the objective is to become the lowest-cost producer in the industry. Many (perhaps all) market segments in the industry are supplied with the emphasis placed minimising costs. If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits.

This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

4. Strategy - Differentiation Focus

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.

5. Strategy - Cost Focus

Here a business seeks a lower-cost advantage in just on or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers.

Q7. What are the strategies followed for building competitive advantage?

Ans :

1. Five Generic Competitive Strategies

A company's competitive consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. Competitive strategy has a narrower scope than business strategy. Competitive strategy deals exclusively with management's action plan for competing successfully and providing superior value to customers. Business strategy concerns not only how to complete but also how management intends to address all of the other strategic issues confronting the business.

2. Co-operative Strategies and Competitive Advantages

Alliances and partnerships are a necessity in racing against rivals to build a strong global presence and/or to stake out a position in the industries of the future.

3. Merger and Acquisition Strategies

Merging with or acquiring another company, often a competitor can dramatically strengthen a company's market position and open new opportunities for competitive advantage. Combining operations with a rival can fill resources gaps, allowing the new company to do things which the prior companies could not do alone. Together, the companies may have stronger technological skills, more or better competitive capabilities, a more attractive lineup of products and services, wider geographic coverage and/or greater financial resources with which to invest in R&D, add capacity or expand into new areas.

4. **Vertical Integration Strategies : A Competitive Plus or a Minus**

   Vertical integration extends a firms competitive scope within the same industry. It involves expanding the firm's range of activities backward into sources of supply and/or forward toward end users of the final product. Thus, if a manufacturer invests in facilities to produce certain component parts that it has business units in two production stages in the industry's value chain.

5. **Unbundling and Outsourcing Strategies – Narrowing the Boundaries of the Business**

   Over the past decade, some companies have found vertical integration to be so competitively burdensome that they have adopted vertical de-integration or unbundling, strategies.

6. **Offensive Strategies to Secure Competitive Advantage**

   Competitive advantage is nearly always achieved by successful offensive strategic moves–initiatives calculated to yield a cost advantage, a differentiation advantage, or a resource advantage. Defensive strategies, in contrast, can protect competitive advantage but rarely are the basis for creating the advantage. How long it takes for a successful offensive to create an edge varies with the competitive circumstances.

7. **Defensive Strategies to Protect Competitive Advantage**

   The purpose of defensive strategy is a lower the risk of being attacked, weaken the impact of any attack that occurs, and influence challengers to aim their efforts at other rivals. While defensive strategy usually doesn't enhance a firm's competitive advantage, it helps strengthen a firm's competitive position, protect it most valuable resources and capabilities from imitation, and sustain whatever competitive advantage it does have.

8. **First-Mover Advantages and Disadvantages**

   Because of first-mover advantages and disadvantages, competitive advantage is often attached to when a move is made as well as to what move is made.

3.4 Generic Strategies

Q8. Explain briefly about Generic Strategies.

Ans :

There are countless variations in the competitive strategies that companies employ, mainly because each company's strategic approach entails custom-designed actions to fit its own circumstances and industry environment.

The custom-tailored nature of each company's strategy makes the chances remote that any two companies – even companies in the same industry – will employ strategies that are exactly alike in every detail. Managers at different companies always have a slightly different spin on future market conditions and how to best align their company's strategy with these conditions; moreover, they have different notions of how they intend to outmaneuver rivals and what strategic options make the most sense for their particular company.

However, when one strips away the details to get at the real substance, the biggest and most important differences among competitive strategies boil down to (1) whether a company's market target is broad or narrow, and (2) whether the company is pursuing a competitive advantage linked to low costs or product differentiation.

Five distinct competitive strategy approaches standout :

1. **A low-cost provider strategy**

   Appealing to a broad spectrum of customers by being the overall low cost provider of a product or service.

2. A broad differentiation strategy

Seeking to differentiate the company's product/service offering from rival's in ways that will appeal to a broad spectrum of buyers.

3. A best-cost provider strategy

Giving customers more value for the money by incorporating good-to-excellent product attributes at a lower cost than rivals; the target is to have the lowest (best) costs and prices compared to rivals offering products with comparable attributes.

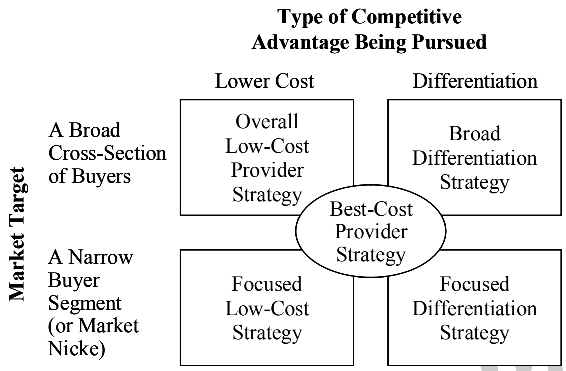


Fig. : The Five Generic Competitive Strategy

4. A focused (or market niche) strategy based on lower cost

Concentrating on a narrow buyer segment and outcompeting rivals by serving niche members at a lower cost than rivals.

5. A focused (or market niche) strategy based on differentiation

Concentrating on a narrow buyer segment and outcompeting rivals by offering niche members customized attributes that meet their tastes and requirements better than rivals' products.

Each of these five generic competitive approaches stakes out a different market position, as shown in figure. Each involves distinctly different approaches to competing and operating the business. The remainder of this chapter explores these five types of competitive strategies and how they differ.

3.4.1 Cost Leadership Strategy

Q9. Explain briefly about Cost Leadership Strategy.

Ans :

When the competitive advantage of a firm lies in a lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership. The firm outperforms its competitors by offering products or services at a lower cost then they can. Customers prefer a lower cost product particularly if it offers the same utility to them as the comparable products available in the market have to offer. When all firms offer products at a comparable price, then the cost leader firm earns a higher profit owing to the low cost of its products. Cost leadership offers a margin of flexibility to the firm to lower price if the competition becomes stiff and yet earn more or less the same level of profit.

Achieving cost leadership Central to the objective of achieving cost leadership is an understanding of the value chain for a product/ service of a firm. Costs are spread over the entire value chain in activities that contribute to the making of the product. The basic objective in achieving cost leadership is to ensure that the cumulative cost across the value chain is lower than that of its competitors. For doing this it is essential to analyses the cost drivers and then identify the areas for optimization of costs.

Several actions could be taken for achieving cost leadership. An illustrative list of such actions is as below.

1. Accurate demand forecasting and high capacity utilization is essential to realize cost advantages
2. Attaining economies of scale leads to lower per unit cost of product/service
3. High level of standardization of products and offering uniform service pack-ages using mass production techniques yields lower per unit costs
4. Aiming at the average customer makes it possible to offer a generalised set of utilities in a product/service to cover a greater number of customers

5. Investments in cost-saving technologies can help a firm to squeeze every extra paisa out of the cost, making the product/service competitive in the market

6. Withholding differentiation till it becomes absolutely necessary is another way to realise cost-based competitiveness.

Q10. What are the benefits and risk associated with cost leadership strategy?

Ans :

Benefits Associated with Cost-leadership Strategy

There are benefits as well as risks associated with a cost-leadership business strategy. First, let us see the benefits that arise out of a cost-leadership strategy. As you will note, the benefits are dis-cussed in the context of Porter's five-forces model.

1. Cost advantage is possibly the best insurance against industry competition. A firm is protected against the ill effects of competition if it has a lower-cost structure for its products and services

2. Powerful suppliers possess a higher bargaining power to negotiate price in-crease for inputs. Firms that possess cost advantage are less affected in such a scenario as they can absorb the price increases to some extent

3. Powerful buyers possess a higher bargaining power to effect price reduction. Firms that possess cost advantage can offer price reduction to some extent in such a case

4. The threat of cheaper substitutes can be offset to some extent by lowering prices

5. Cost advantage acts as an effective entry barrier for potential entrants who cannot offer the product/service at a lower price

Risks Faced under Cost-leadership Strategy

The risks faced under the cost-leader-ship business strategy are several.

1. Cost advantage is ephemeral. It does not remain for long as competitors can imitate the cost reduction techniques easily. The duplication of cost reduction techniques makes the position of the cost leader vulnerable from competitive threats.

2. Cost leadership is obviously not a market-friendly approach. Often, severe cost reduction can dilute customer focus and limit experimentation with product attributes. This may create a situation where cost reduction is done for its own sake and the interests of the customers are ignored.

3. Depending on the industry structure, sometimes less efficient producers may not choose to remain in the market owing to the competitive dominance of the cost leader. In such a situation the scope for product/service may get reduced, affecting even the cost leader adversely.

3.4.2 Differentiation Strategies

Q11. Define Differentiation Strategies. Explain different types of Differen-tiation Strategies

Ans :

Differentiation Strategy is the strategy through which the What differentiates its offerings from other firms of an industry. A firm can differentiate its products/services from the products/services of other firms on the basis of any one or group of factors mentioned below,

(i) Service after sale

(ii) Brand equity

(iii) Pricing strategy and pricing policies

(iv) Product mix

(v) Training to customers

(vi) Distribution channel.

A firm is said to have achieved success in its differentiation strategy when the premium in which a customer is ready to pay is higher than the cost of differentiation.

Types of Differentiation Strategies

The following are the various differentiation strategies,

1. **Product Differentiation**

   Based on the various products or service characteristics such as, type of product, its features, performance, imperishability, style, reliability, repairability, design, delivery, installation, customer training, maintenance, customer consulting and repair, the brands can be differentiated. Apart from these characteristics, a brand can also be positioned as high/best quality product. The firms offering high quality products will earn more profits as the products having high quality will be permitted to charge high price. This will help the firms to obtain the benefits of repeated purchase, customer loyalty and positive word of mouth.

2. **Personnel Differentiation**

   A firm can attain a competitive advantage over its rivals by having experienced and well trained employees.

   Experienced and well trained employees have six attributes i.e., competency, courtesy, credibility, reliability, responsiveness and good communication skills. Retailers mainly make use of their front line employees for differentiating and positioning their brand.

   For example, Singapore Airlines has attentive and responsible flight attendants, who have helped it earn an excellent reputation.

3. **Channel Differentiation**

   The firms can attain a competitive advantage over their rivals by building their distribution channels according to the coverage, expertise and performance.

   For example, in computers - Dell and in cosmetics - Avon, differentiated themselves, by designing high quality direct marketing channels.

4. **Image Differentiation**

   The brand and company images are responded differently by the consumers. The identity and image of the product must be differentiated. Identity means how the firm wants to position its product and image means what the public perceives about the firm or its products. An effective identity builds the character and value proposition of the product, communicates this character in a different ways and influences the mental image of the buyers. The firm should communicate the identity of its products with the help of communication channels and brand contact. If must be circulated in advertisements, annual reports, brochures, catalogs, packaging, business cards and company stationery

   Thus, the above, mentioned were the various differentiation strategies.

Q12. What are the benefits and risk associated with differentiation Strategies.

Ans :

Benefits associated with differentiation strategy

There are benefits as well as risks associated with a differentiation business strategy. First, let us see the benefits that arise out of a differentiation. As you will note, the benefits are discussed in the context of the Porter's five-forces model.

1. Firms distinguish themselves successfully on the basis of differentiation thereby lessening competitive rivalry. Customer brand loyalty too acts as a safeguard against competitors. Brand loyal customers are also generally less price-sensitive.

2. Powerful suppliers can negotiate price increases that the firm can absorb to some extent as it has brand loyal customers typically less sensitive to price increase.

3. Powerful buyers do not usually negotiate price decrease as they have fewer options with regard to suppliers and generally have no cause for complain as they get the special features and attributes demanded. Owing to its nature, dif-ferentiation is a market- and customer-focussed strategy.

4. Differentiation is an expensive proposition. Newer entrants are not normally in a position to offer similar differentiation at a comparable

price. In this manner, differentiation acts as a formidable entry barrier to new entrants.

5. For similar reasons as in the case of newer entrants, substitute product/service suppliers too pose a negligible threat to established differentiator firms.

Risks faced under differentiation strategy

The risks faced under the differentia-tion business strategy are several.

1. In a growing market, as is the case with the markets with most industries in India, products tend to become commodities. Long-term perceived uniqueness the basis for differentiation is difficult to sustain. There is an imminent threat from competitors who can imitate the differentiation strategy. In this sense, first-mover advantages associated with differentiation strategy are limited.

2. In the case of several differentiators adopting similar differentiation strategies the basis for distinctiveness is gradually lessened and ultimately lost.

3. Differentiation fails to work if its basis is something that is not valued by the customer. This often happens in a case where unnecessary features are added for differentiation. Such things also occur when over-differentiation is done, carrying little tangible benefit for the customer.

4. Price premiums too have a limit. Charging too high a price for differentiated features may cause the customers to forego the additional advantage from a product/service on the basis of their own cost-benefit analysis.

5. Failure on the part of the firm to communicate the benefit arising out of differ-entiation adequately, or overrelying on the intrinsic product attributes not readily apparent to a customer, may cause the differentiation strategy to fail.

The ultimate success of a differentiation strategy lies in its ability to identify a tangible basis for customers to latch on to the product/service a firm offers. Yet, there is a paradox here that the more tangible the basis is the greater are the chances that a competitor will be able to copy it. So a firm has to rely on its core or distinctive competencies to offer a not-so tangible differentiation which a customer could easily relate to and that could be sustained at a price that he or she is willing to pay.

3.4.3 Focussed Strategy

Q13. Explain briefly about Focussed Strategy.

Ans :

Firms having a less competitive scope must adopt lus strategy unlike cost leadership or differentiation strategies which can be adopted at broader base. It is a special strategy or a niche strategy where a strategist selects those market segments (only one at a time) which can be effectively served by him. After choosing the market segment, they adopt the suitable strategy to serve the segment. The best example could be of Tata Nano car, where the main focus is on average earners.

Focussed Low-Cost Strategy

The main aim of the focussed strategy based on low cost is to have a competitive advantage over the rival firms by reducing the cost and price and catering only to a small market segment or a niche market. It can achieve this if it can reduce its costs and also the number of customers that it serves. The sources to achieve this are same like that of "low-cost leadership strategy moving ahead of rivals by controlling the factors which increases costs and shape its value chain in such a way that it has a cost advantage over competitor.

Focused strategies based on lower cost are very prevalent Low cost are achieved in product development, marketing, distribution and advertising by producers of private-label goods. They do this by focusing on producing those generic items which has a good brand name and can be initiated. Then they directly sell these goods to those retail outlets who wants a basic house brand to sell to those buyer who are price-conscious.

Focussed/Market Niche Strategy based on Differentiation

A focused strategy based on differentiation tries to achieve competitive advantage in a niche market by providing products to buyers as where they can select the product according to their unique tastes and preferences. This strategy can be successful if the existing buyers try to look for special features in the product and also for the capability of the seller to be unique among the other competitors in the same niche market.

Q14. What are the benefits and risk associated with Focussed Strategy?

Ans :

Benefits associated with focus strategies

1. A focussed firm is protected from competition to the extent that the other firms which have a broader target do not possess the competitive ability to cater to the niche markets. In other words, a focussed firm provides products/services that the other firms cannot provide or would not find it profitable to provide.
2. Focussed firms buy in small quantities, so powerful suppliers may not evince much interest. But price increments until a certain limit can be absorbed and passed on to the loyal customers.
3. Powerful buyers are less likely to shift loyalties as they might not find others willing to cater to the niche markets as the focussed firms do.
4. The specialization that focussed firms are able to achieve in serving a niche market acts as a powerful barrier to substitute products/ services that might be available in the market.
5. For the same reason as above, the competence of the focussed firms acts as an effective entry barrier to potential entrants into the niche markets.

Risks associated with focus Strategies

There are several risks associated with focus strategies. Basically, these arise from the small size of the focussed firms and its dependence on the niche markets.

1. First of all, serving niche markets requires the development of distinctive com-petencies to serve those markets. The development of such distinctive compe-tencies may be a long-drawn and difficult process.
2. Being focussed means commitment to a narrow market segment. Once com-mitted, it may be difficult for the focussed firm to move onto other segments of the market.
3. A major risk for the focussed firm lies in the cost configuration. Typically, the costs for the focussed firm are higher as the markets are limited, and the vol-ume of production and sales small.
4. Niches are often transient. They may disappear owing to technology or market factors. For instance, a new technology may make the process of making the niche products easier. Or there might be a shift in the customers' needs and preferences causing them to move to other products. Sometimes the rising costs of niche products may cause the customers to move to the lower-priced prod-ucts of cost leaders.
5. Niches may sometimes become attractive enough for the bigger players to shift attention to them. The rising competition in the market may cause cost leaders and differentiator firms to look at niche markets with greater interest thereby posing a threat to the focussed firms.
6. Finally, rivals in the market may sometimes outfocus the focussed firms by devising ways to serve the niche markets in a better manner.

3.4.4 Best Cost Provider Strategy

Q15. Explain briefly about Best Cost Provider Strategy.

Ans :

The strategy which aims to provide more value for customer's money. The main objective is to deliver good value to the customers by satisfying their expectations with regard to price, quality, service, features, performance, etc.

A company can gain competitive advantage only when it offers a product with value added service at low cost compared to its competitors. In order to be the best cost provider, a company should possess all the resources and skills to achieve best quality, provide value added services, match performance of the product and provide the best customer service at low cost than the competing firm.

Best-cost provider strategies are hybrid strategies which are a combination of both a low cost strategy and a differentiation strategy. The target market for such strategies is usually the valued potential buyers which is infact a very sizable part of the whole market.

A best cost provider strategies can be more powerful in the markets where there is diversity in buyers which leads to product differentiation and also where the customers are sensitive to price and value. This is due to the fact that on best-cost provider can position itself admits the market with either a medium-quality products at below average price or a good quality product at an average price.

Mostly, it is found that large number of customers prefer medium quality products rather than cheap goods produced by low-cost producers or high quality goods produced by top differentiators.

Unless and until a company possess all the resources, technology and capabilities to produce good quality products or services with all the added features and most importantly at a lower cost than the competitor, the best-cost provider strategy would not work out well.

Benefits of Best Cost Provider Strategy

The various benefits of best-cost provider strategies are,

(i) Through best-cost provider strategies, advantages of both differentiation and low cost provider strategy can be attained.

(ii) As best-cost provider strategy intent to provide good value to the customers, it usually results in customer satisfaction.

Risks Faced by a Best-Cost Provider Strategy

The company implementing best-cost provider strategies would be lying between low cost strategy and differentiation strategy, which is the biggest risk because the low cost strategy would be attracting customers with the help of low cost on one hand and on the other hand differentiation strategy would be attracting customers with the help of innovative features. Therefore, a best-cost provider strategy to be successful needs to offer customers good product features in order to Stance between the price of low cost and differentiation strategy.

3.5 Choice based Strategies

Q16. Explain briefly about Choice Based Strategies.

Ans :

1. Ansoffs matrix

Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoffs matrix is shown below:

	Present products	**New Products**
Present Market	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoffs matrix provides four different growth strategies:

- **Market Penetration -** the firm seeks to achieve growth with existing products in their current market segments, aiming to increase its market share.

- **Market Development -** the firm seeks growth by targeting its existing products to new market segments.
- **Product Development -** the firms develops new products targeted to its existing market segments.
- **Diversification -** the firm grows by diversifying into new businesses by developing new products for new markets.

2. Porter's Generic Strategies

If the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates, an important secondary determinant is its position within that industry. Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns.

A firm positions itself by leveraging its strengths. Michael Porter has argued that a firm's strengths ultimately fall into one of two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation, and focws. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent. The following table illustrates Porter's generic strategies:

Porter's Generic Strategies

Target Scope	Advantage	
	Low Cost	Product Uniqueness
Broad (Industry wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

3. Boston Consulting Group

Boston Consulting Group was introduced by Bruce Henderson who focus on experience curve. Experience curve useful in emphasizing on relationship between costs and experience. Factors contributing to the experience curve are,

(a) Enhanced efficiency of labour over time.

(b) Enhanced production methods in view of experience.

(c) Enhanced performance by using available equipment.

(d) Enhanced conditions of supplier.

Firm which attain lower cost can have benefit of lower prices overall as rivals also take advantage of experience curve.

3.6 Industry Life Cycle Stages

Q17. Explain the various stages of industry life cycle.

Ans : **(June-19)**

The industry life cycle refers to the four stages of,

1. Introduction
2. Growth
3. Maturity
4. Decline.

That takes place during the life of an industry. The life cycle concept can be studied from various levels ranging from the life cycle of the complete industry to the life cycle of a single variation or model of a particular product or service.

The degree of attention paid to the different generic strategies, value creating activities functional areas and overall objectives differs through out the industry life cycle.

The following figure represents the four stages industry life cycle and how the factors like generic strategies, intensity of competition, market growth rate, etc, changers overtime.

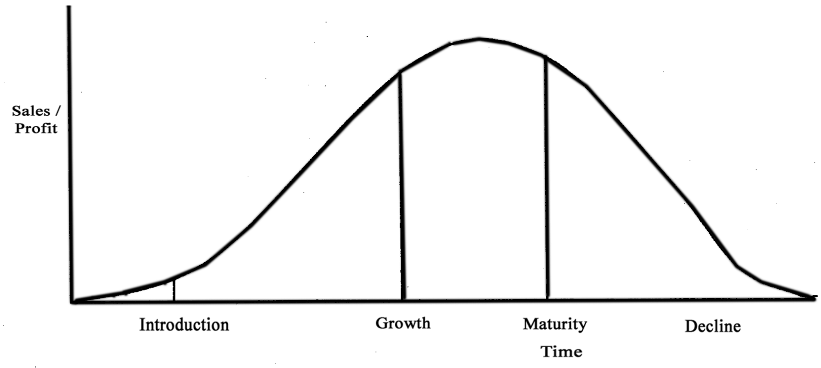


Fig . Stages of Industry Life Cycle

Stage Factor	Introduction	Growth	Maturity	Decline
Generic Strategies	Differentiation	Differentiation	Differentiation overall cost leadership.	Overall cost leadership focus.
Market Growth Rate	Low	Very large	Low to moderate.	Negative
Emphasis on Product Design	Very high	High	Low to moderate.	Low
Emphasis on Process Design	Low	Low to moderate.	High	Low
Intensity of competition	Low	Increasing	Very intense	Changing
Number of segments	Very few	Some	Many	Few
Overall objective	Increase market awareness.	Create consumer demand.	Defend market share and extend product life cycles.	Integrate maintain, harvest or exit.
Major functional areas of concern	Research and	Sales and marketing.	Production development.	General management and finance.

Managers must be well versed about all the functional areas in all the stages in order to gain the competitive advantage and consistency in all the functional areas and value Creating activities.

For instance, sales and marketing is regarded as the key functional area of growth stag; but the managers are urged to emphasize even on the other functional areas like R&D, production besides this function.

1. Introduction Stage and its Strategies

Introduction stage is characterized by the following features:

(i) Unfamiliar products to the consumers

(ii) No clear market segments

(iii) Vaguely mentioned product features

(iv) Low competition because of few players in the market

(v) Low sales growth

(vi) Continuous technological variations

(vii) Operating losses

(viii) Requirement of heavy cash to finance operations etc.

The key functional areas in this stage are research and development and marketing activities, which would help in creating and improving awareness among the customers with respect the product or service. The primary activities of this stage are,

(a) Developing the product and attracting the customers towards the newly launched product.

(b) Developing the product in such a way that, it acts as a standard for analyzing all the competitors products.

The major advantage of being "first mover" in the market is that they can easily establish a recognizable global brand.

2. Growth Stage and its Strategies

This stage is characterized by continuous increase in sales and this increased sales helps the competitors to enter into the market and share the profits.

A product can be successful in this stage if it is able to develop consumer preferences for particular brands which would further needs good brand recognition, products with unique features, financial resources to assist different value chain activities like marketing and sales, customer service, R&D etc.

Growth stage is characterized by increasing revenues due to,

(a) New customers for the product

(b) Repeat purchases made by the satisfied customers.

Usually, when the product is passing through its life cycle, the extent of repeat buyers to new buyers increases, but the new products and services would fail if only few repeat purchases are made.

3. Maturity Stage and its Strategies

The third stage is characterized by decreasing demand and as the markets begin to saturate, the available opportunities of attracting the new customers tends to decrease.

The company would experience a downfall in its competitive position and direct competition becomes dominant. The competition among the existing competitors increases because of which the marginal competitors withdraws from the market.

The customers would become more price sensitive and have a better insight of products and services. Therefore, the firm should provide unique products and services with the help of efficient manufacturing operations and process engineering.

4. Decline Stage and its Strategies

This is the last stage of industry life cycle where in the firms should make difficult choice. In this stage the firm has to decide as to whether to exist or stay in the market by strengthening its position or else it should quit from the market.

Usually, the firms reaches the decline stage because of fall in its sales and profit values and this situation in turn takes place due to the changes that takes place if business environment or variations in consumer tastes and preferences or due to the rapid technological variations.

3.7 Tailoring Strategy to Fit Specific Industry

3.7.1 Strategies for Emerging Industry

Q18. What is an emerging industry ? Explain the different challenges faced by emerging industries.

Ans :

An emerging industry is one in the formative stage. Examples include wireless Internet communications, high-definition TV and liquid crystal display (LCD) TV screens, assisted living for the elderly, online education, organic food products, e-book publishing, and electronic banking. Many companies striving to establish a strong foothold in an emerging industry are in a start-up mode; they are busily perfecting technology, adding people, acquiring or constructing facilities, gearing up operations, and trying to broaden distribution and gain buyer acceptance.

The business models and strategies of companies in an emerging industry are unproved- what appears to be a promising business concept and strategy may never generate attractive bottom-line profitability. Often, there are important product design problems and technological problems that remain to be worked out.

Challenges when Competing in Emerging Industries

Competing in emerging industries presents managers with some unique strategy- making challenges:

- Because the market is new and unproved, there may be much speculation about how it will function, how fast it will grow, and how big it will get. The little historical information available is virtually useless in making sales and profit projections. There's lots of guesswork about how rapidly buyers will be attracted and how much they will be willing to pay. For example, there is still uncertainty about how quickly the demand for high-definition TV sets will grow following the 2003 law requiring all U.S. TV stations to broadcast digital programs.
- In many cases, much of the technological know-how underlying the products of emerging industries is proprietary and closely guarded; having been developed in-house by pioneering firms; patents and unique technical expertise are key factors in securing competitive advantage. In other cases, the technology is multifaceted, entailing parallel or collaborative efforts on the part of several enterprises and perhaps competing technological approaches.
- Often, there is no consensus regarding which of several competing technologies will win out or which product attributes will prove decisive in winning buyer favor- as is the case in high-speed Internet access where cable modems, digital subscriber line (DSL), and wireless technologies are competing vigorously. Until market forces sort these things out, wide differences in product quality and performance are typical. Rivalry therefore centers on each firm's efforts to get the market to ratify its own strategic approach to technology, product design, marketing, and distribution.
- Entry barriers tend to be relatively low, even for entrepreneurial start-up companies. Large, well-known, opportunity-seeking companies with ample resources and competitive capabilities are likely to enter if the industry has promise for explosive growth or if its emergencies threatens their present business, For instance, many traditional local telephone companies, seeing the potent threat of wireless communications technology, have opted to enter the mobile communications business in one way or another.
- Strong learning and experience curve effects may be present, allowing significant price reductions as volume builds and costs fall.
- Since in an emerging industry all buyers are first-time users, the marketing task is to induce initial purchase and to overcome customer concerns about product features, performance reliability, and conflicting claims of rival firms.
- Many potential buyers expect first-generation products to be rapidly improved, so they delay purchase until technology and product design mature and second- or third-generation appear on the market.
- Sometimes, firms have trouble securing ample supplies of raw materials and components (until suppliers gear up to meet the industry's needs).
- Undercapitalized companies, finding themselves short of funds to support needed R&D and get through several lean years until the product catches on, end up merging with competitors or being acquired by financially strong outsiders looking to invest in a growth market.

The two critical strategic issues confronting firms in an emerging industry are

1. How to finance initial operations until sales and revenues take off, and

2. What market segments and competitive advantages to go after in trying to secure a front-runner position. Competitive strategies keyed either to low cost or differentiations are usually viable. Focusing makes good sense when resources and capabilities are limited and the industry has too many technological frontiers or too many buyer segments to pursue at once.

The lack of established "rules of the game" gives industry participants considerable freedom to experiment with a variety of different strategic approaches. Nonetheless, a firm with solid resource capabilities, an appealing business model, and a good strategy has a golden opportunity to shape the rules and establish it self as the recognized industry front-runner.

Strategic Avenues for Competing in an Emerging Industry

Dealing with all the risks and opportunities of an emerging industry is one of the most challenging business strategy problems. To be successful in an emerging industry, companies usually have to pursue one more of the following strategic avenues:

1. Try to win the early race for industry leadership with risk-taking entrepreneurship and a bold creative strategy. Broad or focused differentiation strategies keyed to technological or product superiority typically after the best chance for early competitive advantage.
2. Push to perfect the technology, improve product quality, and develop additional attractive performance features.
3. As technological uncertainty clears and a dominant technology remerges, adopt it quickly. (However, while there's merit in trying to be the industry standard-bearer on technology and to pioneer the dominant product design, firms have to beware of betting too heavily on their own preferred technological approach or product design-especially when there are many competing technologies, R&D is costly, and technological developments can quickly move in surprising new directions.)
4. From strategic alliances with key suppliers to gain access to specialized skills, technological capabilities, and critical materials or components.
5. Acquire or form alliances with companies that have related or complementary technological expertise as a means of helping out compete rivals on the basis of technological superiority.
6. Try to capture any first- mover advantages associated with early commitments to promising technologies.
7. Pursue new customer groups, new user applications, and entry into new geographical areas (perhaps using strategic partnerships or joint ventures if financial resources are constrained).
8. Make it easy and cheap for first-time buyers to try the industry's first-generation product. Then, as the product becomes familiar to a wide portion of the market, begin to shift the advertising emphasis from creating product awareness to increasing frequency of use and building brand loyalty.
9. Use price cuts to attract the next layer of price-sensitive buyers into the market.

The short-term value of winning the early race of growth and market share leadership has to be balanced against the longer-range need to build a durable competitive edge and a defendable market position. Well-financed outsiders are certain to move in with aggressive strategies as industry sales start to take off and the perceived risk of investing in the industry lessens.

A rush of new entrants, attracted by the growth and profit potential, may crowd the market and force industry consolidation to a smaller number of players. Resource-rich latecomers, aspiring to industry leadership, may be able to become major players by acquiring and merging the operations of weaker competitors and then launching strategic offensives to build market share and gain quick brand-name recognition. Strategies must be aimed at competing for the long haul; often, this means sacrificing some degree of short-term profitability in order to invest in the resources, capabilities, and market recognition needed to sustain early successes.

Young companies in fast-growing markets face three strategic hurdles:

1. Managing their own rapid expansion,
2. Defending against competitors trying to horn in on their success, and
3. Building a competitive position extending beyond their initial product or market.

Up-and-coming companies can help their cause by selecting knowledgeable members for their boards of directors, by hiring entrepreneurial managers with experience in guiding young businesses through the start-up and takeoff stages, by concentrating on out-innovating the competition, and perhaps by merging with or acquiring another firm to gain added expertise and a stronger resource base.

3.7.2 Strategies for Maturing Industry

Q19. Explain Strategies for Competing in Maturing Industries?

Ans : **(Imp.)**

A maturing industry is one that is moving from rapid growth to significantly slower growth. An industry is said to be mature when nearly all potential buyers are already users of the industry's products. In a mature market, demand consists mainly of replacement sales to existing users, with growth hinging on the industry's abilities to attract the few remaining new buyers and to convince existing buyers to p their usage. Consumer goods industries that are mature typically have a growth rate under 5 percent roughly equal to the growth of the customer base or economy as a whole.

Industry Changes Resulting from Market Maturity

An industry's transition to maturity does not begin on an easily predicted schedule. Industry maturity can be forestalled by the emergence of new technological advances. Product innovations or other driving forces that keep rejuvenating market demand. Nonetheless, when growth rates do slacken, the onset of market maturity usually produces fundamental changes in the industry's competitive environment.

1. Slowing growth in buyer demand generates more head-to-head competition for market share. Firms that want to continue on a rapid-growth track start looking for ways to take customers away from competitors. Outbreaks of price cutting, increased advertising, and other aggressive tactics to gain market share are common.
2. Buyers become more sophisticated, often driving a harder bargain on repeat purchases. Since buyers have experience with the product and are familiar with competing brands, they are better able to evaluate different brands and can use their knowledge to negotiate a better deal with sellers.
3. Competition often produces a greater emphasis on cost and service. As sellers all begin to offer the product attributes buyers prefer, buyer choices increasingly depend on which seller offers the best combination of price and service.
4. Firms have a "topping-out" problem in adding new facilities. Reduced rates of industry growth mean slowdowns in capacity expansion for manufacturers and slowdowns in new store growth for retail chains. With slower industry growth, adding too mush capacity too soon can create oversupply conditions that adversely affect company profits well into the future.
5. Product innovation and new end-use applications are harder to come by. Producers find it increasingly difficult to create new product features, find further uses for the product, and sustain buyer excitement.
6. International competition increases. Growth-minded domestic firms start to seek out sales opportunities in foreign markets. Some companies, looking for ways to cut costs, relocate plants to countries with lower wage rates. Greater product standardization and diffusion of technological know – how reduce entry barriers and make it possible for enterprising foreign companies to become serious market contenders in mort countries. Industry leadership passes to companies that sucked in building strong competitive

positions in most of the world's major geographic markets and in winning the biggest global market shares.

7. Industry profitability falls temporarily or permanently. Slower growth, increased competition, more sophisticated buyers, and occasional periods of overcapacity put pressure on industry profit margins. Weaker, less-efficient firms are usually the hardest hit.

8. Stiffening competition induces a number of mergers and acquisitions among former competitors, drives the weakest firms out of the industry, and produces industry consolidation in general. Inefficient firms and firms with weak competitive strategies can achieve respectable results in a fast growing industry with booming sales. But the intensifying competition that accompanies industry maturity exposes competitive weakness and throws second-and third-tier competitors into a survival-of –the-fittest contest.

Strategic Moves in Maturing Industries

As the new competitive character of industry maturity begins to hit full force, any of several strategic moves can strengthen a firm's competitive position: pruning the product line, improving value chain efficiency, trimming costs, increasing sales to present customers, acquiring rival firms, expanding internationally, and strengthening capabilities.

1. Pruning Marginal Products and Models

A wide selection of models, features, and product options sometimes has competitive value during the growth stage, when buyers' needs are still evolving. But such variety can become too costly as price competition stiffens and profit margins are squeezed. Maintaining many product versions works against achieving design parts inventory, and production economies at the manufacturing levels and can increase inventory stocking costs for distributors and retailers.

2. More Emphasis on Value Chain Innovation

Efforts to reinvent the industry value chain can have a fourfold payoff: lower costs, better product or service quality, grater capability to turn out multiple or customized product versions, and shorter design-to-market cycles.

Manufacturers can mechanize high-cost activities, redesign production lines to improve labor efficiency, build flexibility into the assembly process so that customized product versions can be easily produced, and increase use of advanced technology (robotics, computerized controls, and automatic guided vehicles.) Suppliers of parts and components, manufacturers, and distributors can collaborate on the use of Internet technology and e-commerce techniques to streamline various value chain activities and implement cost-saving innovations.

3. Trimming Costs

Stiffening price competition gives firms extra incentive to drive down unit costs. Company cost-reduction initiatives can cover a broad front. Some of the most frequently pursued options are pushing suppliers for better prices, implementing tighter supply chain management practices, cutting low-value activities out of the value chain, developing more economical product designs, reengineering internal processes using e-commerce technology, and shifting to more economical distribution arrangements.

4. Increasing Sales to Present Customers

In a mature market, growing by taking customers away from rivals may not be as appealing as expanding sales to existing customers. Strategies to increase purchases by existing customers. Strategies to increase purchases by existing customers can involve adding more sales promotions, providing complementary items and ancillary services, and finding more ways for customers to use the product. Convenience stores, for example, have boosted average sales per customer by adding video rentals, automated teller machines, gasoline pumps, and deli counters.

5. **Acquiring Rival Firms at Bargain Prices**

Sometimes a firm can acquire the facilities and assets of struggling rivals quite cheaply. Bargain-priced acquisitions can help create a low-cost position if they also present opportunities for greater operating efficiency. In addition, an acquired firm's customer base can provide expanded market coverage and opportunities for greater scale economies.

The most desirable acquisitions are those that will significantly enhance the acquiring firm's competitive strength.

6. **Expanding Internationally**

As its domestic market matures, a firm may seek t enter foreign markets where attractive growth potential still exists and competitive pressures are not so strong. Many multinational companies are expanding into such emerging markets as China, India, Brazil, Argentina, and the Philippines, where the long-term growth prospects are quite attractive. Strategies to expand internationally also make sense when a domestic firm's skills, reputation, and product are readily transferable to foreign markets.

7. **Building New or More Flexible Capabilities**

The stiffening pressures of competition in a maturing or already mature market can often be combated by strengthening the company's resource base and competitive capabilities. This can mean adding new competencies or capabilities, deepening existing competencies to make them harder to imitate, or striving to make curse competencies more acceptable to changing customer requirements and expectations.

8. **Strategic Pitfalls in Maturing Industries**

Perhaps the biggest strategic mistake a company can make as an industry matures is steering a middle course between low cost, differentiation, and focusing-blending efforts to achieve low cost with efforts to incorporate differentiating features and efforts to focus on a limited target market. Such strategic compromises typically leave the firm stuck in the middle with a fuzzy strategy, too little commitment to winning a competitive advantage, an average image with buyers, and little chance of springing into the ranks of the industry leaders.

Other strategic pitfalls include being slow to mount a defense against stiffening competitive pressures, concentrating more on protecting short-term profitability than on building or maintaining long term competitive position, waiting too long to respond to price cutting by rivals, over expanding in the face of slowing growth, overspending on advertising and sales promotion efforts in a losing effort to combat the growth slowdown, and failing to pursue cost reduction soon enough or aggressively enough.

3.7.3 Strategies for Firms in Stagnant or Declining Industries

Q20. What are the strategies for firms in stagnant or declining industries?

Ans :

Many firms operate in industries where demand is growing more slowly than the economy-wide average or is even declining. Although harvesting the business to obtain the greatest cash flow, selling out, or preparing for close down are obvious end-game strategies for uncommitted competitors with dim long-term prospects, strong competitors may be able to achieve good performance even in a stagnant market environment. Stagnant demand by itself is not enough to make an industry unattractive. Selling out may or may not be practical, and closing operations is always a last resort.

Business competing in stagnant or declining industries must region themselves to performance targets consistent with available market opportunities. Cash flow and return-on-investment criteria are more appropriate than growth-oriented performance measures, but sales and market-share growth are by no means rules out. Strong competitors may be able to take sales from weaker rivals, and the acquisition or exit of weaker firms creates opportunities for the remaining companies to capture greater market share.

In general, companies that succeed in stagnant industries employ one or more of three strategic themes.

1. Pursue a focused strategy aimed at the faster-growing market segments within the industry. Stagnant or declining markets, like other markets, are composed of numerous segments or niches. Frequently, one or ore of these segments is growing rapidly, despite stagnation in the industry as a whole. An astute competitor who zeroes in on fast-growing segments and does a first-rate job of meeting the needs of buyers comprising these segments can often escape stagnating sales and profits and even gain decided competitive advantage.
2. Stress differentiation based on quality improvement and product innovation. Either enhanced quality or innovation can rejuvenate demand by creating important new growth segments or inducing buyers to trade up. Successful product innovation opens up an avenue for competiting that bypasses meeting or beating rivals prices. Differentiation based on successful innovation has the additional advantage of being difficult and expensive for rival firms to imitate.
3. Strive to drive costs down and become the industry's low-cost leader. Companies in stagnant industries can improve profit margins and return on investment by pursuing innovative cost reduction year after year. Potential cost-saving actions include (a) cutting marginally beneficial activities out of the value chain; (b) outsourcing functions and activities that can be performed more cheaply by outsiders; (c) redesigning internal business processes to exploit cost-reducing e-commerce technologies; (d) consolidating underutilized production facilities; (e) adding more distribution channels to ensure the unit volume needed for low-cost production; (f) closing low-volume, high-cost retail outlets; and (g) pruning marginal products from the firm's offerings.

These three strategic themes are no mutually exclusive. Introduction innovative versions of a product can create a fast-growing market segment. Similarly, relentless pursuit of greater operating efficiencies permits price reductions that create price-conscious growth segments. Note that all three themes are spinoffs of the generic competitive strategies, adjusted to fit the circumstances of a tough industry environment. The most attractive declining industries are those in which sales are eroding only slowly, there is large built-in demand, and some profitable niches remain.

The most common strategic mistakes companies make in stagnating or declining markets are (1) getting trapped in a profitless war of attrition, (2) diverting too much cash out of the business too quickly (thus further eroding performance), and (3) being overly optimistic about the industry's future and spending too much on improvements in anticipation that things will get better.

3.7.4 Strategies for Competing in Fragmented Industries

Q21. What are the Strategies for Competing in Fragmented Industries ?

Ans :

A number of industries are populated by hundreds, even thousands, of small and medium-sized companies, many privately held and none with a substantial share of total industry sales. The standout competitive feature of a fragmented industry is the absence of market leaders with king-sized market shares or widespread buyer recognition.

Examples of fragmented industries include book publishing, landscaping and plant nurseries, real estate development, convenience stores, banking, health and medical care, mail order catalog sales, computer software development, custom printing, kitchen cabinets, trucking, auto repair, restaurants and fast food, public accounting, apparel manufacture and apparel retailing, paperboard boxes, hotels and motels, and furniture.

Reasons for Supply-Side Fragmentation

Any of several reasons can account for why the supply side of an industry is fragmented :

- Market demand is so extensive and so diverse that very large numbers of firms can easily coexist trying to accommodate the range and variety of buyer preferences and requirements and to cover all the needed geographical locations.
- Low entry barriers allow small firms to enter quickly and cheaply.
- An absence of scale economies permits small companies to compete on an equal cost footing with larger firms.
- Buyers require relatively small quantities of customized products. Because demand for any particular product version is small, sales volumes are not adequate to support producing, distributing, or marketing on a scale that yields advantages to a large firm.
- The market for the industry's product or service is becoming more global, putting companies in more and more countries in the same competitive market arena (as in apparel manufacture).
- The technologies embodied in the industry's value chain are exploding into so many new areas and along so many different paths that specialization is essential just to keep abreast in any one area of expertise.
- The industry is young and crowded with aspiring contenders, with no firm having yet developed the resource base, competitive capabilities, and market recognition to command a significant market share (as in business-to-consumer retailing via the Internet).

Strategy Options for a Fragmented Industry

Suitable competitive strategy options in a fragmented industry include :

- **Constructing and operating "formula" facilities -** This strategic approach is frequently employed in restaurant and relating businesses operating at multiple locations. It involves constructing standardized outlets in favourable locations at minimum cost and then operating them cost-effectively.
- **Becoming a low-cost operator -** When price competition is intense and profit margins are under constant pressure, companies can stress no-frills operations featuring low overhead, high-productivity/low-cost labor, lead capital budgets, and dedicated pursuit of total operating efficiency. Successful low-cost producers in a fragmented industry can play the price-discounting game and still earn profits above the industry average. Many e-tailers compete on the basis of bargain prices; so do local tire retailers and supermarkets and off-brand gasoline stations.
- **Specializing by product type -** When a fragmented industry's product include a range of styles or services, a strategy to focus on one product or service category can be effective. Some firms in the furniture industry specialize in only one furniture type such as brass beds, rattan and wicker, lawn and garden, or early American. In auto repair, companies specialize in transmission repair, body worm, or speedy oil changes.
- **Specializing by customer type -** A firms can stake out a market niche in a fragmented industry by catering to those customers who are interested in low prices, unique product attributes, customized features, carefree service, or other extras. A number of restaurants cater to take-out customers; others specialize in fine dining, and still others cater to the sports bar crowd.
- **Focusing on a limited geographic area -** Even though a firm in a fragmented industry can't win a big share of total industry wide sales, it can still try to dominate a local or regional geographical area. Concentrating company efforts on a limited territory can produce greater operating efficiency, speed delivery and customer services, promote strong brand awareness, and permit saturation advertising, while avoiding the diseconomies of stretching operations out over a much wider area. Supermarkets, banks, convenience stores, and sporting goods retailers successfully operate multiple locations within a limited geographic area.

3.7.5 Strategies for Industry Leaders

Q22. What are the Strategies for Industry Leaders?

Ans : **(June-18)**

The competitive positions of industry leaders normally range from "stronger than average" to "powerful". Leaders typically are well known, and strongly entrenched leaders have proven strategies. Some of the best-known industry leaders are, Starbucks (coffee drinks), Microsoft (computer software), Callaway (golf clubs), McDonald's (fast food), Gerber (baby food), Hewlett-Packard (printers), Nokia (Cell phones), AT & T (long-distance telephone service), East-man Kodak (Camera film), Wal-Mart (discount retailing), Amazon.com (online shopping), eBay (online auctions), and Levi Strauss (jeans).

The main strategic concern for a leader revolves around how to defend and strengthen its leadership position, perhaps becoming the dominant leader as opposed to just a leader. However, the pursuit of industry leadership and large market share is primarily important because of the competitive advantage and profitability that accrue to being the industry's biggest company. Three contrasting strategic postures are open to industry leaders :

1. Stay-on-the-offensive Strategy

The central goal of a stay-on-the-offensive strategy is to be a first-mover and a proactive market leader. It rests on the principle that staying a step ahead and forcing rivals into a catch-up mode is the surest path to industry prominence and potential market dominance- as the saying goes, the best defense is a good offense. Being the industry standard setter entails relentless pursuit of continuous improvement and innovation - being out front with technological improvements, new or better products, more attractive performance features, quality enhancements, improved customer service, ways to cut operating costs, and ways to make it easier and less costly for potential customers to switch their purchases from runner-up firms to its own products.

A low-cost leader must set the pace for cost reduction, and a differentiator must constantly initiative new ways to keep its product set apart from the brands of imitative rivals in order to be the standard against which rivals' products are judged.

2. Fortify-and-defend Strategy

The essence of "fortify and defend" is to make it harder for challengers to gain ground and for new firms to enter. The goal of a strong defense are to hold on to the present market share, strengthen current market position, and protect whatever competitive advantage the firm has. Specific defensive actions can include :

- Attempting to raise the competitive ante for challengers and new entrants via increased spending for advertising, higher levels of customer service, and bigger R & D outlays.
- Introducing more product versions or brands to match the product attributes that challenger brands have or to fill vacant niches that competitors could slip into.
- Adding personalized services and other extras that boost customer loyalty and make it harder of more costly for customers to switch to rival products.
- Keeping prices reasonable and quality attractive.
- Building new capacity ahead of market demand to discourage smaller competitors from adding capacity of their own.
- Investing enough to remain cost-competitive and technologically progressive.
- Patenting the feasible alternative technologies.
- Signing exclusive contracts with the best suppliers and dealer distributors.

3. **Muscle-flexing Strategy**

Here a dominant leader plays competitive hardball (presumably in an ethical and competitively legal manner) when smaller rivals rock the boat with price cuts or mount new market offensives that directly threaten its position. Specific responses can include quickly matching and perhaps exceeding challengers' price cuts, using large promotional campaigns to counter challengers' moves to gain market share, and offering better deals to their major customers.

Dominant leaders may also court distributors assiduously to dissuade them from carrying rivals' products, provide salespersons with documented information about the weaknesses of competiting products, or try to fill any vacant positions in their own firms by making attractive offers to the better executives of rivals that get out of line.

The leaders may also use various arm-twisting tactics to pressure present customers no to use the products of rivals. This can range from simply forcefully communicating its displeasure should customers opt to use the products of rivals to pushing them to agree to exclusive arrangements in return for better prices to charging them a higher price if they use any competitors' products. As a final resort, a leader may grant certain customers special discounts or preferred treatment if they do not use any products of rivals.

3.7.6 Strategies for Runner-up Firms

Q23. Discuss various Strategies for Runner-up Firms.

Ans : **(Oct.-20)**

Runner-up or "second-tier" firms have smaller market shares than "first-tier" industry leaders. Some runner-up firms are up-and-coming market challengers, employing offensive strategies to gan market share and build a stronger market position. Other runner-up competitors are focusers, seeking to improve their lot by concentrating their attention on serving a limited portion of the market. There are, of course, always a number of firms in any industry that are destined to be perennial runners-up, lacking the resources and competitive strengths to do more than continue in trailing positions and/or content to follow the trend setting moves of the market leaders.

Obstacles for Firms with Small Market Shares

In industries where big size is definitely a key success factor, firms with small market shares have some obstacles to overcome : (1) less access to economies of scale in manufacturing, distribution, or marketing and sales promotion; (2) difficulty in gaining customer recognition; (3) weaker ability to use mass media advertising; and (4) difficulty in funding capital requirements.

When significant scale economies give large-volume competitors a dominating cost advantage, small-share firms have only two viable strategic options: initiate offensive moves to gain sales and market share (so as to build the volume of business needed to approach the scale economies enjoyed by larger rivals) or withdraw from the business (gradually or quickly).

The competitive strategies most underdogs use to build market share and achieve critical scale economies are based on.

1. Using lower prices to win customers from weak higher-cost rivals
2. Merging with or acquiring rival firms to achieve the size needed to capture greater scale economies
3. Investing in new cost-saving facilities and equipment, perhaps relocating operations to countries where costs are significantly lower
4. Pursuing technological innovations or radical value chain revamping to achieve dramatic cost savings.

But it is erroneous to view runner-up firms as inherently less profitable or unable to hold their own against the biggest firms. Many small and medium-sized firms earn healthy profits and enjoy good reputations with customers.

Strategic Approaches for Runner-up Companies

Assuming that scale economies or learning-curve effects are relatively small and result in no important cost advantage for big-share firms, runner-up companies have considerable strategic flexibility and can consider ay of the following seven approaches.

1. **Offensive Strategies to Build Market Share**

   A challenger firm needs a strategy aimed at building a competitive advantage of its own. Rarely can a runner-up improve its competitive position by imitating the strategies of leading firms. A cardinal rule in offensive strategy is to avoid attacking a leader head-on with an imitative strategy, regardless of the resources and staying power an underdog may have. Moreover, if a challenger has a 5 percent market share and needs a 20 percent share to earn attractive returns, it needs a more creative approach to competing than just "Try harder".

   Ambitious runner-up companies have to make some waves in the marketplace if they want to make big market share gains. The best "mover-and-shaker" offensives usually involve one of the following approaches :

   - Pioneering a leapfrog technological breakthrough.
   - Getting new or better products into the market consistently ahead of rivals and building a reputation for product leadership.
   - Being more agile and innovative in adapting to evolving market conditions and customer expectations than slower-to-change market leaders.
   - Forging attractive strategic alliances with key distributors, dealers, or marketers of complementary products.
   - Finding innovative ways to dramatically drive down costs and then using the attraction of lower prices to win customers from higher-cost, higher-priced rivals. A challenger firm can pursue aggressive cost reduction by eliminating marginal activities from its value chain, stremlining supply chain relationships, improving internal operating efficiency, using various e-commerce techniques, and merging with or acquiring rival firms to achieve the size needed to capture greater scale economies.
   - Crafting an attractive differentiation strategy based on premium quality, technological superiority, outstanding customer service, rapid product innovation, or convenient online shopping options.

     Without a potent offensive strategy to capture added market share, runner-up companies have to patiently nibble away at the lead of market leaders and build sales at a moderate pace over time.

2. **Growth-via-Acquisition Strategy**

   One of the most frequently used strategies employed by ambitious runner-up companies is merging with or acquiring rivals to form an enterprise that has greater competitive strength and a larger share of the overall market. For an enterprise to succeed with this strategic approach, senior management must have the skills to assimilate the operations of the acquired companies, eliminating duplication and overlap, generating efficiencies and cost savings, and structuring the combined resources in way that create substantially stronger competitive capabilities.

3. **Vacant-Niche Strategy**

   This version of a focused strategy involves concentrating on specific customers groups or end-user applications that market leaders have bypassed or neglected. An ideal vacant niche is of sufficient size and scope to be profitable, has some growth potential, is well suited to a firm's own capabilities, and for one reason or another is hard for leading firms to serve.

4. **Specialist Strategy**

   A specialist firm trains its competitive effort on one technology, product or product family, end user, or market segment (often one in which buyers have special needs). The aim is to train the company's resource strengths and capabilities on building competitive advantage through leadership in a specific area. Smaller companies that successfully use this focused strategy include Formby's Blue diamond, Canada Dry and American Tobacco. Many companies in high-tech industries concentrate their energies on being the clear leader in a particular technological niche; their competitive advantage is superior technological depth, technical expertise that is highly valued by customers, and the capability to consistently beat out rivals in pioneering technological advances.

5. **Superior Product Strategy**

The approach here is to use a differentiation-based focused strategy keyed to superior product quality or unique attributes. Sales and marketing efforts are aimed directly at quality-conscious and performance-oriented buyers. Fine craftsmanship, prestige quality, frequent product innovations, and/or close contact with customers to solicit their input in developing a better product usually undergird the superior product approach.

6. **Distinctive-Image Strategy**

Some runner-up companies build their strategies around ways to make themselves stand out from competitors. A variety of distinctive-image strategies can be used; creating a reputation for charging the lowest prices, providing prestige quality at a good price, going all-out to give superior customer service, designing unique product attributes, being a leader in new product introduction, or devising unusually creative advertising.

7. **Content Follower Strategy**

Content followers deliberately refrain from initiating trendsetting strategic moves and from aggressive attempts to steal customers away from the leaders. Followers prefer approaches that will not provoke competitive retaliation, often opting for focus and differentiation strategies that keep them out of the leaders' paths. They react and respond rather than initiative and challenge. They prefer defense to offense.

3.7.7 Strategies for Weak and Crisis-Ridden Business

Q24. Explain Strategies for Weak and Crisis-Ridden Business.

Ans : **(Oct.-20)**

A firm in an also-ran or declining competitive position has four basic strategic options. If it can come up with the financial resources, it can launch an offensive turnaround strategy keyed either to low-cost or "new" differentiation themes, pouring enough money and talent into the effort to move up a notch or two in the industry rankings and become a respectable market contender within five years or so. It can employ a fortify-and-defend strategy, using variations of its present strategy and fighting hard to keep sales, market share, profitability, and competitive position at current levels.

It can opt for a fast-exit strategy and get out of the business, either by selling out to another firm or by closing down operations if a buyer cannot be found. Or it can employ an end-game or slow-exit strategy, keeping reinvestment to a bare-bones minimum and taking actions to maximize short-term cash flows in preparation for an orderly market exit.

Turnaround Strategies for Businesses in Crisis

Turnaround strategies are needed when a business worth rescuing goes into crisis; the objective is to arrest and reverse the sources of competitive and financial weakness as quickly as possible. Management's first task in formulating a suitable turnaround strategy is to diagnose what lies at the root of poor performance.

Some of the most common causes of business trouble are taking on too much debt, overestimating the potential for sales growth, ignoring the profit-depressing effects of an overly aggressive effort to "buy" market share with deep price cuts, being burdened with heavy fixed costs because of an inability to use plant capacity, betting on R & D efforts but failing to come up with effective innovations, betting on technological long shots, being too optimistic about the ability to penetrate new markets, making frequent changes in strategy and being overpowered by more successful rivals. Curing these kinds of problems and achieving a successful business turnaround can involve any of the following actions :

- Selling off assets to raise cash to save the remaining part of the business.
- Revising the existing strategy
- Launching efforts to boost revenues
- Pursuing cost reduction
- Using a combination of these efforts.

1. Selling off Assets

Asset-reduction strategies are essential when cash flow is a critical consideration and when the most practical ways to generate cash are (1) through sale of some of the firm's assets (plant and equipment, land, patents, inventories, or profitable subsidiaries) and (2) through retrenchment (pruning of marginal products from the product line, closing or selling older plants, reducing the workforce, withdrawing from outlying markets, cutting back customer service).

Sometimes crisis-ridden companies sell off assets not so much to unload losing operations as to raise funds to save and strengthen the remaining business activities. In such cases, the choice is usually to dispose of noncore business assets to support strategy renewal in the firm's core businesses.

2. Strategy Revision

When weak performance is caused by bad strategy, the task of strategy overhaul can proceed along any of several paths : (1) shifting to a new competitive approach to rebuild the firm's market positional; (2) overhauling internal operations and functional-area strategies to better support the same overall business strategy; (3) merging with another firm in the industry and forging a new strategy keyed to the newly merged firm's strengths; and (4) retrenching into a reduced core of products and customers more closely matched to the firm's strengths.

The most appealing path depends on prevailing industry conditions, the firm's particular strengths and weaknesses, its competitive capabilities vis-a-svis rival firms, and the severity to the crisis.

3. Boosting Revenues

Revenue-increasing turnaround efforts aim at generating increased sales volume. There are a number of revenue-building options: price cuts, increased promotion, a bigger sales force, added customer services, and quickly achieved product improvements. Attempts to increase revenues and sales volumes are necessary (1) when there is little or no room in the operating budget to cut expenses and still break even, and (2) when the key to restoring profitability is increased use of existing capacity.

4. Cutting Costs

Cost-reducing turnaround strategies work best when an ailing firm's value chain and cost structure are flexible enough to permit radical surgery, when operating inefficiencies are identifiable and readily correctable, when the firm's costs are obviously bloated, and when the firm is relatively close to its break-even point.

Accompanying a general belt-tightening can be an increased emphasis on paring administrative overheads, elimination of nonessential and low-value-added activities in the firm's value chain, modernization of existing plant and equipment to gain greater productivity, delay of nonessential capital expenditures, and debt restructuring to reduce interest costs and stretch out repayments.

5. Combination Efforts

Combination turnaround strategies are usually essential in grim situations that require fast action on a broad front. Likewise, combination actions frequently come into play when new managers are brought in and given a free hand to make whatever changes they see fit. The tougher the problems, the more likely it is that the solutions will involve multiple strategic initiatives.

Liquidation - The Strategy of Last Resort

Sometimes a business in crisis is too far gone to be salvaged. The problem, of course, is determining when a turnaround is achievable and when it isn't. It is easy for owners or managers to let their emotions and pride overcome sound judgment when a business gets in such deep trouble that a successful turnaround is remote. Closing down a crisis-ridden business and liquidating its assets, however, is sometimes the best and wisest strategy.

Of all the strategic alternatives, liquidation is the most unpleasant and painful because of the hardships of job eliminations and the effects of business closings on local communities. Nonetheless, in hopeless situations, an early liquidation effort usually serves owner-stockholder interests better than an inevitable bankruptcy. Prolonging the pursuit of a lost cause merely exhausts an organization's resources further and leaves less to salvage, not to mention the added stress and potential career impairment for all the people involved.

End-Game Strategies

An end-game, slow-exit, or harvesting strategy steers a middle course between preserving the status quo and existing as soon as possible. This type of strategy involves a gradual phasing down of the business and even sacrificing market position in return for bigger near-term cash flows or current profitability. The overriding financial objective of a slow-exit or harvest strategy is to reap the greatest possible harvest of cash to deploy to other business endeavors.

The operating budget is chopped to a rock-bottom level; reinvestment in the business is held to a bare minimum. Capital expenditures for new equipment are put on hold or given low financial priority (unless replacement needs are usually urgent); instead, efforts are made to stretch the life of existing equipment and make do with present facilities as long as possible. Promotional expenses may be cut gradually, quality reduced in not-so-visible ways, nonessential customer services curtailed, and the like.

An end-game, slow-exit, or harvest strategy is a reasonable strategic option for a weak business in the following circumstances :

1. When the industry's long-term prospects are unattractive - as seems to be the case for the cigarette industry, for the manufacture and sale of VCRs and videocassettes (which are now being replaced by DVD players and both CDs and DVDs), and for the 3.5-inch floppy disk business.

2. When rejuvenating the business would be too costly or at best marginally profitable - as could be the case at Iomega, which is struggling to maintain sales of its Zip drives in the face of rapidly expanding hard dirk drives on PCs, or at Polaroid, which has experienced stagnant sales for its instant cameras and film.

3. When the firm's market share is becoming increasingly costly to maintain or defend - as could be the case with the makers of film for traditional cameras.

4. When reduced levels of competitive effort will not tigger an immediate or rapid falloff in sales - the makers of printers will not likely experience much of a decline in sales of either dot-matrix printers or ribbons if they spend all of their ad budgets on promoting their lines of laser printers.

5. When the enterprise can redeploy the freed resources in higher-opportunity areas - the makers of CD players and CDs are better off devoting their resources to the production and sale of DVD players/recorders and DVDs.

6. When the business is not a crucial or core component of a diversified company's overall

lineup of businesses - gradually letting a sideline business decay is strategically preferable to deliberately letting a mainline or core business decline.

7. When the business does not contribute other desired features to a company's overall business portfolio-such features include sales stability, prestige, and a well-rounded product line.

The more of these seven conditions that are present, the more ideal the business is for harvesting and a slow-exit or end-game strategy.

End-game strategies make the most sense for diversified companies that have sideline or noncore business units in weak competitive positions or in unattractive industries. Such companies can withdraw the cash flows from unattractive, noncore business units and reallocate them to business units with greater profit potential or spend the on the acquisition of new businesses.

3.8 Competitive Analysis

Q25. Describe briefly about competitive analysis.

Ans :

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

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

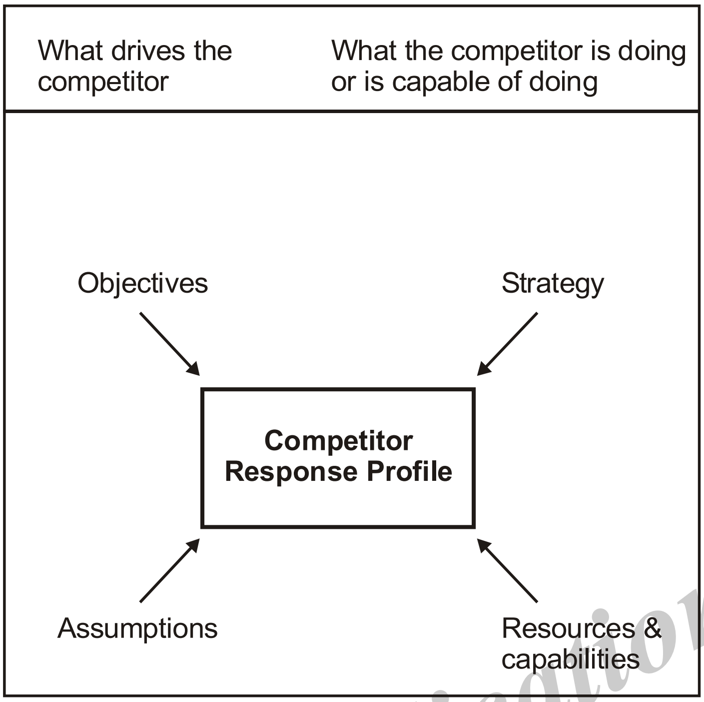
Competitor Analysis Framework

Michael Porter presented a framework for analyzing competitors. This framework is based on the following four key aspects of a competitor:

- Competitor's objectives
- Competitor's assumptions
- Competitor's strategy
- Competitor's capabilities

Objectives and assumptions are what drive the competitor, and strategy and capabilities are what the competitor is doing or is capable of doing. These components can be depicted as shown in the following diagram :

Competitor Analysis Components



A competitor analysis should include the more important existing competitors as well as potential competitors such as those firms that might enter the industry, for example, by extending their present strategy or by vertically integrating.

Competitor's Current Strategy

The two main sources of information about a competitor's strategy is what the competitor says and what it does. What a competitor is saying about its strategy is revealed in:

- Annual shareholder reports
- 10K reports
- Interviews with analysts
- Statements by managers
- Press releases

However, this stated strategy often differs from what the competitor actually is doing. What the competitor is doing is evident in where its cash flow is directed, such as in the following tangible actions:

- Hiring activity
- R & D projects
- Capital investments
- Promotional campaigns
- Strategic partnerships
- Mergers and acquisitions

Competitor's Objectives

Knowledge of a competitor's objectives facilitates a better prediction of the competitor's reaction to different competitive moves. For example, a competitor that is focused on reaching short-term financial goals might not be willing to spend much money responding to a competitive attack. Rather, such a competitor might favor focusing on the products that hold positions that better can be defended. On the other hand, a company that has no short term profitability objectives might be willing to participate in destructive price competition in which neither firm earns a profit.

Competitor objectives may be financial or other types. Some examples include growth rate, market share, and technology leadership. Goals may be associated with each hierarchical level of strategy - corporate, business unit, and functional level.

Competitor's Assumptions

The assumptions that a competitor's managers hold about their firm and their industry help to define the moves that they will consider. For example, if in the past the industry introduced a new type of product that failed, the industry executives may assume that there is no market for the product. Such assumptions are not always accurate and if incorrect may present opportunities. For example, new entrants may have the opportunity to introduce a product similar to a previously unsuccessful one without retaliation because incumbant firms may not take their threat seriously. Honda was able to enter the U.S. motorcycle market with a small motorbike because U.S. manufacturers had assumed that there was no market for small bikes based on their past experience.

A competitor's assumptions may be based on a number of factors, including any of the following:

- Beliefs about its competitive position
- Past experience with a product
- Regional factors
- Industry trends
- Rules of thumb

Competitor's Resources and Capabilities

Knowledge of the competitor's assumptions, objectives, and current strategy is useful in understanding how the competitor might want to respond to a competitive attack. However, its resources and capabilities determine its ability to respond effectively.

A competitor's capabilities can be analyzed according to its strengths and weaknesses in various functional areas, as is done in a SWOT analysis. The competitor's strengths define its capabilities. The analysis can be taken further to evaluate the competitor's ability to increase its capabilities in certain areas. A financial analysis can be performed to reveal its sustainable growth rate.

Finally, since the competitive environment is dynamic, the competitor's ability to react swiftly to change should be evaluated. Some firms have heavy momentum and may continue for many years in the same direction before adapting. Others are able to mobilize and adapt very quickly. Factors that slow a company down include low cash reserves, large investments in fixed assets, and an organizational structure that hinders quick action.

Short Question and Answers

1. Define business level strategy.

Ans :

Business strategies are the courses of action adopted by a firm for each of its busi-nesses separately to serve identified customer groups and provide value to the cus-tomer by a satisfaction of their needs. In the process the firm uses its competencies to gain, sustain, and enhance its strategic or competitive advantage.

The source of competitive advantage for any business operating in an industry arises from the skillful use of its core competencies. These competencies are used to gain a competitive advantage against rivals in an industry. Competitive advantage results in above-average returns to the company. Businesses need a set of strategies to secure competitive advantage. \

Michael E Porter is credited with extensive pioneering work in the area ofhusi- ness strategies or, what he calls, competitive strategies.

First of all, let us see what Porter has to say about competition. He believes that the basic unit of analysis for understanding competition is the industry, which, ac-cording to him, is a group of competitors producing products or services that com-pete directly with each other. It is the industry where competitive advantage is ultimately won or lost. Through competitive strategy, the firms attempt to define and establish an approach to compete in their industry.

The dynamic factors that determine the choice of a competitive strategy, according to Porter, are two, namely, the industry structure, and the positioning of a firm in the industry.

2. Significance of Competitive Advantage

Ans :

i) If the firm does not have any suitable competitive advantage then it is not able to implement the selected strategy.

ii) Lack of major sources for gaining competitive advantage for the execution of the strategy leads to the failure of even a well designed strategy in the firm.

iii) Strategy and competitive advantage are closely associated with one another. If the firm has an effective and efficient strategy then it can attain its competitive advantage thereby leading to the execution of its strategy.

iv) Without competitive advantage, it may not be possible for the firm to attain its corporate objectives. The successful strategy of any firm is constructed based on its method of competitive advantage.

3. Generic Strategies.

Ans :

There are countless variations in the competitive strategies that companies employ, mainly because each company's strategic approach entails custom-designed actions to fit its own circumstances and industry environment.

The custom-tailored nature of each company's strategy makes the chances remote that any two companies – even companies in the same industry – will employ strategies that are exactly alike in every detail. Managers at different companies always have a slightly different spin on future market conditions and how to best align their company's strategy with these conditions; moreover, they have different notions of how they intend to outmaneuver rivals and what strategic options make the most sense for their particular company.

4. Define Differentiation Strategies.

Ans :

Differentiation Strategy is the strategy through which theWwt differentiates its offerings from other firms of an industry. A firm can differentiate its products/services from the products/services of other firms on the basis of any one or group of factors mentioned below,

(i) Service after sale

(ii) Brand equity

(iii) Pricing strategy and pricing policies

(iv) Product mix

(v) Training to customers

(vi) Distribution channel.

A firm is said to have achieved success in its differentiation strategy when the premium in which a customer is ready to pay is higher than the cost of differentiation.

5. Focussed Strategy.

Ans :

Firms having a less competitive scope must adopt lus strategy unlike cost leadership or differentiation strategies which can be adopted at broader base. It is a special strategy or a niche strategy where a strategist selects those market segments (only one at a time) which can be effectively served by him. After choosing the market segment, they adopt the suitable strategy to serve the segment. The best example could be of Tata Nano car, where the main focus is on average earners.

(i) Focussed Low-Cost Strategy: The main aim of the focussed strategy based on low cost is to have a competitive advantage over the rival firms by reducing the cost and price and catering only to a small market segment or a niche market. It can achieve this if it can reduce its costs and also the number of customers that it serves. The sources to achieve this are same like that of "low-cost leadership strategy moving ahead of rivals by controlling the factors which increases costs and shape its value chain in such a way that it has a cost advantage over competitor.

Focused strategies based on lower cost are very prevalent Low cost are achieved in product development, marketing, distribution and advertising by producers of private-label goods. They do this by focusing on producing those generic items which has a good brand name and can be initiated. Then they directly sell these goods to those retail outlets who wants a basic house brand to sell to those buyer who are price-conscious.

(ii) Focussed/Market Niche Strategy based on Differentiation: A focused strategy based on differentiation tries to achieve competitive advantage in a niche market by providing products to buyers as where they can select the product according to their unique tastes and preferences. This strategy can be successful if the existing buyers try to look for special features in the product and also for the capability of the seller to be unique among the other competitors in the same niche market.

6. Benefits of Best Cost Provider Strategy

Ans :

The various benefits of best-cost provider strategies are,

(i) Through best-cost provider strategies, advantages of both differentiation and low cost provider strategy can be attained.

(ii) As best-cost provider strategy intent to provide good value to the customers, it usually results in customer satisfaction.

7. What is an emerging industry ?

Ans :

An emerging industry is one in the formative stage. Examples include wireless Internet communications, high-definition TV and liquid crystal display (LCD) TV screens, assisted living for the elderly, online education, organic food products, e-book publishing, and electronic banking. Many companies striving to establish a strong foothold in an emerging industry are in a start-up mode; they are busily perfecting technology, adding people, acquiring or constructing facilities, gearing up operations, and trying to broaden distribution and gain buyer acceptance.

The business models and strategies of companies in an emerging industry are unproved-what appears to be a promising business concept and strategy may never generate attractive bottom-line profitability. Often, there are important product design problems and technological problems that remain to be worked out.

8. Competitive analysis.

Ans :

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

i) Identifying competitors strategies: Strategists can get a quick profile of key competitors by studying where they are in industry, their strategic objectives and their basic competitive approaches.

ii) Evaluating who the industry's major players are going to be.

iii) Predicting competitors next moves.

iv) Pinpointing the key factors for competitive success. Key success factors spelt the difference between profit and loss and ultimately between competitive success and failure. A key success factor can be a skill or talent, a competitive capability or a condition a company must achieve, it can relate to technology, manufacturing, distribution, marketing or organizational resources.

v) Drawing conclusions about overall industry attractiveness. Whether an industry is relatively attractive or unattractive depends on several situational considerations.

9. What is strategy formulation ? Explain how is a strategy formulated.

Ans :

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision.

The process of strategy formulation basically involves six main steps. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

10. Cost Leadership Strategy.

Ans :

When the competitive advantage of a firm lies in a lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership. The firm outperforms its competitors by offering products or services at a lower cost then they can. Customers prefer a lower cost product particularly if it offers the same utility to them as the comparable products available in the market have to offer. When all firms offer products at a comparable price, then the cost leader firm earns a higher profit owing to the low cost of its products. Cost leadership offers a margin of flexibility to the firm to lower price if the competition becomes stiff and yet earn more or less the same level of profit.

Achieving cost leadership Central to the objective of achieving cost leadership is an understanding of the value chain for a product/service of a firm. Costs are spread over the entire value chain in activities that contribute to the making of the product. The basic objective in achieving cost leadership is to ensure that the cumulative cost across the value chain is lower than that of its competitors. For doing this it is essen-tial to analyse the cost drivers and then identify the areas for optimisation of costs.

Choose the Correct Answers

1. ________ does not help in creating the strategies. [c]
   (a) Research and Development (b) Innovation
   (c) Durability (d) Benchmarking and Integration.
2. The criteria for sustaining competitive advantage is ________ [d]
   (a) Rare (b) Non-substitutable
   (c) Costly to-imitate (d) All the above.
3. ________ is a type of strategic choice. [b]
   (a) Retrenchment strategy (b) Multi domestic strategy
   (c) Diversification strategy (d) None
4. ________ is not a Generic Strategic. [c]
   (a) Best cost provider strategy (b) Focused or market which strategy
   (c) Turn around strategy (d) Differentiation strategy.
5. The cost of procuring raw materials relies on ________. [d]
   (a) Locational Variable (b) Suppliers bargaining power
   (c) Union versus non-union labour (d) All the above.
6. ________ does not represent the hypercompetitive environment. [b]
   (a) Uncertain business environment (b) Go slow and stable environment
   (c) Rapidly changing (d) All the above.
7. ________ strategy cannot be included under the declining stage. [b]
   (a) Consolidation (b) Entering the market
   (c) Exiting the market (d) Maintaining
8. ________ is a distinct strategic move of Industry leader. [d]
   (a) Fortify and Defend strategy (b) Muscle-flexing strategy
   (c) Stay-on-the offensive strategy (d) All the above
9. The strategies which are available to corporate strategist incorporates ________ [c]
   (a) Financing decisions (b) Operational decisions
   (c) Both a and b (d) None
10. Runner-up firms are also known as ________ . [a]
   (a) Secondtier firms (b) First-tier firms
   (c) Third-tier firms (d) None

Fill in the Blanks

1. ________ helps the firms in gaining the competitive advantage in their businesses.
2. ________ represents the rate at which the firms core competencies i.e., its resources and capabilities depreciate or become obsolete.
3. From the competitors point of view, the competitive advantage can be sustainable if it is ________ and ________.
4. ADL Stands for ________.
5. ________ is the final step in the strategy formulation phase of strategic management.
6. ________ facilitates in fixing the problems of products, which fails to function.
7. Mergers carried out in reverse are referred as ________ or ________ .
8. ________ stage is characterized by increasing revenues because of new customers for the product and repeat purchases made by the satisfied customers.
9. An industry which shifts from a rapidly growing stage to a considerably slower growth is referred as ________.
10. ________ is the final stage in industry life cycle.

Answers

1. Integration
2. Durability
3. Inimitable and non-substitutable
4. Arthur D. Little Portfolio Matrix
5. Strategic choice
6. Repairing
7. Demergers or spin-offs
8. Growth
9. Maturing industry
10. Decline

UNIT IV

Alternative Strategy Development

Strategy Alternatives; Corporate Level international Strategy; Creating Value through Intensive growth strategies, Integration Strategies, Diversification Strategies, Unbundling, Using Offensive and defensive strategies. Outsourcing Strategies, Activities, Benefits, growth and Drivers of outsourcing. Market diversification, merger, acquisition strategies, Strategic Alliances.

4.1 Strategy Alternatives

Q1. Explain the various alternative strategies in the international environment.

Ans : **(June-19)**

The strategic alternatives acts as source for firms to enter in to international markets to carryout its operations and provide various source to select the possible alternative which suits the requirement of the firm in carrying-out its operations efficiently. The following are the range of alternative strategies for international environment. They are :

1. Merchandise Imports and Exports

The primary activity for any international activity is the importing or exporting of goods such as raw materials, components parts or finished products. Merchandise of imports and exports involves less risk when compared to other activities of international activity.

The merchandise of imports and exports are easy to carryout. Companies employ trade intermediaries like import and export brokers because they perform the functions of import and export for a fee and helps in minimising in- house expertise cost for the company.

Trade restrictions are imposed successfully in all parts of the world with the help of General Agreement on Tariffs and Trade (GATT) and trading blocks like European Union (EU) and the North American Free Trade Agreement (NAFTA).

2. Service Imports and Exports

Domestic markets for services and international markets for services are increasing rapidly. Services are usually intangible in nature. Service exports and imports possess various forms like entertainment, travel and tourism and business services. Services export strategies include management contracts and turnkey operations.

(a) Management Contracts

One of the most important assets a company may have at its disposal is management talent, which it can transfer internationally, primarily to its own foreign investments.

- Management contracts are means by which a company may transfer such talent by using part of its management personnel to assist a foreign company for a specified period for a fee.
- The company may gain income with little capital outlay.
- Contracts usually cover three to five years, and fixed fees or fees based on volume rather than profits are most common.
- A company usually pursues management contracts when it believes that a foreign company can manage its existing or new operation more efficiently that it can.
- Example, the British Airport Authority (BAA) has contracts to manage Airports

in Naples (Italy) and Melbourne (Australia) because it had developed successful airport management skills.

- With management contracts, the host country gets assistance it wants without needing foreign direct investment.
- In turn, the management company receives income without having to make a capital outlay.
- A management contract may also allow the supplier to gain foreign experience, increasing its capacity to internationalize.

(b) Turnkey Operations

Turnkey operations are a type of collaborative arrangement in which one company contracts another to build complete, ready to operate facilities.

- Companies building turnkey operations are frequently industrial equipment manufacturers and construction companies.
- They also may be consulting firms and manufacturers that decide an investment on their own behalf in the country is infeasible.
- The customer for a turnkey operation is often a governmental agency.
- One characteristic that sets the turnkey business apart from most other international business operations is the size of the contracts.
- Most contracts are for hundreds of millions of dollars, and many are of billons.
- However, large companies are vulnerable to economic downturns when governments cancel big contracts. Smaller firms often serve as subcontracts for primary turnkey suppliers.
- Apart from public relations which is important to gaining turnkey contracts, other factors such as price, export financing, managerial and technological quality, experience and reputation are necessary to sell contracts of such magnitude.
- Payment for a turnkey operations usually occurs in stages as a project develops.
- 10 to 25% comprises the down payment, with another 50 to 65% paid as the contract progresses, and the remainder paid once the facility is operating in accordance with the contract.
- Because of the long time frame between conception and completion, the company performing turnkey operations can encounter currency fluctuations and should cover itself through escalation clauses or cost plus contracts.
- Many turnkey contracts are for construction in remote areas, necessitating massive housing construction and importation of personnel.
- Projects may involve building an entire infrastructure under the most adverse conditions.
- So turnkey operators must have expertise hiring workers willing to work in remote areas for extended period and in transporting and using supplies under very adverse conditions.

3. Licensing

Under licensing, a company assigns the right to a patent or a trademark to another company for a fee or royalty. In licensing as a method of market entry, a company can gain market presence without an equity investment. The foreign company, or license, gains the right to commercially exploit the patent or trademark either on an exclusive or unrestricted basis.

Licenses are signed for a variety of time periods. Depending on the investment needed to enter the market, the foreign licenses may insist on a longer licensing period to pay of the initial investment. The license will make all necessary, capital investment such as machinery inventory and so on and market the products in the assigned sales territories, which may consist of one or several countries. Licensing arrangements are subject to negotiation and tend to vary considerably from company to company and from industry to industry.

4. Franchising

Franchising is a special form of licensing in which the franchiser makes a total marketing program available, including the brand name, logo, products and method of operation. In many cases, the franchiser provides supplies.

A franchiser and a franchisee act almost like a vertically integrated company because the parties are interdependent and each produces part of the product or service that ultimately reaches the consumer.

A franchiser most often penetrates a foreign country by setting up a master franchise and giving the local organization the rights to open outlets on its own or develop subfranchisees in the country or region. Sub- franchiser pays royalties to the master franchisee which then remits some predetermined percentage to the franchiser.

5. Investment Strategies

The investment strategies refers to investment by firms in assets globally. The commonly used investment strategies are portfolio investment and Foreign Direct investment (FDI).

i) Portfolio Investment. Portfolio investment is one of the international strategy for short-term financial gain. It provides certain rights to the investing business like minority ownership position in a foreign company or a part of ownership of its outstanding obligations. The various forms of portfolio investment are loans in the form of bonds, bills or negotiable notes or shares of either voting or non-voting stock in the foreign company.

ii) Foreign Direct Investment (FDI). The investment made by a firm in a foreign country is known as FDI

The following are the reasons for the growth of FDI

a) To increase the sales and profits.

b) To enter the fast growing markets.

c) To decrease the costs.

d) To integrate the trade blocks.

e) To safeguard domestic markets.

f) To increase the knowledge of technology and management.

Q2. Explain the reasons for development of alternative strategies in a competitive business environment.

Ans : **(June-18)**

The generic alternative strategies are required in a business for several reasons.

(a) Stability Strategy

The following are the main reasons for opting stability strategy,

1. Firms uses this strategy when it is performing well and considers itself successful.

2. It is quite easier and convenient for the firms to use a stability strategy, as adopting this strategy does not create any disruptions in the regular routine.

3. Adopting this strategy makes the environment more stable with few problems and opportunities.

4. As continuous expansion increases the performance gap. It is essential to have stability strategy for managing company's performance.

5. Managers use stability strategy as they prefer action to thought.

(b) Expansion Strategy

Expansion strategy is adopted for the following reasons,

1. Expansion strategy is very important for the survival of a company when the environment is unpredictable.
2. It helps in managerial motivation.
3. It is believed that the expansion is beneficial to the society and it improves the organizational performance.
4. Some believe that company's expansion will yield monopoly power.
5. Some evidences suggest that expansion minimizes the costs and improves productivity.

(c) Retrenchment Strategy

Retrenchment strategy is adopted for the following reasons,

1. When the company undergoes a pressure from customers, stockholders etc., to improve performance, it makes use of retrenchment strategy.
2. This strategy is adopted when there is a threatening environment and the internal strengths are insufficient to deal with problems.
3. Retrenchment strategy is used when the company finds better opportunities for utilizing its strengths.
4. Often, firms utilize this strategy when they are not performing well.
5. It is also adopted when firms already applied different generic strategies but could not achieve its objectives.
6. This strategy is best suitable to the firms that have tried everything, made many mistakes and is now ready to overcome the problems.

(d) Combination Strategy

Combination strategy is adopted for the following reasons,

1. This strategy is applied when the firm is working in different environments which are changing at different rates. In this situation, combination strategy helps in visualizing the situation easily.
2. This strategy is best suitable for a firm whose divisions work unevenly or do not have the same future scope.
3. Combination strategies are tend to be effective for the larger, multiple SBU firms at the time of economic transition in the product/service life cycle.
4. All generic strategies can work well when applied at the right time and implemented properly.

4.2 Corporate Level Strategy

Q3. What is Corporate Level Strategy? Explain different types of Corporate Level Strategy.

Ans :

Corporate-level strategy integrates functional-level strategy, business-level strategy and global-level strategy together to identify the business in which a company should operate Besides, corporate-level strategy is a continuing change management oriented strategy. It requires drawing up corporate plans, and looking into the foreseeable future to chalk on alternative strategies. This strategy derives maximum advantage from its existing operation and successfully dovetails new operations into current operations.

Four alternative strategies normally pursued under this strategy are as follows:

1. Intensive strategies: market penetration, market development, and product development.
2. Integration strategies: forward, backward, and horizontal
3. Diversification strategies: concentric, horizontal, and conglomerate
4. Defensive strategies: retrenchment, divesture, and liquidation

These strategies are organic. Inorganic strategies such as mergers, acquisitions, demerger; and amalgamations, etc., also form part of the corporate level strategy. Figure exhibit corporate-level strategy.

1. Intensive strategies

This is the most common approach used when a firm tries to increase topline sales and market share. This has to be done through developing existing or new products in currer or new markets.

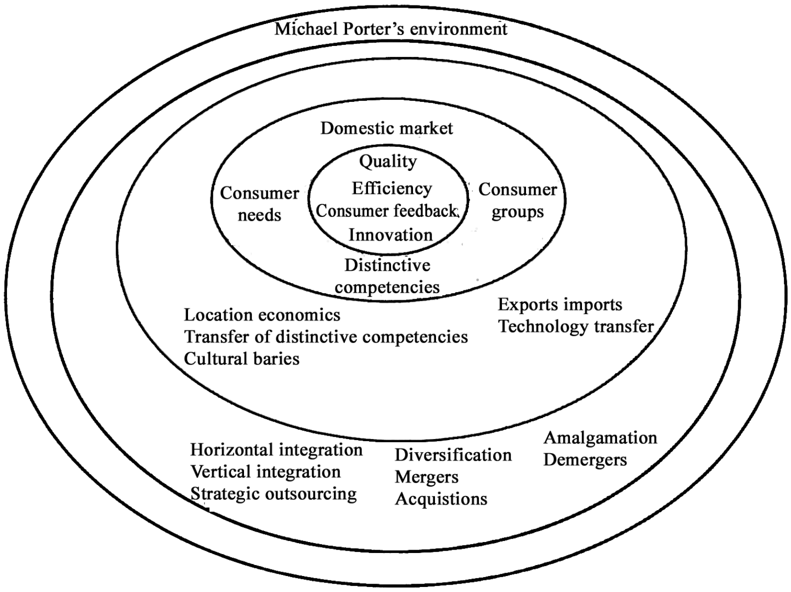


Fig. Corporate-level strategy

2. Integration Strategies

Horizontal integration helps to develop a competitive edge, with increased size and scope for the growth of the same type of business operations. Acquisitions and mergers are the means through which such an increase can be achieved. When a company finds resources to purchase another company, the acquired company continues to maintain its entity. In a merger, both the companies decide to create a single entity. Horizontal integration has been resorted to globally as an organic mode of substantial expansion and greenfield projects require a long gestation time. Many a times, horizontal integration is often completed through acquisition of companies producing similar products.

The main advantages of horizontal integration are as follows:

(i) Reduces raw material preparation costs

(ii) Offers a range of products through differentiation

(iii) Reduces existing rivalry through market operations, and

(iv) Improves bargaining capability over buyers and suppliers.

3. Diversification Strategies

Product life cycle or industry life cycle reaching the maturity stage at a particular point of time necessitates either the substitution of the product or the start of a new dissimilar business. Diversification is the route of creating new lines of business activities in a company, which are distinctly different from the existing operations.

A diversification strategy helps a company do the following:

(i) Increase the number of value creation functions at a relatively lower investment.

(ii) Add to the value creation functions of differentiating products.

(iii) Control the fluctuation of demand for the product range of the company to maintain sustained profitability.

4. Defensive Strategies

Defensive strategies could be internal or external retrenchment. The internal turnaround is often referred to as 'operating turnaround' strategy. The emphasis is on improving internal efficiency.

The trigger for such a strategic initiative would be recession or depression in the market or industry in which the firm operates.

Certain specific factors such as technology or change in scale of operation, or a firm's failure in any of the strategic moves may demand a defensive strategic approach.

(a) Increasing revenue: During downtime, a firm focuses on increasing revenue by aggressive postures and monitoring control systems. Firms generally do not increase their marketing overheads but increase the productivity of such expenses.

(b) Reducing costs: A firm may explore methods to reduce some fixed costs and to convert some fixed costs into variable costs, linking them to revenue. Firms may rationalize by closing some of their offices, reducing salary or converting some portion of the salary by linking it to performance and so on. Overheads are tightly controlled. This generally works well for a short period.

4.2.1 Creating Value through Intensive Growth Strategies

Q4. Discuss about Ansoffs matrix.

(OR)

How do you create value through intensive growth strategies?

Ans : **(Oct.-20)**

Ansoffs Matrix

Igor Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations. Ansoffs matrix is shown below :

Ansoff Matrix

Market \ Product	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoffs matrix provides four different growth strategies:

1. **Market Penetration:** The firm seeks to achieve growth with existing products in their current market segments, aiming to increase its market share.

2. **Market Development:** The firm seeks growth by targeting its existing products to new market segments.

3. **Product Development:** The firms develops new products targeted to its existing market segments.

4. **Diversification:** The firm grows by diversifying into new businesses by developing new products for new markets.

4.2.2 Integration Strategies

Q5. Define the term integration with an example.

Ans :

The term "integration" means to club or combine. In business language integration refers to the process of combining other related activities with the present activity of the firm. Generally integration strategies are related with the value chain of the firm.

For example, a manufacturing firm may integrate the activities, related with procurement of raw material or post production activities such as marketing, distribution, retail sales and so on. Thus it can be concluded that integration helps the firm in widening its scope in the present industry in such a manner that the firm serves the same set of customers.

In simple words integration may be defined as an expansion strategy which is being adopted by a firm to widen its scope of business. It can also be understood as a subset of diversification strategy.

Usually, the industries which are engaged in primary activities such as oil and gas, petrochemicals, iron and steel, etc., have integrated plants with a production value chain which extends from procurement of raw material to the production of the finished goods.

Examples for Integration

The following are examples of Indian companies that have gone for integration of the business activities.

(a) Asian Paints

Asian paints limited is a prominent paints and emulsion manufacturing firm. For expanding its business, the firm integrated backward into the critical areas and is today producing Pentasia Chemicals, pthalic anhydride etc., which are the key raw materials for producing paints.

(b) Titan Industries

Branded watch manufacturing firm, Titan limited took up a decision of expanding its business, operations by following forward integration. It started establishing many retail shops throughout India, thus gaining competitive advantage in the watch industry.

Q6. What are the different types of integration strategy.

Ans :

There are certain conditions under which a company adopts integration strategies. Most common condition is a 'make or buy' decision. Transaction cost economies, a branch of study in the economics of transaction and their costs help to explain the situation where integration strategies are feasible. There are two types of integration:

1. Vertical Integration Strategies

Vertical integration is also known as vertical diversification. Vertical integration is a type of growth strategy wherein new business units are added which are complementary to the existing business units Firms add new products (or services) complementary to the existing products.

For example, if a firm manufactures rayon and textiles, it grows through vertical diversification.

It is characterised by the extension of the firm's business definition in two possible directions from the present - backward or forward. In other works, vertical integration is a growth strategy that involves the expansion of business by moving backward or forward from the present products or services establishing linkages of products, processes or distribution system. Thus, vertical integration may be of two types:

i) **Vertical Forward Integration:** Forward integration is a type of diversification strategy which involves the entry of a firm into the business of finishing, distributing, or selling of some of its present outputs. It is sometimes described as 'downstream' expansion and refers' to moving higher up in the production/distribution process towards the end consumer.

ii) Vertical Backward Integration: Also known as upstream development, backward integration strategy involves addition of activities to ensure the supply of a firm's present inputs. It is aimed at moving lower on the production process scale so that the firm is able to supply its own raw materials or basic components.

2. Horizontal Integration Strategies

Managers use corporate-level strategy to identify which industries their company should compete in to maximise its long-run profitability. For many companies, profitable growth and expansion often entail competing successfully within a single market or industry.

For examples of such companies include McDonald's, with its focus on the global fast-food restaurant business, and Wal-Mart, with its focus on global discount retailing.

Staying inside an industry allows a company to focus its total managerial, financial, technological, and functional resources and capabilities on competing successfully in one area. This is important in fast-growing and changing industries, where demands on a company's resources and capabilities are likely to be substantial but where the long-term profits from establishing a competitive advantage are also likely to be significant.

4.2.3 Diversification Strategies

Q7. Define diversification? Explain the reasons for diversification.

Ans : **(Oct.-20, June-19)**

Introduction to Diversification

Diversification is a form of corporate strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry which the business is already in. At the corporate level, it is generally and it is also very interesting entering a promising business outside of the scope of the existing business unit.

Diversification is part of the four main marketing strategies defined by the Product/Market Ansoff matrix :

		Products	
		Present	New
Markets	Present	Market penetration	Product development
	New	Market development	Diversification

Ansoff pointed out that a diversification strategy stands apart from the other three strategies. The first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, whereas diversification usually requires a company to acquire new skills, new techniques and new facilities.

Note : The notion of diversification depends on the subjective interpretation of "new" market and "new" product, which should reflect the perceptions of customers rather than managers. Indeed, products tend to create or stimulate new markets; new markets promote product innovation.

Reasons for Diversification (Why Firm Diversify)

Companies diversify their activities due to various reasons. Now, we discuss these reasons.

1. **Fast Organisational Growth :** Organisational diversify their activities and operations in order to grow at a fast rate into related and unrelated areas. For example, Tata Group which was originally in the area of iron and steel diversified into automobile, telecommunications, consultancy services, and finance. Reliance diversified its activities in petroleum products, finance, telecommunications and retail business.

2. **Effective Risk Management :** Organisations carrying out single portfolio business face risks due fluctuations in demand for and supply for products and production factors. Diversified organizations manage risk most efficiently due to the balance between demand for and supply of its various diversified products. Therefore, organizations diversify their activities to manage and reduce risk.

3. **Maximum Utilization of Resources :** Organisations diversify the production and service activities in order to make use of manufacturing facilities and other facilities like marketing facilities and distribution facilities to the fullest extent. For example, Coca-Cola (India) Limited diversified activities by producing Kinley mineral water to make use of production as well as marketing facilities to a maximum extent.

4. **Financial Factors :** Organisations producing capital goods like machinery and equipment may face cash flow, working and liquidity problems. Such organisations diversify the activities into consumer goods and while goods industries in which cash flow and liquidity positions would be favourable. For example, Reliance which was in petroleum industry diversified into retail marketing.

5. **To Reduce Weaknesses :** Orgnisations posses strengths as well as weaknesses in their various internal operations as well as resources. Organisations diversify their activities or portfolios into those areas whose strengths wipe out the weaknesses of the organisations.

6. **Technology :** Organisations diversify the activities, sometimes, in order to avail the latest technology.

7. **Formulation of Diversification Strategy :** Formulation of diversification strategy resemble the practice of formulating various corporate strategies.

The steps in formulation of diversification strategy include :

Conduct of Feasibility / Evaluation Studies: Organisations conduct evaluation studies in order to know the feasibility, formulate and implement the diversification strategy. The steps involved in this process include :

- Awareness and evaluation of the diversification opportunities;
- Identifying opportunities, threats, and strengths and weaknesses;
- Selecting the Diversification product ;
- Procuring required resources ;
- Implement the project; and
- Evaluating the project.

Q8. Explain the different types of diversification Strategies.

Ans :

Diversification can be of three types viz.,

i) Concentric diversification,

ii) Horizontal diversification and

iii) Conglomerate diversification.

i) Concentric Diversification

Companies pursue concentric diversification strategy remain relatively simple. The total efforts of the company concentrate on a limited combination of customer groups, customer functions and alternate technologies and products.

Concentric diversification strategies include producing new products that are useful to the same customer group. For example a TV Company pursues a diversification strategy of producing DVD player. Gujarat Gas Company pursued a diversification strategy of selling gas stoves and provides finance to buy gas stoves and gas connections. Similarly, Hindustan Beverages Ltd., which produces coca-cola pursued concentric diversification strategy of producing '*Kinley*' purified water and other beverages like 'Sprite' and 'Fanta'.

Another type of concentric diversification strategy includes producing new products or modified products by using alternative technologies or by using the same technology.

ii) Horizontal Diversification Strategy

Many companies expand by creating other firms in their same line of business. The reasons for engaging in this process of horizontal integration are :

- to increase the market share,
- to reduce the cost of operations per unit of business through the large scale economies,
- to get greater leverage to deal with the customers and suppliers,
- to promote the products and services more efficiently to a large audience,
- to have greater access to channels of distribution,
- to enjoy increase operational flexibility,
- finally to take the advantage of the benefits of synergy.

  When the combination of two or more business units (existing and creased) results in greater effectiveness and efficiency than the total yielded by those businesses, when they were operated separately, then synergy has been attained.

  Competitive Advantages : The competitive advantages of companies that pursue conglomerate diversification are :

- Reduction of risks. This benefit is particularly important for businesses that operate in industries subject to rapid technologies change,
- economies of large scale operations,
- financial stability,
- increase in profits, and
- attain managerial competence.

iii) Conglomerate Strategy

The firms adapt conglomerate strategy in order to :

- achieve growth rate higher than what can be realized through expansion,
- make effective use of financial resources with retained profits exceeding immediate investment needs,
- avail of potential opportunities of profitable investments,
- achieve distinctive competitive advantage and broader stability,
- improve that price-earnings ratio and bring about a higher market price of shares.

Q9. What are the advantages and disadvantages of concentric diversification.

Ans :

Advantages of Concentric Diversification

The benefits enjoyed by the companies which implements concentric diversification strategy are as follows,

1. The concentric diversifications strategy helps in increasing the usage of the product or service of the company by the present customers.
2. The size or frequency of the purchase is increased through concentric diversification strategy.
3. It enhances the product location.
4. The product line is expanded in size, options and styles through concentric diversification strategy.
5. It helps in expanding the shelf-space which in turn attracts the competitor's customers.
6. It helps in increasing the efforts of promotion and initiating the price cuts.
7. It helps in advertising the new uses of the product which attracts even the non-users of the product.
8. Concentric diversification helps in offering special prices and promotions for attracting customers.

Disadvantages of Concentric Diversification Strategy

Concentration strategies involve some specific problems which are as follows,

1. A firm implementing a concentration strategy is affected by the introduction of substitute products. Substitute products makes the products of the firm obsolete specifically when the firm emphasizes on only one product or product line.
2. Company implementing concentration strategy may be influenced by the disturbances in the supply of important and key raw materials.
3. The market segment sometimes becomes unpleasant because of limited growth opportunities or substitute products or non-existence of important resources. In this situation, the firm implementing concentration strategy have to be restricted to the business area and will not be able to move into another line of business.

Q10. What are the advantages and disadvantages of conglomerate diversification.

Ans :

Advantages of Conglomerote Diversification

1. In case of conglomerate or unrelated diversification strategy, business risk is shared among diverse industries. Compared to related diversification, correct diversification of financial and business risk takes place in unrelated diversification as investment of company under unrelated diversification are spread across those business whose value chain activities technologies and markets are highly unrelated.
2. Compared to related diversification, company's profitability is found to be more stable in unrelated diversification. Less profits in few businesses of the company get counterbalances with the high profits of other businesses.
3. In case of unrelated diversification strategy, financial resources of the company can be used to the optimum level by investing them in those industries which generate huge profits.
4. Unrelated diversification strategy is a best option when company wants to separate itself from unattractive industry and possesses no distinctive capabilities to supply to related industry.

Disadvantages of Conglomerate Diversification

1. In case of unrelated diversification strategy, the scope of getting competitive advantage is limited. In contrast to related diversification strategy, in unrelated diversification strategy no cross-business strategies exist.
2. Due to lack of competitive advantage potential of strategic fits, the performance of unrelated set of businesses is less attractive than compared to performance of individual businesses.
3. In case of unrelated diversification strategy, companies diversify by starting new unrelated businesses. In this situation, corporate managers face difficulty in managing huge diversified unrelated businesses. Corporate managers who had worked in one or two company's businesses might not possess complete knowledge about competitive market situations, driving factors, key success factors, competitive strengths and weaknesses of each businesses of the company. Higher the number of businesses a company is into and more diverse those businesses are, higher will be the difficulty to managers to mange the businesses.

4.3 International Strategy

Q11. What is International Strategy? Explain the benefits of International Strategy.

Ans :

An international strategy is a strategy through which the firm sells its goods or services outside its demotion market. One of the primary reasons for implementing an international strategy (as opposed to a strategy focused on the domestic market) is that international markets yield potential new opportunities.

Raymond Vernon captured the classic rationale for international diversification. He suggested that typically a firm discovers an innovation in its home-country market, especially in an advanced economy such as that of the United States. Often demand for the product then develops in other countries, and exports are provided by domestic operations. Increased demand in foreign countries justifies making investments in foreign operations, especially to fend off foreign competitors. Vernon, therefore, observed that one reason why firms pursue international diversification is to extend a product's life cycle.

The primary benefits of an international strategy are,

1. Increased market size
2. Return on investment
3. Economies of scale and learning
4. Location advantages.

1. Increased Market Size

The firms can increase its market size by expanding its operations internationally. The firms dealing with pharmaceuticals are doing Foreign Direct investment in to china because of increased market size. The size of an international market have significant influence on firms as they can invest in R & D to gain competitive advantage. Firms usually prefer to invest in those countries which have scientific knowledge and talent so that the firms can make optimum utilisation of R&D activities by producing value-creating products and services. International strategy is the suitable alternative for firms belonging to domestic markets having low growth opportunities, for such firms international strategy helps in expanding their operations and to earn profits by having firm's operations different in countries across the world.

2. Return on Investment

Fluge markets are crucial in acquiring returns especially for capital intensive investments like plant and capital equipment or R & D. Because of this huge investment most of the R & D-intensive industries like electronics are international. The new technology is increasing and new products sometimes cannot fulfill the customer's need and they become outdated, so the firm's role is to maintain investments in such a way that it can be recouped easily. Firms strives towards developing new products and technology but at the same time they should adopt those strategies that can help them in protecting their intellectual property rights from their competitors. With the help of reverse engineering the competitors can imitate the same product, technology etc. The role of firm is to recoup new product development easily as how competitors imitate new technology. The international expansion provides the scope for larger markets and enables the firms to enhance its operations efficiently in terms of capital investments and large scale R&D expenditures.

3. Economies of Scale and Learning

Expanding the firm's operations in manufacturing leads to economies of scale. Integration of critical resource functions results in optimal economies of scale. Firms can gain core competencies with the help of resources and knowledge sharing with other countries through international markets. Moreover, the firms with the help of sharing knowledge can learn new opportunities to expand its operations and to produce efficient products and services at cost effectiveness.

4. Location Advantages

Proper location advantage facilitates access to critical supplies and to customers, lower-cost labour, energy and natural resources. Firms strives towards location facilities in other countries to reduce the basic costs associated with the goods or services. Efficient positioning helps in taking maximum advantages of the location facilities.

The location advantages are mainly influenced by production and transportation, requirements and cultural factors.

Q12. Explain different types of International Corporate Level Strategy?

Ans :

- The international business-level strategies are based at least partially on the type of international corporate-level strategy the firm has chosen.

- Some corporate strategies give individual country units the authority to develop their own business-level strategies; other corporate strategies dictate the business-level strategies in order to standardize the firm's products and sharing of resources across countries. International corporate-level strategy focuses on the scope of a firm's operations through both product and geographic diversification.
- International corporate-level strategy is required when the firm operates in multiple industries and multiple countries or regions.
- The headquarters unit guides the strategy, although business- or country-level managers can have substantial strategic input, depending on the type of international corporate-level strategy followed.
- The three international corporate-level strategies are multidomestic, global, and transnational.

(i) Multidomestic Strategy

- A multidomestic strategy is an international strategy in which strategic and operating decisions are de-centralized to the strategic business unit in each country so as to allow that unit to tailor products to the local market.
- A multidomestic strategy focuses on competition within each country. It assumes that the markets differ and therefore are segmented by country boundaries.
- The multidomestic strategy uses a highly decentralized approach, allowing each division to focus on a geographic area, region, or country.
- In other words, consumer needs and desires, industry conditions (e.g., the number and type of competitors), political and legal structures, and social norms vary by country.
- With multidomestic strategies, the country managers have the autonomy to customize the firm's products as necessary to meet the specific needs and preferences of local customers.
- Therefore, these strategies should maximize a firm's competitive response to the idiosyncratic requirements of each market.

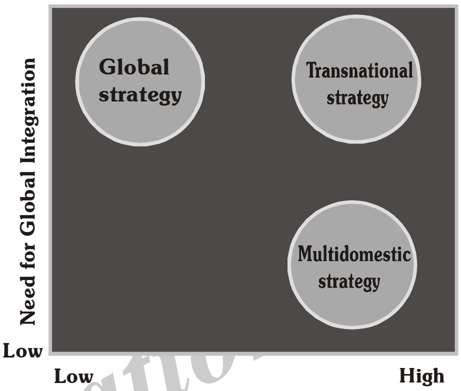


Fig. Need for Local responsiveness

(ii) Global Strategy

- In contrast to a multidomestic strategy, a global strategy assumes more standardization of products across country markets.
- As a result, a global strategy is centralized and controlled by the home office.
- The strategic business units operating in each country are assumed to be interdependent, and the home office attempts to achieve integration across these businesses.
- The firm uses a global strategy to offer standardized products across country markets, with competitive strategy being dictated by the home office.
- Thus, a global strategy emphasizes economies of scale and offers greater opportunities to take innovations developed at the corporate level or in one country and utilize them in other markets. Improvements in global accounting and financial reporting standards are facilitating this strategy.

(iii) Transnational Strategy

- A transnational strategy is an international strategy through which the firm seeks to achieve both global efficiency and local responsiveness. Realizing these goals is difficult.
- One requires close global coordination while the other requires local flexibility. "Flexible coordination"—building a shared vision and individual commitment through an integrated network is required to implement the transnational strategy.
- Such integrated networks allow a firm to manage its connections with customers, suppliers, partners, and other parties more efficiently rather than using arm's-length transactions.
- The transnational strategy is difficult to use because of its conflicting goals.
- On the positive side, the effective implementation of a transnational strategy often produces higher performance than does the implementation of either the multidomestic or global international corporate-level strategies.
- Transnational strategies are challenging to implement but are becoming increasingly necessary to compete in international markets.
- The growing number of global competitors heightens the requirement to hold costs down. However, the increasing sophistication of markets with greater information flow (e.g., based on the diffusion of the Internet) and the desire for specialized products to meet consumers' needs pressures firms to differentiate and even customize their products in local markets.
- Differences in culture and institutional environments also require firms to adapt their products and approaches to local environments. As a result, more firms are increasingly using a transnational strategy.

4.4 Unbundling - Using Offensive and Defensive Strategies

Q13. Define Unbundling? Explain briefly about offensive and defensive strategies.

Ans :

- If a company divides its activities in a country into various companies, then it is termed as unbundling.
- A local manufacturing plant can be established separately from the sales subsidiary. If a local manufacturing plant is established separately then the firm can opt for different ownership strategies like Joint venture in one operation and full ownership in other operation.
- This type of unbundling is possible in the larger markets like United States, Germany or Japan.
- Unbundling also helps the firm to operate several companies or product lives side by side.
- Global firms giving global orders to their product divisions feels that each division must create its own entry strategy for important markets.

A) OFFENSIVE STRATEGY

Offensive strategies are a type of strategy designed to obtain an objective, usually market share, from a target competitor. In addition to market share, an offensive strategy could be designed to obtain key customers, high margin market segments, or high loyalty market segments.

Fundamental Principles of Offensive Strategy

There are four fundamental principles involved :

a) Assess the strength of the target competitor. Consider the amount of support that the target might muster from alies. Choose only one target at a time.

b) Find a weakness in the target's position. Attack at this point. Consider how long it will take for the target to realign their resources so as to reinforce this weak spot.

c) Launch the attack on as narrow a front as possible. Whereas a defender must defend all there borders, an attacker has the advantage of being able to concentrate their forces at one place.

d) Launch the attack quickly. The element of surprise is worth more than a thousand tanks.

Basic Types of Offensive Strategies

Most every company must at times go on the offensive to improve its market position. While offensive attacks may or may not be aimed at particular rivals, they usually are motivated by a desire to win sales and market share at the expense of other companies in the industry.

There are six basic types of strategic offensives :

1. **Initiatives to match or exceed competitor strengths**

   Initiatives to Match or Exceed Competitor Strengths There are two instances in which it makes sense to mount offensives aimed at neutralizing or overcoming the strengths and capabilities of rival companies.

   The first is when a company has no choice but to try to whittle away at a strong rival's competitive advantage. The second is when it is possible to gain profitable market share at the expense of rivals despite whatever resource strengths and capabilities they have. Attacking a powerful rival's strengths may be necessary when the rival has either a superior product offering or superior organizational resources and capabilities.

2. **Initiatives to capitalize on competitor weakness**

   Initiatives to Capitalize or Competitor Weakness Initiatives that exploit competitor weakness stand a better chance of succeeding than do those that challenge competitor strengths, especially if the weakness represents important vulnerabilities and the rival is caught by surprise with no ready defense. Options for attacking the competitive weakness of rivals include:

   - Going after the customers of those rivals whose products lag on quality, features, or product performance.
   - Making special sales pitches to the customers of those rivals who provide subpar customer service.
   - Trying to win customers away from rivals with weak brand recognition (an attractive option if the aggressor has strong marketing skills and a recognized brand name).
   - Emphasizing sales to buyers in geographic regions where a rival has a weak market share or is exerting less competitive effort.
   - Paying special attention to buyer segments that a rival is neglecting or is weakly equipped to serve.

   There are times when a defender facing a direct attack from a strong rival will be motivate to look for opportunities elsewhere rather than counterattack with strong moves of its own.

3. **Simultaneous initiatives on many fronts**

   Simultaneous Initiatives on Many Fronts On occasion a company may see merit in launching a grand offensive involving multiple initiatives (price cuts, increased advertising, additional performance features, new models and styles, customer service improvements, and such promotions as free samples, coupons, rebates, and in-store displays) launched more or less concurrently across a wide geographic front.

   Such all-out campaigns can force a rival into many defensive actions to protect different pieces of its customer base simultaneously and thus divide its attention. Multifaceted offensives have their best chance of success when a challenger not only comes up with an especially attractive product or service but also has the brand awareness and distribution clout to get buyers' attention. A high-profile market blitz, buttressed with advertising and special deals, may well entice large numbers of buyers to switch their brand allegiance.

4. End-run offensives

End-Run Offensives The idea of an end-run offensive is to maneuver around competitors, capture unoccupied or less contested market territory, and change the rules of the competitive game in the aggressor's favor.

5. Guerrilla Offensives

Guerrilla offensives are particularly well suited to small challengers who have neither the resources nor the market visibility to mount a full-fledged attack on industry leaders. Guerrilla offensives use the hit-and-run principle – an underdog tries to grab sales and market share wherever and whenever it catches rivals napping or spots an opening through which to lure customers away.

Guerrilla offensives can involve making scattered, random raids on the leaders' customers with such tactics as occasional low balling on price (to win a big order or steal a key account); surprising key rivals with sporadic but intense bursts of promotional activity (offering a 20 percent discount for one week to draw customers away from rival brands); or undertaking special campaigns to attract buyers away from rivals plagued with strike or problems in meeting delivery schedules.

Guerrillas can promote the quality of their products when rivals have quality control problems or announce guaranteed delivery times when competitors' deliveries are running behind or significantly boost their commitment to prompt technical support when buyers are frustrated by the caliber of the support by industry leaders.

6. Preemptive Strikes

Preemptive Strategies involve moving first to secure an advantageous position that rivals are prevented or discouraged from duplicating. What makes a move preemptive is its one-of-a-kind nature – whoever strikes first stands to acquire competitive assets that rivals can't readily match.

There are several ways a firm can bolster its competitive capabilities with preemptive moves;

1) Securing exclusive or dominant access to the best distributors in a particular geographic region or country;

2) Moving to obtain the most favorable site along a heavily traveled thoroughfare, at a new interchange or intersection, in a new shopping mall, in a natural beauty spot, close to cheap transportation or raw material supplies or market outlets, and so on; and

3) Tying up the most reliable, high-quality suppliers via exclusive partnership, long-term contract, or acquisition. To be successful, a preemptive move doesn't have to totally block rivals from following or copying; it merely needs to give a firm a prime position that is not easily circumvented.

Choosing Which Rivals to Attack

Offensive-minded firms need to analyze which of their rivals to challenge as well as how to mount that challenge. The following are the best targets for offensive attacks:

- **Market leaders that are vulnerable** – offensive attacks make good sense when a company that leads in terms of size and market share is not a true leader in terms of serving the market well. Signs of leader vulnerability include unhappy buyers, an inferior product line, a weak competitive strategy with regard to low-cost leadership or differentiation, strong emotional commitment to an aging technology the leader has pioneered, outdated plants and equipment, a preoccupation with diversification into other industries, and mediocre or declining profitability. Offensives to erode the positions of market leaders have real promise when the challenger is able to revamp its value chain or innovate to gain a fresh cost-based or differentiation-based competitive advantage.

- **Runner-up firms with weakness where the challenger is strong** – Runner-up firms are an especially attractive target when a challenger's resource strengths and competitive capabilities are well suited to exploiting their weaknesses.
- **Struggling enterprises that are on the verge of going under** – Challenging a hard-pressed rival in ways that further sap its financial strength and competitive position can weaken its resolve and hasten its exit from the market.
- **Small local and regional firms with limited capabilities** – Because small firms typically have limited expertise and resources, a challenger with broader capabilities is well positioned to raid their biggest and best customers – particularly those who are growing rapidly, have increasingly sophisticated requirements, and may already be thinking about switching to a supplier with more full-service capability.

B) DEFENSIVE STRATEGY

Defensive Strategy : Defensive strategies are a type of warfare strategy designed to protect a company's market share, profitability, product positioning, or mind share.

Fundamental Principles of Defensive Strategy

There are five fundamental principles involved :

a) Always counter an attack with equal or great force.

b) Defend every important market.

c) Be forever vigilant in scanning for potential attackers. Assess the strength of the competitor. Consider the amount of support that the attacker might muster from allies.

d) The best defense is to attack yourself. Attack your weak spots and rebuild yourself a new.

e) Defensive strategies should be the exclusive domain of the market leader.

Types of Defensive Strategy

Some Defensive Tactics are :

(a) Position Defensive

This involves the defense of a fortified position. This tends to be a weak defense because you become a "sitting duck". It can lead to a siege situation in which times is one the side of the attacker, that is, as time goes by the defender gets weaker, while the attacker gets stronger. In a business context, this involves setting up fortifications such as barriers to market entry around a product, brand, product line, market, or market segment.

This could include increasing brand equity, customer satisfaction, customer loyalty, or repeat purchase rate. It could also include exclusive distribution contracts, patent protection, market monopoly, or government protected monopoly status. It is best used in homogeneous markets where the defender has dominant market position and potential attackers have very limited resources.

(b) Mobile Defense

This involves constantly shifting resources and developing new strategies and tactics. A mobile defense is intended to create a moving target is hard to successfully attack, while simultaneously, equipping the defender with a flexible response mechanism should an attack occur. In business this would entail introducing new products, introducing replacement products, modifying existing products, changing market segments, changing target markets, repositioning products, or changing promotional focus.

(c) Flank Position

This involves the re-deployment of your resources to deter a flanking attack. You protect against potential loss of market share in a segment, by strengthening your competitive position in this segment with new products and other tactics.

(d) Counter Offensive

This involves countering an attack with an offense of your own. If you are attacked, retaliate with an attack on the aggressor's weakest point.

(e) Contraction Defense

There are occasions when, faced with an actual or potential attack, a company will recognize that it has little hope of defending itself fully. It therefore opts for a withdrawal from those segments and geographical areas in which it is most vulnerable or in which it feels there is the least potential. It then concentrates its resources in those areas in which, perhaps by virtue of its mass, it considers itself to be less vulnerable.

(f) Pre-emptive Defense

Recognizing the possible limitations both of the position defense and a contraction defense, many strategists, particularly in recent years, have begun to recognize the potential value of pre-emptive strikes. This involves gathering information on potential attacks and then, capitalizing upon competitive advantages, striking first, Pre-emptive strikes can take one of two broad forms; the company behaves aggressively by, e.g., hitting one competitor after another, or it uses psychological warfare by letting it be known how it will behave if a competitor acts in a particular way, a strategy which has been labeled FUD marketing – i.e., spreading fear uncertainty and despair.

4.5 Outsourcing Strategies

Q14. Define Outsourcing ? Explain advantages and disadvantages of outsourcing.

Ans : **(Oct.-20)**

The term 'outsourcing' implies obtaining or processing from external sources the products or services which are usually the part and parcel of the organisation. In simple words, when a firm or company undertakes in-house operations like accounting, janitorial, call-center and at the same time, another company is also engaged in the same process/operations then this process is termed as 'outsourcing'.

A company whose internal business activities are oursourced is termed as 'client company' and a company who provides outsourcing services is known as 'outsource provider'. The outsourcing is not an emerging or recently emerged concept but, it is an extended concept of the long-standing practice of 'subcontracting production activities.

Presently, the outsourcing concept has been widened and is used as an important business strategy world wide due to the following reasons,

a) Less costs of more reliable transportation

b) Increased excellency expertise and

c) Instant growth and development in telecommunications and computers.

The low cost communication (via internet) enables the firms and organisations to provide information services worldwide which was earlier restricted geographically. Few examples of outsourcing are :

1. Call centers for the U.S and England in India and for the French in Angola.
2. Procter and Gamble's (P and G's) finance services and Du Pont's legal services directed/shifted to the Phillippines.
3. IBM managing travel services and Payroll and Hewletl packard rendering IT services to P and G.
4. ADP is rendering Payroll services for number of companies.
5. Electronic Data Systems [EDS] rendering IT services for Delphi automotive and nextel.

Thus, outsourcing is an innovative management strategy which the companies all over the world utilizes in the different types of services like finance, purchasing, information systems, marketing and information technology.

Advantages of Outsourcing

The companies usually opts outsourcing as it provides several benefits which are as follows,

1. **Cost Savings**

The first and foremost reason behind opting for outsourcing is cost savings especially for 'labour'.

2. **Gaining Outside Expertise**

Apart from providing an access to broad base skills is the outsourcing concept also acts as a means of innovation and creativity to enhance products, processes and services.

3. **Enhancing Operations and Service**

A company who renders all types of services for client company may possess flexibility in production by which the client company can win orders instantly by introducing new products and services. Thus, outsource provider acts an important source for the client company to make improvements in operations and service.

4. **Emphasizing on Core Competencies**

The client company can reallocate its human, physical and financial resources when the outsourcing company/provider brings its core competencies to the supply-chain.

5. **Acquiring Outside Technology**

The client company can outsource to the excellent service providers with which it can acquire outside technology and does not have to invest in new technology. This inturn helps in minimising the risks.

6. **Other Advantages**

The other advantages which can be obtained from the concept of outsourcing are,

- Client company can enhance its performance and reputation by relating with an outsourcing company.
- The client company can use the concept of outsourcing as a strategy for 'downsizing' or 'reengineering'.

Disadvantages of Outsourcing

The outsourcing also has certain disadvantages which are as follows,

1. **Increased Transportation Costs**

The outsourcing company delivers the products/ goods of client company. So, as per the distance covered by the firm the costs of the delivery increases considerably.

2. **Loss of Control**

If the managers lose control on few operations then, it may result in increase in the costs as it is very difficult to examine and control these operations.

For example, presently, most of the laptops production through out the world is outsourced like, Dell and HP use the contractor 'Quanta' to produce their machines in China. So it is very difficult for both the companies (i.e., Dell and HP) to have control over their supplier (i.e., Quanta).

3. **Creating Future Competition**

Intel outsourced a core competency (i.e., chip manufacturing) to AMD as intel was not able to fulfill early demands. But, AMD, an outsourcing company created future competition by becoming a major competitor after it started manufacturing/ producing its own chips.

4. **Negative influence on Employees**

The morale or spirit of the employees may fall if the functions or operations are outsourced to the outsource provider by the client company especialling, when their friends lose their jobs. The employees confidence starts declining as they feel that they can be the next. Thus, with the outsourcing services, the client company may lose its productivity, loyatty and trust which inturn will have a negative impact on the healthy and growing business.

5. **Longer-term Impact**

Few disadvantages of outsoursing may be for long term when compared to its advantages. The companies which are operated by outsourcing are at risk and does not wants to display bottom-line profits.

This allows the CEOs who prefers short-term planning instead of using outsourcing strategy to make improvements in the bottom-line and to earn more profits at the expense of long-term objectives.

4.5.1 Various activities for Outsourcing

Q15. What are the Various activities for Outsourcing ?

Ans :

The different activities involved in the process of outsourcing are as follows,

1. **Decision to Outsource**

   For taking the decision to outsource, the client firm should determine what needs to be outsourced and prepare a business plan which explains the reasons for outsourcing. This decision is taken at the strategic level and needs the board's approval. The process of outsourcing deals with the transfer of individuals and the sale of assets to the supplier. After the scope of services to be outsourced is determined the next step is to select an outsourcing provider (company).

2. **Proposal to Supplier**

   After short listing the suppliers a 'Request For Proposal' (RFP) is issued to these suppliers. Which includes the request for proposal and price.

3. **Rating of Suppliers**

   The competition is held among the suppliers wherein, the clients rates the suppliers proposals. This process may incorporate certain meetings (directly) for explaining the client requirements and the supplier's response. After this, only few suppliers will be left. Attast the suppliers submit a "Best And Final Offer" (BAFO) for the client to take finalise the selection decision to one supplier.

4. **Negotiation Process**

   The process of negotiation considers all the documents submitted by the suppliers i.e., the original RFP, the supplier proposals, BAFO submission and transfers them into contractual aggreement between the client and the supplier. The final documentation and the pricing structure is decided under this stage.

5. **Finalization of Contract**

   The essence of outsourcing deal is the contractual agreement which states clearly how the client and the supplier (outsource provider) works together. The outsourcing is a legally binding document which relies mainly on the relationship between the client and the supplier.

6. **Transition Process**

   Transition process starts from the effective date and continues till the four months of service commencement date. This process is especially meant for the staff transfer and the take-on of services.

7. **Transformation**

   Transformation deals with the implementation of the set of projects to execute the Service Level Management (SLM), to minimize the Total Cost of Ownership (TCO) or to perform new services. The main focus on transformation is towards 'standardization' and 'centralization'.

8. **Ongoing Services Delivery and Termination or Renewal**

   This is the final step of agreement in which the contract is executed. The client firm at the end of the contract term must decide whether to terminate or renew the contract.

   The process of termination may either deal with the taking back the services (insourcing) or transferring the service to other supplier (outsource provider).

4.5.2 Growth and Divers of Outsourcing

Q16. Explain the growth and Divers of Outsourcing.

Ans :

Growth of Outsourcing

Outsourcing refers to the process of assigning work to an outside company instead of carryingout it in house i.e., inside the company. The outside company is termed as an 'outsource provider' and the in-house or company who outsource its services is known as 'client company'. The concept of outsourcing has gained wider acceptance and greater demand in its earlier stage only and its growing day-by-day very rapidly due to many aspects like efficiency, quality, accuracy, reliability and effectiveness of the services rendered.

For further development and growth, outsourcing companies must provide its services at the higher-quality level through which they would be able to gain popularity and also the goodwill, name and reputation thereby more and more clients are getting attracted towards outsourcing.

Growth of outsourcing is being getting reduced recently, because of decline in the stock-market and recession in the U.S and Europe. According to a survey on growth of outsourcing sector in India it has been found that nearly 25% of the total exports of the country contributes towards the India's growth but it is coming down slowly due to global financial crisis.

Outsourcing sector has also undergone certain problems which left a negative impact on its growth. *For example:* The recent grand by satyam computer services around $1 million.

Despite of the difficulties, outsourcing sector is growing considerably because foreign companies continues to outsource its services with a view to minimise its costs savings.

Drivers of Outsourcing

The following are the important drivers of j outsourcing as follows :

1. Cost Cutting

The client firm can get effective services at reduce costs. Cost cutting is one of the important reasons for the companies to outsource their services activities as the process of carrying out in-house manufacturing of these services would be expensive than outsourcing there activities due to economies-of-scale.

2. Better Operational Efficiency

Outsourcing can increase the operational efficiency of the client firm in different ways like, Operations are carried out managed and tackled by those companies which have expertise and excellent in carrying out processes effectively. This further increases the overall efficiency which results in properly taking care of cost and operations.

3. Accident Skilled Manpower

The top-level companies have shifted their services to the low-cost countries locations in search of abundant skilled manpower and resources.

For example India many companies are shifting in India due to the large number of cheap labour availability. This is because larger number of graduates are ready to work at minimum less salaries when compared to the graduates at U.S.

4. Scarcity of Internal Resources .

Quite a few times there exists scarcity of internal resources for performing certain operations. In such a case, foreign company can outsource that specific activity or service to the service/outsource provider.

5. Accelerate Speed and Time-to-Market

Through outsourcing the client company would be able to minimise it cycle time and develop time-to-market for any product. This further increases the overall efficiency and productivity.

6. Maximum Resource Utilization

When the client company begins outsourcing certain activities to outsource provider then, foreign company can make use its internal resources for some other activities. Thereby, there is no wastage of time and expenditure towards unimportant activities. Thus, there will be optimum utilization of resources and assets on its core activities.

7. Focus on Innovation and Core Competence

Company lays greater emphasis and stress upon the core competence with an aim to achieve and fulfill the core business objectives, as the non-core activities are already been outsourced.

8. Greater Flexibility and Competitiveness

If company starts concentrating upon the most important and specific functions with high-specialization then, it helps in increasing the company's potential and can achieve its desired goals and needs in an effective manner.

9. Lack of Functional Experts and Domain Knowledge

Practically it is impossible for a company to have employees with excellent and domain knowledge in each and every activity.

For example, cosmetics company desires to operate and perform in an efficient manner with the use of improved technology but, its area of expertise is not IT i.e., its specialization is not 'IT'. Under such circumstance, cosmetics company can outsource its IT and business process services to an outside company who are expert in the particular field.

10. Best Global Practices

Outsourcing helps in providing services worldwide. It is easier to learn and gain expertise in the best practices implemented by top-most companies of the world.

4.6 Market Diversification

Q17. What is Market Diversification?

Ans :

Market diversification involves introduction of products in the same market even when there exists differences in the product technologies.

When a firm decides to enter into a new market with a new product, it is usually considered as riskier strategy. The firm should have both product and market competencies to successfully achieve its objectives.

Example

1. The Scooter manufacturing company 'Bajaj' entered into the Bike segment in 1990s.
2. The heavy vehicle manufacturer 'Tata' entered into car market in 1990s.

Eariier, diversification was viewed in terms of the product-market relationship between the present business and the new business in the same, related or unrelated products and markets. If the new business is in similar products/markets, then there will be similarity in the characteristics of new business and the current business. This is to ensure that the value can be created tw sharing resources or transferring resources between them.

4.7 Merger, Acquisition Strategies

Q18. Define Merger ? Explain different types of mergers.

Ans :

Introduction

Mergers and acquisitions are much-used strategic options. They are especially suited for situations in which alliances and partnerships do not go far enough in providing a company with access to the needed resources and capabilities. Ownership ties are more permanent than partnership ties, allowing the operations of the merger/acquisition participants to be tightly integrated and creating more in-house control and autonomy.

A merger is a pooling of equals, with the newly create company often taking on a new name. An acquisition is a combination in which one company, the acquirer, purchases and absorbs the operations of another, the acquired. The difference between a merger and an acquisition relates more to the details of ownership, management control, and financial arrangements than to strategy and competitive advantage. The resources, competencies, and competitive capabilities of the newly created enterprise end up much the same whether the combination is the result of acquisition or merger.

Strategies / Types of Merger

1. Horizontal Mergers

Horizontal mergers take place when there is a combination of two or more organizations in the same business, or of organizations engaged in certain aspects of the production or marketing processes. Four instance a company making footwear combines with another footwear company, or a retailer of pharmaceuticals combines with another retailer in the same business.

2. Vertical Mergers

Vertical mergers take place when there is a combination of two or more organizations, not necessarily in the same business, which create complementarily, either in terms of supply of materials (inputs) or marketing of goods and services (outputs). For instance, a footwear company combines with a leather tannery or with a chain of shoe retail stores.

3. Concentric Mergers

Concentric mergers take place when there is a combination of two or more organizations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used, for example, a footwear company combining with pharmaceutical firm.

4. Conglomerate Mergers

Conglomerate mergers take place when there is a combination of two or more organizations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used, for example, a footwear company combining with pharmaceutical firm.

5. Reverse Mergers

Reverse merger, also known as back door listing, or a reverse merger, is a financial transaction that results in a privately-held company becoming a publicly-held company without going the traditional route of filing a prospectus and undertaking an initial public offering (IPO).

Q19. What are the advantages and disadvantages of merger.

Ans : **(June-18)**

Advantages of Mergers

The following are the advantages of mergers and acquisitions.

1. A firm can get an easy access to the market and technology through mergers and acquisitions.
2. It become easy to gain access to patent rights and technology through mergers and acquisitions.
3. With the help of mergers and acquisitions, the firm can get the firms ownership and control immediately on the factories, technology, employees and distribution networks, of the acquired firm.
4. In mergers and acquisitions, when the industry had attained the optimum capacity level in the host nation, then this strategy will assist the economy of the host country.
5. The firms can attain more profits with the formulation of international strategy.

Disadvantages of Mergers

The following are the disadvantages of mergers and acquisitions:

(a) Many companies have landed themselves into financial and other problems due to indiscriminate acquisitions.

(b) If the evaluations are not done properly, then the decision of acquisition can be wrong or ineffective.

(c) If an enterprise in taken over, its problems are also usually taken over by the firms.

(d) Certain units which have been acquired may have problems like obsolete technology, old plant, surplus labour etc.

(e) In some situations, restrictions are levied by the host countries on the acquisition of domestic firms by the foreign firms.

Q20. Discuss in detail the steps involved in merger.

Ans :

When a firm is interested in merging or amalgamating with another firm it must follow some legal aspects before merging. The process of merger involves following steps.

1. Evaluation of Proposal by the Companies

When an idea for merger comes in mind, the management of interested firms evaluate the benefits and drawbacks of the plan, reactions of shareholders and other members and implication of tax is also assessed. If it is advantageous for concern parties, then only it is proceeded.

2. Deciding the Exchange Ratios

At the time of merger, some shares are given to the shareholders of target company. So, it is necessary to decide a reasonable exchange ratio. Usually, some elements are used to identify the exchange ratio such as market value per share, potential earnings, book value per share, etc.

3. Acceptance of Board of Directors

After analyzing the merger plan completely and deciding the exchange ratios, scheme of merger is passed on to the specific board of directors for their acceptance.

4. Acceptance of Shareholders

When scheme of merger is accepted by board of directors, it is placed in front of shareholders. According to Sec. 391 of Indian Companies Act, plan for merger must be accepted in meeting of members with not less than 3/4 of majority of both the companies and if merger involves exchange of shares it must be approved by 90 percent of shareholders of target company.

5. Consideration of Interests of the Creditors

It is also included in Sec. 391, that plan must be accepted by majority of creditors in numbers and 3/4 in value. Hence, interests of creditors are also taken into consideration in the scheme of merger.

6. Acceptance of the Court

An application needs to be filed in court after its approval from all parties for its sanction. Before giving any judgement, the court will consider the perspective of all members. In order to protect the interest of related parties, the court may accept, alter or reject the merger plan.

7. Acceptance of Reserve Bank of India

According to Sec.19(1)(d) of the Foreign Exchange Regulation Act, 1973, it is necessary to get the permission of RBI for issuing any security to a person, who is living in abroad. Therefore, in merger RBI guidelines have to be followed by the acquiring company to issue its shares in exchange. Sec. 29 regulates the acquisition of any Indian company in which share of nonresident is more.

Q21. What is acquisition? Explain different types of acquisition.

Ans :

Acquisitions is acquiring (or) purchasing an existing venture. It is one of the easy means of expanding a business by entering new markets or new product areas. An entrepreneur must be careful in structuring the payment so that he will not be financially overburdened. He must create a scope for phase wise payments so that the company generates funds to pay. An acquisition strategy is based upon the assumption that companies for potential acquisition will be available, but if the choice of companies is limited, the decision may be taken on the basis of expediency rather than suitability.

The belief that acquisitions will be a time-saving alternative to waiting for organic growth to take effect may not prove to be true in practice. It can take a considerable amount of time to search and evaluate possible acquisition targets, engage in protracted negotiations and then integrate the acquired company into the existing organisation structure.

The process of acquisition is a case of dominance of one company over the other. Here a bigger company will take over the shares and assets of the smaller company and either run it under the bigger company's name or might run it under a combined name. An acquisition is a transaction in which a firm buys a controlling interest in another firm with the intention of either making it a subsidiary business or combining it with its current business or businesses. It is important to understand that for some firms, an acquisition is a "one-time only" event.

For example, a firm using a differentiation business-level strategy might decide to acquire only one other company because it has truly specialised skills that the local firm requires to create unique value for its customers. Most firms involved with acquisitions form an acquisition strategy. An acquisition strategy is an action plan that the firm develops to successfully acquire other companies. An effective acquisition strategy enables significant firm growth.

Types of Acquisitions

Types of acquisitions are as follows:

1. Friendly Takeovers

Before a bidder makes an offer for another company, it usually first informs the company's Board of Directors. If the board feels that accepting the offer serves shareholders better than rejecting it, it recommends the offer be accepted by the shareholders. In a private company, because the shareholders and the board are usually the same people or closely connected with one another, private acquisitions are usually friendly. If the shareholders agree to sell the company, then the board is usually of the same mind or sufficiently under the orders of the equity shareholders to cooperate with the bidder.

2. Hostile Takeovers

It allows a suitor to take over a target company's management unwilling to agree to a merger or takeover. A takeover is considered "hostile" if the target company's board rejects the offer, but the bidder continues to pursue it, or the bidder makes the offer without informing the target company's board beforehand. A hostile takeover can be conducted in several ways. A tender offer can be made where the acquiring company makes a public offer at a fixed price above the current market price. Tender offers in the United States are regulated by the Williams Act. An acquiring company can also engage in a proxy fight, whereby it tries to persuade enough shareholders, usually a simple majority, to replace the management with a new one which will approve the takeover. Another method involves quietly purchasing enough stock on the open market, known as a "creeping tender offer", to effect a change in management. In all of these ways, management resists the acquisition, but it is carried out anyway.

3. Reverse Takeovers

Reverse takeovers or RTOs are a type of merger used by private companies to become publicly traded without resorting to an initial public offering. Initially, the private company buys enough shares to control a publicly-traded company. The private company's shareholder then uses their shares in the private company to exchange for shares in the public company. At this point, the private company has effectively become a publicly traded one.

4. Back-Flip Takeover

An uncommon type of takeover in which the acquirer becomes a subsidiary of the acquired or targeted company, with business after the takeover conducted in the name of the acquired company. A backflip takeover gets its name from the fact that it runs counter to the norm of a conventional acquisition, where the acquirer is the surviving entity and the acquired company becomes a subsidiary of the acquirer.

While the acquired company's assets are subsumed into the acquiring company, control of the combined entity is generally in the hands of the acquirer. This type of takeover can occur when a larger but less well- known company purchases a struggling company with a very well-known brand such as Texas Air Corporation takeover of Continental Airlines but taking the Continental name as it was better known.

Q22. What are the advantages and disadvantages of acquisition.

Ans : **(June-18)**

Advantages of Acquisition

1. Takeover helps the firm in utilising economies of scale in different business operations, such as production, marketing information systems, financing, etc.
2. It also helps in replacing an inefficient management team with an effective team, efficient workers of both the companies are combined to form a new management team.
3. Some economists have proclaimed, that takeovers are effective measures to protect the interest of shareholders.
4. Takeovers also help in generating economies of operations, which ultimately leads to synergistic benefits by combining two different businesses which are efficient in specific operation.
5. Takeovers save the companies which were managed inadequately by the incompetent managers.

Disadvantages of Acquisition

1. Takeover is regarded by some economists and authors as a destructor of jobs and local communities.
2. Usually, the commitments in takeovers are not fulfilled.
3. Takeovers involve many costs in it, such as remuneration to lawyers, management officials and all other people who support in preparing and carrying out a bid.
4. Peter Drucker believes, that takeovers destroy the confidence of employees.
5. Takeovers may also lead to redistribution of wealth which causes a reduction in efficiency.
6. Takeovers also involve agency costs which are related to agency conflicts that arise in the process of takeover.

Q23. What are the differences between merger and acquisition.

Ans :

	Point of Differences	Mergers	Acquisition
1.	**Meaning**	Merger is an integration of two or more companies but only one company continues its business.	Acquisition is an activity in which one company controls the other company,
2.	**Agreement**	In mergers, the CEO's of both the companies agrees for combining their business.	In acquisitions, the company which is acquired may not be willing to combine.
3.	**Financing**	Mergers are financed by stock swap.	Acquisitions are financed by cash and debt combination.
4.	**Types**	Horizontal, vertical, conglomerate and congeneric mergers are the different types of mergers.	Horizontal, vertical, related and cross-border acquisitions are the different types of acquisitions,
5.	**Nature**	Merger is a narrow, technical term of specific legal procedure which may or may not follow acquisition.	Acquisition is a generic term used to explain a transfer of ownership.
6.	**Ownership**	In mergers, one company purchases the stock of other company and second company closes down its business.	In acquisitions, one company controls the other company by purchasing voting shares in large quantity i.e., 51 percent.
7.	**Advantages**	Mergers helps in preventing competitors. ➢ It helps in combining the resources and efforts of two companies. ➢ It minimizes companies operating costs and increases their growth level.	Acquisitions reduce competition by acquiring the
8.	**Disadvantages**	A company faces cultural and managerial problem while merging two firms into one.	The acquiring firm may have aggressive culture and the acquired company may have different culture of its own.
9.	**Example**	**Example:** ITC Kakatiya and Sherton merged into a single entity.	**Example:** Walt Disney company acquired capital cities/ABC Inc.

4.8 Strategic Alliances

Q24. Discuss about Strategic Alliances.

Ans :

A Strategic Alliance is a relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. This form of cooperation lies between M & A and organic growth.

Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk.

Stages of Alliance Formation

A typical strategic alliance formation process involves these steps :

- **Strategy Development**

  Strategy development involves studying the alliance's feasibility, objectives and rationale, focusing on the major issues and challenges and development of resource strategies for production, technology, and people. It requires aligning alliance objectives with the overall corporate strategy.

- **Partner Assessment**

  Partner assessment involves analyzing a potential partner's strengths and weaknesses, creating strategies for accommodating all partners' management styles, preparing appropriate partner selection criteria, understanding a partner's motives for joining the alliance and addressing resource capability gaps that may exist for a partner.

- **Contract Negotiation**

  Contract negotiations involves determining whether all parties have realistic objectives, forming high calibre negotiating teams, defining each partner's contributions and rewards as well as protect any proprietary information, addressing termination clauses, penalties for poor performance, and highlighting the degree to which arbitration procedures are clearly stated and understood.

- **Alliance Operation**

  Alliance operations involves addressing senior management's commitment, finding the calibre of resources devoted to the alliance, linking of budgets and resources with strategic priorities, measuring and rewarding alliance performance, and assessing the performance and results of the alliance.

- **Alliance Termination**

  Alliance termination involves winding down the alliance, for instance when its objectives have been met or cannot be met, or when a partner adjusts priorities or re-allocates resources elsewhere.

The advantages of strategic alliance include :

1. Allowing each partner to concentrate on activities that best match their capabilities.
2. Learning from partners and developing competences that may be more widely exploited elsewhere.
3. Adequate suitability of the resources & competencies of an organization for it to survive.

Q25. Explain the different types of strategic alliances.

Ans :

1. Equity Strategic Alliance

Equity strategic alliance refer to an alliance where in two or more companies hold different amount of shares in the company which is established by them by contributing their resources and abilities to develop a competitive advantage. Most of the Foreign Direct Investment (FDI) made by Japanese and US companies located in China are completed by forming equity strategic alliance. For instance, Citi group Inc. and Nikko

Carial Corporation entered into a comprehensive strategic alliance in order to start Japan's one of the leading financial services groups and to make combined franchise possible. Combined franchise is essential to grab new growth opportunities giving importance to Japanese culture and business practices. Compared to Nikko Cordial Corporation, Citigroup Inc.had high percentage ownership in this comprehensive strategic alliance.

2. Non-Equity Strategic Alliance

In case of non-equity strategic alliance, two or more companies enter into a contractual relationship with an intention to share their distinctive resources and capabilities to develop a competitive advantage. No separate independent company is formed in non-equity strategic alliance so companies entering into non-equity strategic alliance do not hold any equity share. Non-equity strategic alliances are informal alliances and require limited partner dedication than compared to equity strategic alliance and Joint-Ventures. These features of non-equity strategic alliances are making it inapplicable to complicated projects which need sharing of knowledge between alliance partners to achieve success.

Licensing agreements, supply contracts and distribution agreements are various types of non-equity strategic alliances. Hewlett-Packard (HP) licenses few of its intellectual property by entering into strategic alliances. Particularly, outsourcing commitments are made through non-equity strategic alliance. For example, Dell and many other computer companies do outsourcing of their products and usually enter into non-equity strategic alliances in order to specify what kind of relationship they have with the firms to whom outsourcing is done.

3. Joint Venture

Joint Venture is one of the type of strategic alliances where in two or more companies combined to establish a legally independent company in order to share some of their resources and abilities to create a competitive advantage. Joint ventures are usually formed with an intention to improve companies capabilities to compete in the unpredictable competitive environment. Forming joint venture is an effective method to build long lasting relationship and to share tacit knowledge. Tacit knowledge can be acquired through experience i.e., tacit knowledge can be gained by partner firms by working together in a joint venture. Most of the firms gain competitive advantage through tacit knowledge.

The firms forming a joint venture hold equal percentage of share and share equally to the working of joint ventures. For example. Polo Ralph Lauren Corporation, Geneva-based watch and jewelry company Companie Financiere Richmont AG where in each firm hold 20% of share in the new company. The intention behind forming a joint venture is to produce and distribute products across the world through Ralph Lauren boutique stores. The joint venture formed is the Polo's first entry into a fine jewelry and luxury watches business and it is the Richemont's first joint venture formed with fashion designer.

Joint ventures might be the effective kind of cooperative arrangement where firms are required to being together some of their unique resources and capabilities to develop a competitive advantage and where partner aim at entering into highly uncertain markets.

Q26. State the advantages and disadvantages of strategic alliances.

Ans : **(June-19)**

Advantages of Strategic Alliances

There are various reasons due to which companies get allied with potential competitors. These reasons states the advantages of strategic alliances. Some of the advantages of strategic alliances are,

1. Strategic alliance counter balance the competitive disadvantages of companies

Strategic alliance not only counterbalance competitive disadvantages of companies but also assist them in using their competitive strengths against the rivals of one another. Most of the companies aiming at protecting their independence go for strategic alliance instead of mergers because strategic alliance fill the competitive gap between the allied companies.

2. Strategic alliance allows risk sharing and cost sharing

In this competitive business environment no company can give assurance that it will succeed in the new market or new product development. In this situation entering a new market or developing new product becomes a risky job. Strategic alliance allow allied companies to share risk and cost involved in developing new product or entering a new market.

3. Obtainment of Economies of Scale

Companies can achieve economies of scale through strategic alliance. Companies can enjoy economies of scale by working together rather than by working separately. Development activities, production activities and distribution activities are the compatible assets and resources which allied companies have and the cost of these assets and resources can be minimized through strategic alliance.

4. Entry into International Market

Strategic alliance helps in entering the foreign/ international market. For instance, most of the companies have an opinion that in order to successfully enter the foreign market, they are required to form an alliance with the local company of that market who possesses through knowledge regarding the local business situations and have good relationships.

5. Leading Technological Changes

Strategic alliance plays an important role in industries such as Semiconductors, Telecommuni-cations, Electronics and Computer hardware and software industries where technology changes very frequently and innovations in one technology influence others. When companies face huge technological changes in various areas of the firm, they recognize the need to form strategic alliance with other companies in order to lead technological change and achieve high product performance in their specialized areas.

6. Bringing Together Complementary Skills, Abilities and Assets

The complementary skills, abilities and assets of the companies can be bought together through strategic alliance. One company might not possess all the skills and assets required for developing a new product. In this situation, the skills and assets of companies can be combined together to develop new product.

7. Low-cost Advantage

Many a times, strategic alliance takes the form of joint venture. Joint venture are formed between the companies located in one country and the companies located in another country to obtain the advantage of low-cost.

8. Alliance for Mutual Motivation

Companies located in developed countries and companies located in developing countries form strategic alliance for the purpose of mutual motivation. Companies of developing country strives for technology, know-how or capital from the companies of developed country. Companies of developed country look for chance to get benefit out of companies in developing country. Low-cost of labour and huge availability of raw materials in developing country are the source of advantage to companies of developed country.

Disadvantages of Strategic Alliances

Inspite of the above mentioned advantages of strategic alliances, they are not free from disadvantages. Disadvantages of strategic alliances are,

1. Low-cost Path to Competitors

Strategic alliance is criticized on the ground that it gives low-cost path to competitors to achieve new technology and markets. For instance, few years back critics argued that most of the strategic alliances formed between U.S companies and Japanese companies were for the strategic advantage of Japanese. These alliances kept worthful and highly paid jobs in Japan and acquired the project engineering and production process skills of U.S. companies.

According to critics, whatever the success Japanese have achieved in machine todl and semiconductor industries are due to US technology obtained through alliances.

2. Alliance Leave the Company with No Competitive Advantage

Critics argued that strategic alliance formed between Japanese and US companies have left the US. Companies with no competitive advantage in the global market.

3. Accessibility of Information

Accessibility to information is one of the disadvantage of strategic alliance. For successful working of alliance, one party to alliance may required to share its secret information with other party to alliance. Usually, identifying the information requirements well in advance becomes a complicated task.

4. Risks Accompany Alliances

Critics argued that strategic alliances involves risk. Against this argument there are many examples which shows successful alliance formed between companies. Some of these examples are, alliances formed between US and Japanese companies, alliance formed between Microsoft and Toshiba etc.

5. Sharing of Earned Profits

Like risk sharing and cost sharing, profits earned are also shared among alliance partners. The share of each partner in earnings has to be decided rather than reinvesting earnings in the business. Apart from this, alliance partners should decide about the accounting of earning and transfer pricing.

6. Changing Situations

Changing situations might have impact on the feasibility of a strategic alliance. The economic situations which have motivated the companies to enter into alliance might not exist any more or changing technology might make the strategic alliance out dated.

Short Question and Answers

1. Licensing.

Ans :

Under licensing, a company assigns the right to a patent or a trademark to another company for a fee or royalty. In licensing as a method of market entry, a company can gain market presence without an equity investment. The foreign company, or license, gains the right to commercially exploit the patent or trademark either on an exclusive or unrestricted basis.

Licenses are signed for a variety of time periods. Depending on the investment needed to enter the market, the foreign licenses may insist on a longer licensing period to pay of the initial investment. The license will make all necessary, capital investment such as machinery inventory and so on and market the products in the assigned sales territories, which may consist of one or several countries. Licensing arrangements are subject to negotiation and tend to vary considerably from company to company and from industry to industry.

2. Franchising.

Ans :

Franchising is a special form of licensing in which the franchiser makes a total marketing program available, including the brand name, logo, products and method of operation. In many cases, the franchiser provides supplies.

A franchiser and a franchisee act almost like a vertically integrated company because the parties are interdependent and each produces part of the product or service that ultimately reaches the consumer.

A franchiser most often penetrates a foreign country by setting up a master franchise and giving the local organization the rights to open outlets on its own or develop subfranchisees in the country or region. Sub- franchiser pays royalties to the master franchisee which then remits some predetermined percentage to the franchiser.

3. Vertical Integration.

Ans :

Vertical integration is also known as vertical diversification. Vertical integration is a type of growth strategy wherein new business units are added which are complementary to the existing business units Firms add new products (or services) complementary to the existing products.

For example, if a firm manufactures rayon and textiles, it grows through vertical diversification.

It is characterised by the extension of the firm's business definition in two possible directions from the present - backward or forward. In other works, vertical integration is a growth strategy that involves the expansion of business by moving backward or forward from the present products or services establishing linkages of products, processes or distribution system. Thus, vertical integration may be of two types:

i) Vertical Forward Integration

Forward integration is a type of diversification strategy which involves the entry of a firm into the business of finishing, distributing, or selling of some of its present outputs. It is sometimes described as 'downstream' expansion and refers' to moving higher up in the production/distribution process towards the end consumer.

ii) Vertical Backward Integration

Also known as upstream development, backward integration strategy involves addition of activities to ensure the supply of a firm's present inputs. It is aimed at moving lower on the production process scale so that the firm is able to supply its own raw materials or basic components.

4. Horizontal Integration.

Ans :

Managers use corporate-level strategy to identify which industries their company should compete in to maximise its long-run profitability. For many companies, profitable growth and expansion often entail competing successfully within a single market or industry.

For examples of such companies include McDonald's, with its focus on the global fast-food restaurant business, and Wal-Mart, with its focus on global discount retailing.

Staying inside an industry allows a company to focus its total managerial, financial, technological, and functional resources and capabilities on competing successfully in one area. This is important in fast-growing and changing industries, where demands on a company's resources and capabilities are likely to be substantial but where the long-term profits from establishing a competitive advantage are also likely to be significant.

5. Diversification.

Ans :

Diversification is a form of corporate strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry which the business is already in. At the corporate level, it is generally and it is also very interesting entering a promising business outside of the scope of the existing business unit.

6. Concentric diversification.

Ans :

Companies pursue concentric diversification strategy remain relatively simple. The total efforts of the company concentrate on a limited combination of customer groups, customer functions and alternate technologies and products.

Concentric diversification strategies include producing new products that are useful to the same customer group. For example a TV Company pursues a diversification strategy of producing DVD player. Gujarat Gas Company pursued a diversification strategy of selling gas stoves and provides finance to buy gas stoves and gas connections. Similarly, Hindustan Beverages Ltd., which produces coca-cola pursued concentric diversification strategy of producing '*Kinley*' purified water and other beverages like 'Sprite' and 'Fanta'.

Another type of concentric diversification strategy includes producing new products or modified products by using alternative technologies or by using the same technology.

7. Advantages of Concentric Diversification

The benefits enjoyed by the companies which implements concentric diversification strategy are as follows,

1. The concentric diversifications strategy helps in increasing the usage of the product or service of the company by the present customers.
2. The size or frequency of the purchase is increased through concentric diversification strategy.
3. It enhances the product location.
4. The product line is expanded in size, options and styles through concentric diversification strategy.
5. It helps in expanding the shelf-space which in turn attracts the competitor's customers.
6. It helps in increasing the efforts of promotion and initiating the price cuts.
7. It helps in advertising the new uses of the product which attracts even the non-users of the product.
8. Concentric diversification helps in offering special prices and promotions for attracting customers.

8. Disadvantages of Conglomerate Diversification

Ans :

1. In case of unrelated diversification strategy, the scope of getting competitive advantage is limited. In contrast to related diversification strategy, in unrelated diversification strategy no cross-business strategies exist.

2. Due to lack of competitive advantage potential of strategic fits, the performance of unrelated set of businesses is less attractive than compared to performance of individual businesses.

3. In case of unrelated diversification strategy, companies diversify by starting new unrelated businesses. In this situation, corporate managers face difficulty in managing huge diversified unrelated businesses. Corporate managers who had worked in one or two company's businesses might not possess complete knowledge about competitive market situations, driving factors, key success factors, competitive strengths and weaknesses of each businesses of the company. Higher the number of businesses a company is into and more diverse those businesses are, higher will be the difficulty to managers to mange the businesses.

9. What is International Strategy?

Ans :

An international strategy is a strategy through which the firm sells its goods or services outside its domestion market. One of the primary reasons for implementing an international strategy (as opposed to a strategy focused on the domestic market) is that international markets yield potential new opportunities.

Raymond Vernon captured the classic rationale for international diversification. He suggested that typically a firm discovers an innovation in its home-country market, especially in an advanced economy such as that of the United States. Often demand for the product then develops in other countries, and exports are provided by domestic operations. Increased demand in foreign countries justifies making investments in foreign operations, especially to fend off foreign competitors. Vernon, therefore, observed that one reason why firms pursue international diversification is to extend a product's life cycle.

10. Define Unbuilding.

Ans :

- If a company divides its activities in a country into various companies, then it is termed as unbundling.
- A local manufacturing plant can be established separately from the sales subsidiary. If a local manufacturing plant is established separately then the firm can opt for different ownership strategies like Joint venture in one operation and full ownership in other operation.
- This type of unbundling is possible in the larger markets like United States, Germany or Japan.
- Unbundling also helps the firm to operate several companies or product lives side by side.
- Global firms giving global orders to their product divisions feels that each division must create its own entry strategy for important markets.

11. Define Outsourcing ?

Ans :

The term 'outsourcing' implies obtaining or processing from external sources the products or services which are usually the part and parcel of the organisation. In simple words, when a firm or company undertakes in-house operations like accounting, janitorial, call-center and at the same time, another company is also engaged in the same process/operations then this process is termed as 'outsourcing'.

A company whose internal business activities are oursourced is termed as 'client company' and a company who provides outsourcing services is known as 'outsource provider'. The outsourcing is not an emerging or recently emerged concept but, it is an extended concept of the long-standing practice of 'subcontracting production activities.

Presently, the outsourcing concept has been widened and is used as an important business strategy world wide due to the following reasons,

a) Less costs of more reliable transportation

b) Increased excellency expertise and

c) Instant growth and development in telecommunications and computers.

12. Advantages of Outsourcing.

Ans :

1. Cost Savings

The first and foremost reason behind opting for outsourcing is cost savings especially for 'labour'.

2. Gaining Outside Expertise

Apart from providing an access to broad base skills is the outsourcing concept also acts as a means of innovation and creativity to enhance products, processes and services.

3. Enhancing Operations and Service

A company who renders all types of services for client company may possess flexibility in production by which the client company can win orders instantly by introducing new products and services. Thus, outsource provider acts an important source for the client company to make improvements in operations and service.

4. Emphasizing on Core Competencies

The client company can reallocate its human, physical and financial resources when the outsourcing company/provider brings its core competencies to the supply-chain.

5. Acquiring Outside Technology

The client company can outsource to the excellent service providers with which it can acquire outside technology and does not have to invest in new technology. This inturn helps in minimising the risks.

6. Other Advantages

The other advantages which can be obtained from the concept of outsourcing are,

- Client company can enhance its performance and reputation by relating with an outsourcing company.
- The client company can use the concept of outsourcing as a strategy for 'downsizing' or 'reengineering'.

13. Define Merger

Ans :

Introduction

Mergers and acquisitions are much-used strategic options. They are especially suited for situations in which alliances and partnerships do not go far enough in providing a company with access to the needed resources and capabilities. Ownership ties are more permanent than partnership ties, allowing the operations of the merger/acquisition participants to be tightly integrated and creating more in-house control and autonomy.

A merger is a pooling of equals, with the newly create company often taking on a new name. An acquisition is a combination in which one company, the acquirer, purchases and absorbs the operations of another, the acquired. The difference between a merger and an acquisition relates more to the details of ownership, management control, and financial arrangements than to strategy and competitive advantage. The resources, competencies, and competitive capabilities of the newly created enterprise end up much the same whether the combination is the result of acquisition or merger.

14. Advantages of Mergers.

Ans :

The following are the advantages of mergers and acquisitions.

1. A firm can get an easy access to the market and technology through mergers and acquisitions.
2. It become easy to gain access to patent rights and technology through mergers and acquisitions.
3. With the help of mergers and acquisitions, the firm can get the firms ownership and control immediately on the factories, technology, employees and distribution networks, of the acquired firm.

4. In mergers and acquisitions, when the industry had attained the optimum capacity level in the host nation, then this strategy will assist the economy of the host country.

5. The firms can attain more profits with the formulation of international strategy.

15. Types of Acquisitions.

Ans :

Types of acquisitions are as follows:

1. Friendly Takeovers

Before a bidder makes an offer for another company, it usually first informs the company's Board of Directors. If the board feels that accepting the offer serves shareholders better than rejecting it, it recommends the offer be accepted by the shareholders. In a private company, because the shareholders and the board are usually the same people or closely connected with one another, private acquisitions are usually friendly. If the shareholders agree to sell the company, then the board is usually of the same mind or sufficiently under the orders of the equity shareholders to cooperate with the bidder.

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It allows a suitor to take over a target company's management unwilling to agree to a merger or takeover. A takeover is considered "hostile" if the target company's board rejects the offer, but the bidder continues to pursue it, or the bidder makes the offer without informing the target company's board beforehand. A hostile takeover can be conducted in several ways. A tender offer can be made where the acquiring company makes a public offer at a fixed price above the current market price. Tender offers in the United States are regulated by the Williams Act. An acquiring company can also engage in a proxy fight, whereby it tries to persuade enough shareholders, usually a simple majority, to replace the management with a new one which will approve the takeover. Another method involves quietly purchasing enough stock on the open market, known as a "creeping tender offer", to effect a change in management. In all of these ways, management resists the acquisition, but it is carried out anyway.

3. Reverse Takeovers

Reverse takeovers or RTOs are a type of merger used by private companies to become publicly traded without resorting to an initial public offering. Initially, the private company buys enough shares to control a publicly-traded company. The private company's shareholder then uses their shares in the private company to exchange for shares in the public company. At this point, the private company has effectively become a publicly traded one.

16. Advantages of Acquisition.

Ans :

1. Takeover helps the firm in utilising economies of scale in different business operations, such as production, marketing information systems, financing, etc.

2. It also helps in replacing an inefficient management team with an effective team, efficient workers of both the companies are combined to form a new management team.

3. Some economists have proclaimed, that takeovers are effective measures to protect the interest of shareholders.

4. Takeovers also help in generating economies of operations, which ultimately leads to synergistic benefits by combining two different businesses which are efficient in specific operation.

5. Takeovers save the companies which were managed inadequately by the incompetent managers.

17. Strategic Alliances.

Ans :

A Strategic Alliance is a relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. This form of cooperation lies between M & A and organic growth.

Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk.

Choose the Correct Answer

1. _______ is a type of strategy in which the firms work together as 'strategic alliance' for achieving common objectives. [a]

   (a) Cooperative strategy (b) Diversification

   (c) Vertical strategy (d) Horizontal strategy

2. B locking the choices available to challengers is one of the form of [b]

   (a) Offensive strategies (b) Defensive strategies

   (c) Cooperative strategies (d) None

3. One of the reasons for diversification is [c]

   (a) Activity sharing (b) Transfer of resources

   (c) Provide flexibility to portfolio (d) Reduce cost effectively

4. A _______ is issued to the suppliers shortlisted, requesting a proposal and a price. [d]

   (a) Request for pin (b) Request for price

   (c) Request for order (d) Request for proposal

5. They are _______ types of acquisitions. [b]

   (a) Two (b) Three

   (c) Four (d) Six

6. _______ strategy is not suitable for non durable consumer goods as local adaptation is necessary for food products. [a]

   (a) Global (b) Marketing

   (c) Cooperative (d) None

7. Joint venture is one of the form of [c]

   (a) Global strategy (b) Diversification strategy

   (c) Strategic alliance (d) Cooperative strategy

8. Concentric diversification is otherwise called [a]

   (a) Related diversification (b) Unrelated diversification

   (c) Horizontal diversification (d) Vertical diversification

9. The trend that has become more common in global markets is [b]

   (a) Globalisation (b) Regionalization

   (c) Exporting (d) None

10. The establishment of a new wholly owned subsidiary is referred to as [c]

    (a) Joint venture (b) Partnership

    (c) Greenfield venture (d) Transnational venture

Fill in the blanks

1. ________ take place when there is a combination of two or more organization not necessarily to do same business.
2. Under ________ a company assigns the right a patent or trade mark to another company for a fee.
3. ________ strategy helps the organisation to acquire both new products and markets.
4. A ________ is an informal or formal arrangement between two or more companies with a common business objective.
5. BPO stands for ________.
6. A work which was previously done by the internal employees of an organisation and the same work contracted to the outsiders is called as ________.
7. In ________ two companies integrate voluntarily to create new entity or enterprise.
8. If a company divides its activities in a country into various companies, then it is termed as ________.
9. ________ is an activity in which one company controls the other company.
10. ________ strategies are used as a key drivers of competitive advantage.

Answers

1. Vertical Merger
2. Licence
3. Diversification
4. Strategic alliance
5. Business process outsourcing
6. Outsourcing
7. Mergers
8. Unbundling
9. Acquisition
10. Offensive

UNIT V

Strategy Implementation and Corporate Ethics

Strategy Implementation: Strategies Evaluation and Control, Corporate Governance, Good corporate Citizenship, Environmental Change- Attaining Behavioural Control, Instilling Corporate Culture and Promoting S M A R T governance. Re-Designing Organizational Structure and Controls, Strategic Leadership, Strategic Entrepreneurship, Crafting Social Responsibility, Social and Ethical responsibilities of Corporate Organizations.

5.1 Strategy Implementation

Q1. Explain briefly about implementation of strategy.

Ans :

Implementation of Strategy

In simple words strategy implementation is the process of chosen to strategy to action. Strategy implementation involves the design and management (Action) of systems to achieve the best integration of people, structure, processes and resources in an efficient and most optimum use.

The process of strategy implementation involves the following process, routine or functions :

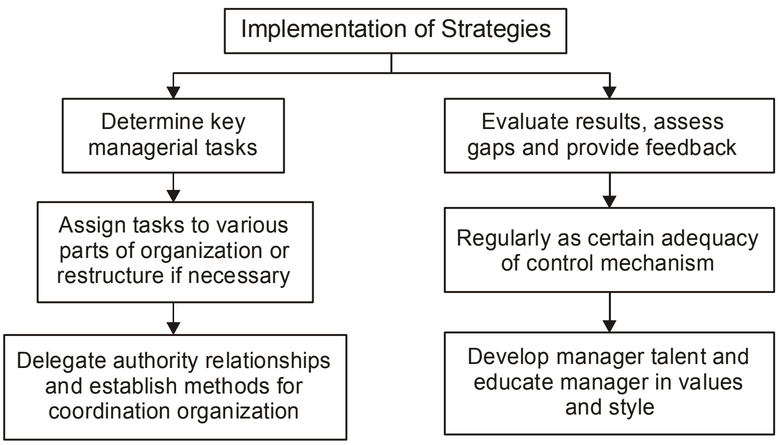
i) Structuring and organising the available resources in ways that are supportive of strategic accomplishment.

ii) Developing functional policies for each critical function and allocation of resources.

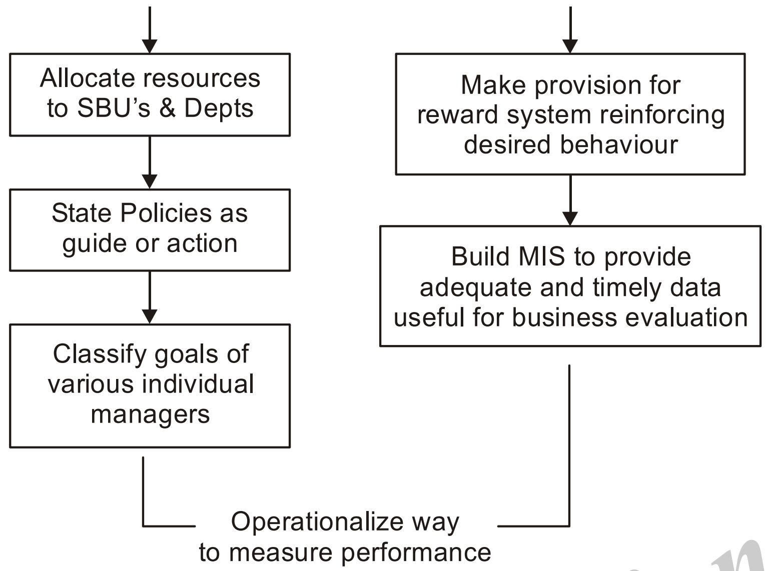
iii) Developing appropriate information system.

iv) Developing and implementing suitable management system.

v) Evaluation and review of strategy.



The role of strategies in strategy implementation



Strategies	**Resource allocation & Organization**	**Setting policies and Administrative systems**
Corporate top manages	Decide	Decide
SBU top managers	Decide for their units	Decide for their units
Corporate planners	Advise manage	Advise and help planning system
Board of Director	Approves major changes	Rarely involved
Consultant	Occasionally hired to advise	Often hired to advise

Corporate	**Step 1**	**Step 2**	**Step 3**	**Step 4**	**Step 5**
	State Corporate objectives & strategy & identify assumptions	Approve or alter goals & strategy	Make tentative resource allocations and call for budgets	Review and approve request	Prepare summary budgets
SBU	Define SBU objectives & strategy	Prepare premises and forecasts	Prepare preliminary budget	Prepare resource requirement changes	Receive approval and make final plans

Implementation of Strategy

The key to effective planning system though is to make sure it is designed to so that strategy and implementation plans.

1. Project implementation
2. Procedural implementation
3. Resource allocation
4. Structural implementation
5. Functional implementation
6. Behavioural implementation

Q2. Describe the characteristics of strategy implementation.

Ans :

Strategy implementation is subjected to managerial exercise to implement suitable strategy serving the purpose of a department for which it has to be designed. The strategic plan designed by the organization enable them to understand the way in which strategies can be brought to action. Because strategies are the statement of intent and implementation tasks is especially meant for realising this intent. Thus, strategies need to be activated through proper implementation.

Major characteristic features of strategy implementation highlighting its nature can be studied as follows,

1. Action Orientation

The indispensable nature of strategy implementation is, it involves action. This strategy implementation in turn is composed of keeping the formulated strategies into action with the use of management processes. Managers therefore, applies knowledge and techniques of management processes with an intention to keep strategies into action and this management processes is investigated thoroughly so as to document these findings into the "management literature". Thus, strategy implementation represents the intellectual content of strategy formulation process.

2. Comprehensive in Scope

Strategy implementation is composed of several aspects and practically it already covered the essential aspects relating to the discipline of management studies. Strategy implementation traverses an extensive range of activities and functions. For instance, anything which entails managerial action becomes the part of strategy implementation.

Not only the core activities of a specific function comes under the purview of the strategy implementation but also the non-core activities.

Examples, preparation of marketing and sales budget, launching programme designed for new product development by a marketing manager constitutes the core activities of a strategy implementation whereas, the other activities such as, establishment of cost control procedures, preparation of operations schedules and training programme constitute the non-core activities of an organization.

3. Demanding Varied Skills

Strategy implementation process deals with an extensive range of activities which has to be undertaken by a strategists, therefore he needs to perform his or her task with a wider range of skills, knowledge, attitudes and abilities. Because, the implementation process itself indicates testing the strategist skills and abilities. Example, to allocate resources, design and create structures and systems, formulate functional policies all these contributes to leadership styles which must be possessed by the strategists essentially to plan for operational efficiency apart from handling the issues associated with the implementation process.

4. Wide Ranging Involvement

In contrast to strategy formulation, which is an exclusive responsibility of a top management, the strategy implementation needs the involvement of middle-level managers. This implies that middle-level managers must clearly understand the strategic plan when communicated to them by their top-level managers as they are mainly responsible for the implementation of a strategy.

5. Integrated Process

Different tasks dealt under the strategy implementation cannot be stated alone but they are interrelated with each other. Therefore, strategy implementation must act in a holistic/friendly manner. Each and every task or activity performed under the process of strategy implementation is linked with one another which creates inter-connections. The essence of all these activities depends on the effectiveness of a strategic plan. Thus, the flow of strategy implementation is moving forward in different fields/streamy.

Q3. What are the prerequisites for implementing a new strategy ?

Ans :

The prerequisites of implementing a new strategy are as follows,

(i) Clear, Decisive Objectives

All 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.

(ii) 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.

(iii) 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 fewer resources.

(iv) Flexibility

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

(v) 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 that their own interest and values match with the requirements of their roles. Commitment but not acceptance is the basic requirement.

(vi) 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.

(vii) Security

The organization should secure or develop resources required, securely maintain all vital operating points for the enterprise, and effective intelligence system to prevent the effects of surprises by the competitors.

Q4. Discuss about the various steps involved in strategy implementation.

Ans :

The following steps are involved in the strategy implementation,

1. Operationalizing the Strategy (Through out the Organization)

Important tools to accomplish this,

(a) Annual objectives guide implementation by translating long-term objectives into current targets (coordination).

(b) Functional strategies are derived from business strategy and provide specific, immediate direction to key functional areas within the business in terms of what must be done to implement the strategy.

(c) Policies provide another means of directing and controlling decisions and actions at the operating levels of the firm in a manner consistent with business and functional strategies. Effective policies channel actions, behavior, decisions and practices to promote strategic accomplishment.

2. Institutionalizing the Strategy

(i) Structural alternatives.

Simple, functional, divisional, matrix.

(ii) Dimensions of leadership (in implementation).

Key considerations in managerial assignment to implement strategy.

Advantages

(i) Already know key people, practices and conditions.

(ii) Personal qualities better known and understood by associates.

(iii) Have established relationships with peers, subordinates, suppliers and buyers etc.

(iv) Symbolizes organizational commitment to individual careers.

(v) Outsider may already believe in and have "lived" the new strategy.

(vi) Outsider is unencumbered by internal commitments to people.

(vii) Outsider comes to the new assignment with heightened commitment and enthusiasm.

(viii) Bringing an outsider can send powerful signals throughout the organisation that change is expected.

Disadvantages

(i) Less adaptable to major strategic changes because of knowledge, attitudes and values.

(ii) Past commitments may hamper hard decisions required in executing a new strategy.

(iii) Less ability to become inspired and credibly convey the need for change.

(iv) Often costly.

(v) Suitable candidates may not be available always, leading to compromise choices.

(vi) Uncertainty in selecting, the right person.

(vii) The 'morale' costs when an outsider takes a job several insiders wanted.

Influence of organization culture on organizational life.

3. Strategic Control Guiding and Evaluating the Strategy

Establishing strategic controls. Strategic controls are intended to steer the company towards its long-term strategic direction.

Four basic types of strategic control,

(a) Premise Control

Designed to check systematically and continuously whether or not the premises set during the planning and implementation process are still valid.

(b) Implementation Control

Designed to assess whether the overall strategy should be changed in light of unfolding events and results associated with incremental steps and actions that implement the overall strategy.

(c) Strategic Surveillance

Designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of the firm's strategy.

(d) Special Alert Control

It is the need to thoroughly and often rapidly, reconsider the firms basic strategy based on a sudden, unexpected event.

Q5. Discuss the problems involved in strategic implementation.

Ans :

Implementation of a strategy is a much more difficult task than a strategy formulation. If a strategy is just good but implemented properly than it is sure to be success. Whereas, improper implementation of even a best strategy may be unsuccessful. Improper implementation is believed to be one of the major factor responsible for the failure of strategies.

In the present situation, the strategists are believed to have skills to formulate the best suitable strategy but its effective implementation is still to be learnt. The research has also indicated the major reasons for the unsuccessful implementation of strategies. The following are the various issues/ problems involved in strategy implementation,

1. Project Implementation

The project management institute of US has defined a project as "a one-shot, time limited, goal oriented, major undertaking, requiring the commitment of varied skills and resources". Project is a specific programme which requires the determination of time schedule and costs in advance. Project bring about an environment necessary for the implementation of strategies.

2. Procedural Implementation

On the basis of rules and regulations of the government, it is necessary to execute the strategy in strategy implementation. The strategy implementation process requires the fulfillment of certain procedures. It is necessary for every strategist to study the licensing procedures, foreign collaboration procedure, Foreign Exchange and Regulation Act (FERA) requirements, environmental requirements, import and export requirements, the requirements of labour laws and other legislative laws.

3. Organizational Growth

Organizational structure serves towards the achievement of organizational goals and its missions. Therefore, the structure is crucial for strategy implementation. The manner in which the duties and responsibilities are assigned to the individual and then grouping them into respective units, departments and divisions is referred to as organizational structure. The formal structure focuses on relationship among the individuals and their work assigned by the management. It also has the definite levels of organizational hierarchy whereas, the informal structure represents the social relationships among different individuals in the company.

4. Organizational Structures and Strategies

The strategies serve as a base for company structures. The company develops various structures. Simple strategies requires simple structure whereas, flexible structures are suitable for growth strategies. Complex strategies can be successfully implemented through the matrix structures.

5. Entrepreneurial Structure

The business usually start on a small scale and consist of only the owner and few employees. Organizational chart and delegation of authority is not required in such organizations. Every employee is well aware of his/her work and also about the functions and duties which have to be performed by him.

After its successful operation, the demand for its products and services leads to increase in size of the organization. After expansion, the owner needs to divide the work and delegate authority due to increased hierarchical levels.

The structure expands both vertically and horizontally as a result of business growth. The entrepreneurial structure is very much simple and results in quick decisions-making, sensitivity towards environmental demand and operational flexibility. At the same time it relies more on owner-manager who might not be an expert. The structure is not operational for meeting increased demand beyond a specific point.

5.2 Strategies Evaluation and Control

Q6. What is Strategic evaluation and control? Explain its nature and importance.

Ans :

Strategy Evaluation and Control (SEC) is the final stage of the strategic management process. The primary objective of it is to ascertain or analyze the effectiveness of specific strategy in attaining organizational objectives and taking suitable corrective actions wherever and whenever required.

Nature of Strategic Evaluation and Control

Strategic Evaluation and Control enables the strategists to determine the effectiveness of the formulated strategy in attaining the organizational objectives.

F.R.David stated that strategy evaluation involves three primary activities, which are as follows,

(i) Assessing the fundamental basis of an organizational strategy.

(ii) Differentiating actual results and the expected results.

(iii) Taking corrective actions to make sure that performance is as per the plans.

Strategy evaluation functions at two levels,

1. Strategy Level

At this level, the managers evaluate the compatibility of the strategy with the environment.

2. Operational Level

At this level, the managers determine the way in which the strategy is effectively accomplished by the organization.

Importance

The following points highlight the importance strategic evaluation and control:

1. Performance Measurement

Strategic evaluation and control start by defining a performance ideal according to business objectives. This performance ideal includes both qualitative and quantitative performance benchmarks to which actual performance of the business as a whole and the performance of individual employees can be compared, thus firms can fulfil its aim successfully. Qualitative benchmarks are subjective factors such as skills, competencies and flexibility. Quantitative benchmarks include "hard facts" such as net profit, earnings per share of stock or staff turnover rates.

2. Helps in Analysis

Strategic evaluation and controls work under the assumption that because the business environment is fluid and constantly changing, variances will commonly exist between ideal and actual performance. Regular strategic evaluations provide an objective, effective way for a business to evaluate, analyse and modify performance expectations. A positive variance can tell a business what it is doing right and confirm it is on the right track while a negative variance can be a signal that the performance of management and staff needs to change.

3. Corrective Actions: When strategic evaluations pinpoint areas where the business is not meeting strategic objectives, corrective actions can attempt to solve the problem.

For example, if a business discovers strategic technical objectives are not being met because employees do not have up-to-date qualifications, the business can design training programs that bring skillsets in line with technical objectives. If a business discovers the business objective itself is out of line - such as overly aggressive sales expectations - it can take steps to modify the objective and bring it line with real-life potential.

4. Reassessing Goals

An organisation's performance data might be the key indication that business goals and objectives need to be reviewed and re-evaluated.

For example, under-performing program and project outcomes might result from several factors.

For example, this might include inefficient team performance, changes in the needs of the targeted market or ineffective or flawed strategies.

5. **Alerts from Threat**

Strategy evaluation and control is vital to an organisations well-being as timely evaluations can alert the management about potential problems before the situation becomes critical. Successful strategists combine patience with a willingness to take corrective actions promptly, when necessary.

Q7. Explain the nature of strategic evaluation.

Ans :

1. **Suitable**

The evaluation system must be suitable to the needs of an organisation. It must conform to the nature and needs of the job and the area to be controlled. For example, the evaluation system used in production department will different from that used in sales department.

2. **Simple**

The evaluation and control system should be easy to understand and operate. A complicated evaluation system will cause unnecessary mistakes, confusion and frustration among employees. When the evaluation and control system is understood properly, employees can interpret the same in a right way and ensure its implementation.

3. **Selective**

To be useful, the evaluation system must focus attention on key, strategic and important factors which are critical to performance. Insignificant deviations need not be looked into. By concentrating attention on important aspects, managers can save their time and meet problems head on in an effective manner.

4. **Flexible**

Competitive, technological and other environmental changes force organisations to change their plans. As a result, evaluation and control should be necessarily flexible. It must be flexible enough to adjust to adverse changes or to take advantage of new opportunities.

5. **Forward-Looking**

An effective evaluation and control system should be forward-looking. It must provide timely information on deviations. Any departure from the standard should be caught as soon as possible. This helps managers to take remedial steps immediately before things go out of gear.

6. **Reasonable**

According to Robbins, evaluation and controls must be reasonable. They must be attainable. If they are too high or unreasonable, they no longer motivate employees. On the other hand, when evaluation and controls are set at low levels, they do not pose any challenge to employees. They do not stretch their talents.

Therefore, evaluation and control standards should be reasonable - they should challenge and stretch people to reach higher performance without being de-motivating.

7. **Objective**

An evaluation system would be effective only when it is objective and impersonal. It should not be subjective and arbitrary. When standards are set in clear terms, it is easy to evaluate performance. Vague standards are not easily understood and hence, not achieved in a right way. Evaluation and controls should be accurate and unbiased. If they are unreliable and subjective. People will resent them.

8. **Responsibility for Failures**

An effective evaluation and control system must indicate responsibility for failures. Detecting deviations would be meaningless, unless one knows where in the organisation they are occurring and who is responsible for them. The control system should also point out what corrective actions are needed to keep actual performance in line with planned performance.

9. Acceptable

Evaluation and control will not work unless people want them to. They should be acceptable to those whom they apply. Evaluation and controls will be acceptable when they are quantified, objective, attainable, and understood by one and all.

Q8. What are the different barriers of strategic evaluation?

Ans :

Barriers in Strategy evaluation are as follows:

1. Limits of Controls

By its very nature, any control mechanism presents the dilemma of too much versus too little control. It is never an easy task for strategists to decide the limits of control. Too much control may impair the ability of managers, adversely affect initiative and creativity, and create unnecessary impediments to efficient performance. On the other hand, too less control may make the strategy evaluation process infective and redundant.

2. Difficulties in Measurement

The process of evaluation is fraught with the danger of difficulties in measurement. These mainly relate to the reliability and validity of the measurement technique used for evaluation, lack of quantifiable objectives or performance standards and the inability of the information systems to provide timely and valid information.

3. Resistance to Evaluation

The evaluation process involves controlling the behaviour of individuals and, like any other similar organisational mechanism, is likely to be resisted by managers.

4. Short-terms

Managers often tend to rely on short-term implications of activities and try to measure the immediate results. Often, the long-term impact of performance on strategy and the extended effect of strategy on performance is ignored. This is so as immediate assessment seems to be the easy way out and taking the long-term implication in to account may be seen as too tedious.

5. Relying on Efficiency versus Effectiveness

It is instructive to remember that efficiency is 'doing the things rightly' while effectiveness is 'doing the right things'. There is often a genuine confusion among managers as to what constitutes effective performance. Measuring the wrong parameters may lead to a situation where the right type of performance does not get rewarded.

Q9. What is strategic control? Explain different types of strategic control.

Ans :

The process of strategic management makes it clear that a strategy is formulated on The basis of several assumptions. These relate to the environmental and organisational factors, which are dynamic and eventful. There is a considerable gap between the time when a strategy is formulated and the time when it is implemented. The process of implementation is itself time-consuming. During this intervening period, there is a possibility that the assumptions made while formulating a strategy will not remain valid or, at least, are no longer so relevant. Strategic controls take into account the changing assumptions that determine a strategy, continually evaluate the strategy as it is being implemented, and take the necessary steps to adjust the strategy to the new requirements. In this manner, strategic controls are early warning systems and differ from post-action controls which evaluate only after the implementation has been completed. You could think of strategic control as analogous to the continuous evaluation system used in your business school and distinguish it from the end-of-the term examination system used in traditional universities.

The four basic types of strategic controls are:

1. Premise control
2. Implementation control
3. Strategic surveillance
4. Special alert control

1. Premise Control

Every strategy is based on certain assumptions about environmental and organisational factors. Some of these factors are highly significant and any change in them can affect the strategy to a large extent. Premise control is necessary to identify the key assumptions, and keep track of any change in them so as to assess their impact on strategy and its implementation.

For instance, a company may base its strategy on important assumptions related to environmental factors (e.g. government policies), industrial factors (e.g. nature of competition), and organisational factors (e.g. breakthrough in R&D). Premise control serves the purpose of continually testing the assumptions to find out whether they are still valid or not.

This enables the strategists to take corrective action at the right time rather than continuing with a strategy which is based on erroneous assumptions. The responsibility for premise control can be assigned to the corporate planning staff who can identify key assumptions and keep a regular check on their validity.

2. Implementation Control

The implementation of a strategy results in a series of plans, programmes, and projects. Resource allocation is done to implement these. Implementation control is aimed at evaluating whether the plans, programmes, and projects are actually guiding the organisation towards its predetermined objectives or not. If, at any time, it is felt that the commitment of resources to a plan, programme or project would not benefit the organisation as envisaged, they have to be revised. In this manner, implementation control may lead to strategic rethinking.

Implementation control may be put into practice through the identification and monitoring of strategic thrusts such as an assessment of the marketing success of a new product after pre-testing, or checking the feasibility of a diversification programme after making initial attempts at seeking technological collaboration. In the first case, the company may evaluate whether the new product launch will really be advantageous or it should be abandoned in favour of another programme. In the second case, implementation control can help to determine whether a diversification move will actually succeed or not.

3. Strategic Surveillance

The premise and implementation types of strategic controls are specific in nature. Strategic surveillance, on the other hand, is aimed at a more generalised and overarching control "designed to monitor a broad range of events inside and outside the company that are likely to threaten the course of a firm's strategy".

Strategic surveillance can be done through a broad-based, general monitoring on the basis of selected information sources to uncover events that are likely to affect the strategy of an organisation. Aaker has suggested a "formal yet simple strategic information scanning system (that) can enhance the effectiveness of the scanning effort and preserve much of the information now lost within the organisation". Organisational learning and knowledge management systems can capture much of the information that is otherwise lost in an organisation. This information can be used for strategic surveillance.

4. Special Alert Control

The last of the strategic control systems is the special alert control, which is based on a trigger mechanism for rapid response and immediate reassessment of strategy in the light of sudden and unexpected events. Special alert control can be exercised through the formulation of contingency strategies and assigning the responsibility of handling unforeseen events to crisis management teams.

Examples of such events can be the sudden fall of a government at the central or state level, instant change in a competitor's posture, an unfortunate industrial disaster, or a natural catastrophe.

Crises are critical situations that occur unexpectedly and threaten the course of a strategy. Organisations that hope for the best and prepare for the worst are in a vantage position to handle any crisis. Crisis management follows certain steps, such as, signal detection, preparation/prevention, containment/damage limitation, and recovery leading to organisational learning. The first step of signal detection can be performed by the special alert control systems.

Q10. Explain the guidelines for strategic control.

Ans :

To make proper strategic control there are following guidelines:

1. **Involving Minimum Amount of Information:** Control should involve only the minimum amount of information needed to give a reliable picture of events. Too many controls create confusion. Focus on the strategic factors by following the 80/20 rule i.e., monitor those 20% of the factors that determine 80% of the results.
2. **Monitor Only Meaningful Activities and Results:** Controls should monitor only meaningful activities and results, regardless of measurement difficulty. If co-operation between divisions is important to corporate performance, some form of qualitative or quantitative measures should be established to monitor co-operation.
3. **Timely Control:** Controls should be timely so that corrective action can be taken before it is too late. Steering controls, controls that monitor or measure the factors influencing performance, should be stressed so that advance notice of problems is given.
4. **Both Long-term and Short-term Controls Should be Used:** If only short-term measures are emphasised, a short-term managerial orientation is likely.
5. **Pinpointing Exceptions:** Controls should aim at pinpointing exceptions; only those activities or results that fall outside a predetermined tolerance range should call for action.
6. **Emphasising Reward of Meeting of Exceeding Standards:** Emphasise the reward of meeting of exceeding standards rather than punishment for failing to meet standards. Heavy punishment of failure typically results in goal displacement. Managers will "fudge" reports and lobby for lower standards.

Q11. What do you mean by operational control? Explain the evaluation techniques used for operational control.

Ans :

Operational control is widely used in organizations because it is related with the evaluation of performance of the organization. Operational control strives to allocate organizational resources and use them for assessing the performance of organizational units like strategic business units, divisions and so on. This assessment is done to determine the contribution of organizational units towards the attainment of the organizational goals.

Evaluation Techniques used for Operational Control

The techniques used for evaluating operational control depends upon the organizational appraisal instead of environmental monitoring. Apart from the techniques used for organizational appraisal, some additional techniques are also used in operational control.

The techniques used for evaluating operational control is divided into three categories. They are as follows,

1. **Comparative Analysis**

   In comparative analysis technique of evaluation, the organizational performance is compared against its previous performance or with the performance of the competitors. Comparative analysis includes industry norm, historical analysis and benchmarking.

   (a) Industry Norm

   Industry norm is a comparative method wherein the performance of the firm is evaluated based on the industry norms. This type of evaluation assists the organization in matching its performance with the competitors' performance and helps in striving to exceed the competitor's performance level.

(b) Historical Analysis

In historical analysis method, the performance of the organization in the present year is compared with its past performances. One advantage of this method is that the organization will become aware of its performances in the specific time period through historical analysis. The organization can also become aware of the changes in its performance during the specified time horizon.

(c) Benchmarking

Benchmarking is a comparative method wherein the organization identifies the best practices in a particular area and set these best practices as standards for measuring its performances. Best practices acts as benchmarks. After setting the best practices as benchmarks, the organization strives to meet such benchmarks.

2. Internal Analysis

Internal analysis is concerned with finding out the strengths and weaknesses of the organization/firm/company in a definite form. Internal analysis includes,

(a) Value Chain Analysis

Value chain analysis emphasizes on a group of inter-connected activities which are carried out in a systematic manner for manufacturing and marketing products or services. The value chain analysis is useful for operational control as it divides the whole organizational task into recognizable activities and this division assists in the successful evaluation of operational control.

(b) Qualitative Analysis

Qualitative analysis is an extension of quantitative analysis technique. Qualitative analysis is applied for evaluating those aspects which cannot be measured in terms of numbers and figures. The methods which can be used for qualitative analysis depends upon judgement, intuition and specified opinion. The methods like survey methods and experimentation methods are used for assessing the performance for operational control.

(c) VRIO Framework

VRIO stands for Valuable, Rare, Inimitable and organized. VRIO framework is based on an idea that an organization can achieve sustainable strategic advantage if it uses the capabilities which are valuable, rare, inimitable and organized for usage. VRIO framework can be used for evaluation as it helps in determining whether the valuable, rare, inimitable and organized capabilities are present or not.

(d) Quantitative Analysis

Quantitative analysis makes use of financial as well as non-financial quantitative aspects like tangible units or time for evaluating the performance. The main advantage behind using financial and non-financial aspects is that the use of these aspects makes the task performance evaluation easy and helps in checking the evaluation.

3. Comprehensive Analysis

Comprehensive analysis makes use of complete approach instead of emphasizing just on one area of activity or department or function. The comprehensive analysis consists of,

(a) Key Factor Rating

Key factor rating method takes into consideration key factors in many areas. These key factors are set as standards for evaluating the performance. As the performance areas of the organization is seen from the broader perspective in key factor rating method, it is considered as a comprehensive method.

(b) Balanced Scorecard

Balanced scorecard method focuses on finding out four key performance measures relating to internal business perspective, financial perspective, customer perspective and innovation and learning perspective. Balanced scorecard method is a balanced approach to performance evaluation as it considers different parameters for evaluating the performance. Balanced scorecard method is used for evaluating the performances concerned with internal business processes, customers, human resources and finance.

(c) Business Intelligence Systems

The organization is facilitated with various internal and external data sources which assists in taking effective decisions. Business intelligence system is used to grab knowledge from all these internal and external sources. Even though, business intelligence systems are not designed for operational control, they provides the information needed for operational control. Business intelligence systems are mainly used in corporate performance management.

Apart from the evaluation techniques discussed above, some other techniques are also available for evaluating operational control. All these techniques can be categorized into two types. They are, auditing techniques and specific purpose techniques.

Q12. What are the difference between strategic control and operational control.

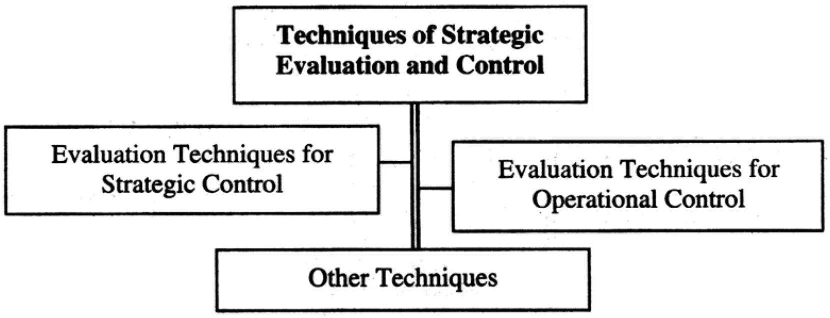
Ans :

Attribute	Strategic control	Operational control
1. **Basic question**	"Are we moving in the right direction"?	"How are we performing?
2. **Aim**	Proactive, continuous questioning of the basic direction of strategy	Allocation and use of organisational resources
3. **Main concern**	'Steering' the organisation's future direction	Action control
4. **Focus**	External environment	Internal organisation
5. **Time horizon**	Long-term	Short-term
6. **Exercise of control**	Exclusively by top management, may be through lower-level support	Mainly by executive or middle-level management on the direction of the top management
7. **Main techniques**	Environmental scanning, information gathering, questioning and review	Budgets, schedules, and MBO

Q13. What are the Techniques of Strategic Evaluation and Control.

Ans :

It is necessary for strategists to have an idea about the techniques of strategic evaluation and control in order to make a choice from available alternatives and to use them. Several of the techniques of evaluation are traditional and have been in usage for along while there are some other techniques, which are of recent origin.



1. Evaluation Techniques for Strategic Control

The essence of strategic control is to continually assess the changing environment to uncover events that may significantly affect the course of an organisation's strategy. Techniques for strategic control could be classified into two groups on the basis of the type of environment faced by the organisation.

The organisations that operate in a relatively stable environment may use strategic momentum control while those, which face a relatively unstable environment, may find strategic leap control more appropriate:

(i) **Strategic Momentum Control:** These types of evaluation techniques are aimed at assuring that the assumptions on whose basis strategies were formulated are still valid, and finding out what needs to be done in order to allow the organisation to maintain its existing strategic momentum. There are three techniques which could be used to achieve these aims:

(a) Responsibility control centres form the core of management control systems and are of four types: revenue, expense, profit, and investment centre. Each of these centres is designed on the basis of the measurement of inputs and out puts.

(b) The underlying success factors enable organisations to focus on the Critical Success Factors (CSFs) in order to examine the factors that contribute to the success of strategies.

(c) The generic strategies approach to strategic control is based on the assumption that the strategies adopted by a firm similar to another firm are comparable. A strategic group is a group of firms that adopts similar strategies with similar resources. Firms with in a strategic group, often within the same industry, and sometimes in other industries too, tend to adopt similar strategies.

(ii) **Strategic Leap Control:** If the environment is relatively unstable, organisations are required to make strategic leaps in order to make significant changes. Strategic leap control can assist such organisation by helping to define the new strategic requirement and to cope with emerging environmental realities. Techniques of evaluation used to exercise strategic leap control are:

(a) Strategic issue management is aimed at identifying one ore more strategic is sues and assessing their impact on the organisation. By managing on the basis of strategic issues, the strategists can avoid being overtaken by surprising environmental changes and design contingency plane to shift strategies whenever require.

(b) Strategic field analysis is way of examining the nature and extent of synergies that exist or are lacking between the components of an organisation. Whenever synergies exist the strategists can assess the ability of the firm to take advantage of those. Alternatively, the strategists can evaluate the firm's ability to generate synergies where they did not exist.

(c) System modelling is based on computer-based models that simulate the essential features of the organisation and its environment. Through systems modelling, organisation may exercise pre-action control by assessing the impact of the environment on organisation because of the adoption of a particular strategy.

(d) Scenarios are perceptions about the likely environment a firm would face in the future.

2. Evaluation Techniques for Operational Control

Evaluation techniques for operational control are based, on organisational appraisal rather than environmental monitoring, as is the case with strategic control. Evaluation techniques are:

(i) Internal Analysis: Internal analysis, which consists of value chain analysis, quantitative (financial and non-financial) analysis, and qualitative analysis, deals with the identification of the strengths and weaknesses of a firm in absolute terms.

(a) Value Chain Analysis: Firms employ value chain analysis to identify and evaluate the competitive potential of resources and capabilities. By studying their skills relative to those associated with primary and support activities, firms are able to understand their cost structure, and identify their activities through which they can create value.

(b) Quantitative Performance Measurements: Most firms prepare formal reports of quantitative performance measurements (such as sales growth, profit growth, economic value added, ratio analysis, etc.) that managers review at regular intervals. These measurements are generally linked to the standards set in the first step of the control process.

For example, if sales growth is a target, the firm should have a means of gathering and exporting sales data. If the firm has identified appropriate measurements, regular review of these reports helps managers stay aware of whether the firm is doing what is should do. In addition to these, certain qualitative bases based on intuition, judgment, opinions, or surveys could be used to judge whether the firm's performance is on the right tract or not.

(c) Qualitative Performance Measurements: Qualitative analysis includes those aspects, which it is not feasible to measure on the basis of figures and numbers. Techniques like surveys and experimentation can be used for the evaluation of performance for exercising operational control.

(ii) Comparative Analysis: It compares the performance of a firm with its own past performance, or with other firms.

(a) Historical Analysis: This method has the added benefit of enabling a firm to note how the performance has taken place over a period of time and to analyse the trend of pattern. Such an analysis can offer the firm a better perception of its performance as compared to an absolute assessment.

(b) Industry Norms: Industry norms are a comparative method for analysing performance that has the advantage of making a firm competitive in comparison to its peers in the same industry.

(c) **Benchmarking:** Benchmarking is a comparative method where a firm finds the best practices in an area and then attempts to bring its own performance in that area in line with the best practice. Best practices are the benchmarks that should be adopted by a firm as the standards to exercise operational control. It is a process of learning how other firms do exceptionally high-quality things. Some approaches to bench-marking are simple and straight-forward.

For example, Xerox Corporation routinely buys copiers made by other firms and takes them apart to see how they work. This helps the firms to stay abreast of its competitors' improvements and changes.

iii) **Comprehensive Analysis:** This includes balanced scorecard and key factor rating. This analysis adopts a total approach rather than focusing on one area of activity, or a function or department.

(a) **Balanced Scorecard:** It tries to do away with the bias in performance measures towards financial tools and tries to build a comprehensive, holistic objective system of measurement. The scorecard takes into account following four key performance measures:

- **Customer Perspective:** How do customers see us?
- **Internal Business Perspective:** What must we excel at?
- **Innovation and Learning Perspective:** Can we continue to improve and create value?
- **Financial Perspective:** How do we reward shareholders?

(b) **Key Factor Rating:** It is based on a close examination of key factors affecting performance (financial, marketing, operations and human resource capabilities) and assessing overall organisational capability based on the collected information.

3. **Other Techniques**

Besides the several techniques described above, four other techniques are also used by some companies to evaluate performance. These are:

i) **Parta System:** The parta system is an indigenous system adopted usually by Marwari firms to keep track of daily cash generation. "Parta is the pre-determined budget of the net cash inflows from operations before tax and dividend". The parta is decided in advance between the family group and company head, and actual performance is compared to this budgeted parta on a daily basis, thus making parta an effective operational control divide.

ii) **Network Techniques:** Network techniques such as Programme Evaluation and Review Technique (PERT), Critical Path Method (CPM) and their variants, are used extensively for the operational controls of scheduling and resource allocation in projects.

iii) **Management by Objectives:** MBO is system proposed by Drucker, by the process of consultation, objective-setting leads to the establishment of control system that operates on the basis of commitment and self-control. Thus, the scope of the MBO to be used as an operational control is quite extensive.

iv) **Memorandum of Understanding:** Just like MBO is a commitment to objectives between individuals, a Memorandum of Understanding (MOU) is "an agreement between a public enterprise and the Government, represented by the administrative ministry in which both parties clearly specify their commitments and responsibilities". The enterprises are evaluated on the basis of the MOU.

Q14. What are the different barriers of strategic evaluation and control?

Ans : **(June-18)**

The major barriers of strategic evaluation and control are as follows :

1. The Limits of Control

The control to both greater extent or lower extent can be problematic for the firm. The strategies face difficulties in ascertaining the limits of control. If the control is to a greater extent, then the managers capability will be weakened which significantly affects the creativity and creates hindrance towards an efficient performance.

If there is less control, then it may lead to lack of cooperation, random usage of managerial decisions and the employees may work carelessly without any fear of punishment. All these factors may make the process of strategic evaluation and control ineffective.

Hence, the strategists should focus significantly on the extent of control to be maintained in the organization.

2. Difficulties in Measurement

Determining measurement techniques which are valid and reliable is a difficult task which in turn affects the evaluation process.

The evaluation process is also affected by the absence of quantifiable objectives, or performance standards and the inability of the information system to furnish timely and valid information.

If the validity and reliability of measurement systems are not accurate, then the results may not be measured uniformly and the characteristics which are not supposed to be measured may be measured.

The process of evaluation can be carried out effectively by using reliable and validated measurement systems, standardized measurement procedures and improving the quality of information system.

3. Motivational Problems

The strategists are responsible for devising and executing a strategy.

If there is any mistake in this strategy and if it does not lead to the intended objectives, the strategists are not ready to accept their mistakes and try to blame others. This may in turn obstruct them from transferring unprofitable divisions, correcting wrong decisions and investigate the other practical options.

4. Resistance to Evaluation

The process of evaluation deals with controlling the individual's behaviour and as the managers resist the organizational mechanisms, the evaluation process is also resisted by them. This resistance can be decreased when the participants of the evaluation process communicate openly with each other.

5. Short-termism

Generally the managers depend upon the results of short-term activities and measure them promptly and do not consider the long-term effect of performance on strategy and long lasting impact of strategy on performance.

The reason for this is that they feel prompt analysis is simple and easy when compared to long-term consequences which are very tiresome.

6. Depending on Efficiency Versus Effectiveness

Generally the term 'efficiency' means "doing the things right" whereas "effectiveness" means "doing the right things". The managers get confused as to what makes an "effective performance".

Sometimes the managers do not reward the right performance if the performance is measured on the basis of wrong parameters.

Sometimes the managers reward the performance which does not contribute towards attaining the objectives when it is evaluated on the basis of efficiency. The solution can be achieved by concentrating highly on effectiveness in comparison to just efficiency.

All these barriers can be prevented if the employees at all the organizational levels consider evaluation positively.

5.3 Corporate Governance

Q15. Define Corporate Governance. Explain the Principles of Corporate Governance

Ans :

Corporate governance is the set of mechanisms used to manage the relationship among stakeholders and to determine and control the strategic direction and performance of organizations. At its core, corporate governance is concerned with identifying ways to ensure that strategic decisions are made effectively. Governance can also be thought of as a means corporations use to establish order between parties (the firm's owners and its top-level managers) whose interests may conflict.

Thus, corporate governance reflects and enforces the company's values. In modern corporations – especially those in the United States and the United Kingdom – a primary objective of corporate governance is to ensure that the interests of top-level managers are aligned with the interests of the shareholders. Corporate governance involves oversight in areas where owners, managers, and members of boards of directors may have conflicts of interest.

Principles of Corporate Governance

The principle of corporate governance is built on the following four pillars.

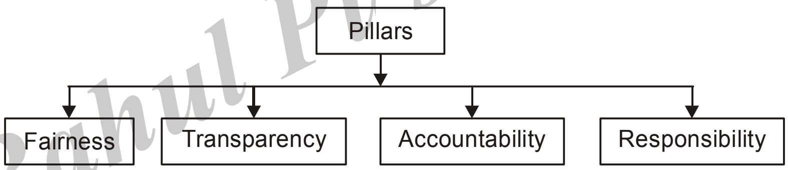


Fig.: Pillars of Corporate Governance

1. Fairness

It refers to the manner in which the business is conducted without any detriment to the interest of the stakeholders, shareholders, employees and the public as a whole. Business ethics plays a vital role in this context, hence they have to be on par with the ethical code of the society in which a business operates.

2. Transparency

It is disclosure, which is tool of corporate governance. Corporate governance ensures timely and accurate disclosure on all material matters. Disclosure regarding the corporate performance, ownership and governance should be of high quality in accordance with the financial, accounting and auditing standards. Transparency is access to information by users/stakeholders/shareholders/ public, which by way of disclosure should include the following :

- Financial and operating results of the company
- Company's objective

- Members of the Board
- Material foreseeable risk factors
- Information regarding employees and stakeholders

3. Accountability

It is monitoring managerial performance and achieving adequate return fro the shareholders by true and fair means by the managerial body (Board of Directors). It is also a responsibility to implement system designed to ensure that the corporation obeys laws. It is acting in good faith, with due diligence and care, and in the best interest of the company and its constituents.

4. Responsibility

Responsibility and accountability go hand in hand. Corporate is expected to be a responsible citizen and serve not only the interest of the stakeholders but also in the best interest of the society. Corporate governance reflects the larger ethics prevailing in society. Companies are required to take more active roles in changing the practices and values that are believed to be harmful to groups outside the company.

Q16. Explain the evolution of corporate governance.

Ans :

- Corporate governance as a subject, along with its models, has been in existence since the time businesses came into being. Often it is viewed as a statutory requirement guided through the regulatory body that is concerned with company affairs.
- Corporate governance was seen, till recently, as limited to listed companies that needed to comply with disclosure norms to protect investor rights, especially those of minority shareholders.
- As long as management and investors were balancing the affairs of the business in a congenial atmosphere, there was no special attention being diverted to this subject.
- In the first half of the nineties, the issue of corporate governance received attention in the US due to the dismissals of a few high-profile CEOs.
- At that time, there had been some public initiatives to ensure that corporate value would not be destroyed by the then traditionally cozy relationships between the CEO and the board of directors.
- There were issues relating to CEO compensation and nexus with boards, discussed due to issues over backdated stock options.
- In 1997, the East Asian financial crisis saw the economies of Thailand, Indonesia, South Korea, Malaysia and the Philippines crumble. It was then that the debate on quality of governance, again surfaced. The crisis led to foreign capital flight after property assets collapsed.
- The lack of corporate governance mechanisms in these countries highlighted the weaknesses of the institutions in their economies. There have been further such dialogues in the corporate governance practices of modern corporations since 2001, particularly due to the high-profile collapses of a number of large US firms such as Enron Corporation and WorldCom.
- In 2002, the US federal government passed the Sarbanes-Oxley Act (SOA), intending to restore public confidence in corporate governance.
- Earlier, the Cadbury report, tided Financial Aspects of Corporate Governance (1992), a report by a committee chaired by Sir George Adrian Hayhurst Cadbury, a pioneer in raising/awareness and stimulating the debate on corporate governance, had set out recommendations on the arrangement of company boards and accounting systems to mitigate corporate governance risks and failures.
- The report's recommendations had been adopted in varying degrees by the European Union, the United States, the World Bank,

and others. Today, the SOA works as a predominant guiding framework on corporate governance in the US.

Q17. Explain the Importance of Corporate Governance.

Ans : **(June-19)**

Corporate governance is important to business and its development. The corporate governance issues are a major concern for business community nationally and internationally. Business failures, high-profile scandals, financial crises, and institutional failures throughout the world have made them in the forefront.

Nowadays, investors expect companies to have sound a corporate governance platform. Just as good government requires transparency so that the people can effectively judge whether their interests are being served and protected, corporations also must act in a democratic and transparent manner so that the owners are safeguarded. Sound corporate governance measures ensure that the public a fair return.

Determines the fate of companies and economy in the era of globalization. Globalization and financial market liberalisation have opened up new avenues in international market. Such issues as now briefly described.

1. **Impact of globalization**

   The world has become a small market in this age of globalization. Significant changes are taking place in economic and business areas throughout the world. Corporates have to face the challenges. Traditional management has taken over by professional management. Therefore, international standards have to be adopted by corporates to overcome the threats of globalization.

2. **Economic changes**

   Corporates have to survive in the changing economic environment. Liberalisation policies have made them to realign their priorities and march forward towards new objectives and policies. They have to face competition not only domestically but also internationally.

3. **Change in the structure of shareholding**

   The pattern of shareholding has been undergoing a change and ownership has created new problems before the management. The importances of domestic and foreign institutional investors are increasing in the capital formation. In order to increase credibility, the acceptance of corporate governance has become the need of the four.

4. **Financial reporting and transparency**

   Investors are demanding more and more information from the company. They want transparency, accountability and responsibility in all transactions. It is the obligation of the company to protect their interest. Laws and regulations are made to protect the interest of stakeholders at large. It is felt that the directors are duty bound to show transparency in their reporting and performance.

5. **Shareholders' net worth and net wealth**

   The object of any business is maximization of wealth through maximisation of profits. Efficient corporate governances aims at this enhancement.

Q18. Explain the Dimensions of Corporate Governance.

(OR)

State the dimensions of corporate governance.

Ans :

1. **Promoters**

   They form companies. They are both financiers and managers. Earlier, mostly, the family members of promoters managed companies. Since many of them did not have managerial competence, most of the companies failed. It was because the promoters were neither answerable nor accountable to anyone. The concept was more or less the one-man company principle. Over the years, their involvement started declining. The promoters felt the need for a professional management to manage the affairs of the company so as to maximise their returns. Good corporate governance is intended to enhance the quality of functioning of the Board.

2. Directors

They are the persons appointed by the promoters to manage the affairs of corporates. They are collectively known as Board of Directors. In a Corporate, it was considered prestigious to hold the office of the Director. Their duties and responsibilities are multifarious.

The Board is the governing organization of a corporate. It is invested with a high degree of accountability and responsibility. It forms and frames rules and regulations for the efficient functioning of the firm. Corporate governance enhances the value of the company by making the Board accountable and responsible. The Standard Director's Conference has listed the following as the important tasks of the Board :

- Monitor and evaluate a long-term strategy
- Evaluate management performance
- And monitor current corporate performance
- Maintain legal and ethical practice

In addition, there should be the following different communities of the Board to ensure, the above:

- Management committee
- Share and securities transfer committee
- Audit committee
- Corporate planning committee
- Appropriation committee (for approving capital expenditure/projects)
- Executive committee.

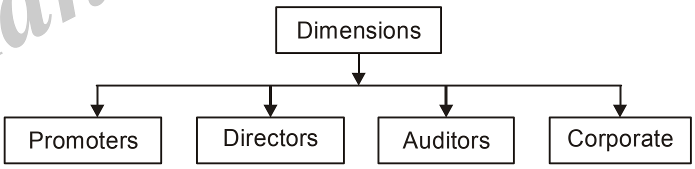


Fig.: Dimensions of corporate governance

3. Auditors

An auditor has the crucial responsibility of certifying the truth and fairness of the financial statements of a company under the Companies Act. They should act independently and express their opinion. Formation of an Audit committee as a sub-committee of the Board of Directors would improve the quality of reporting.

4. Corporate

Being considered as a corporate citizen a company encompasses the relationship with various constituents in day-to-day business and it has the responsibility of being accountable, transparent and fair in all its dealings. Corporate governance is the system by which companies are directed and controlled.

Q19. What is the nature of Corporate Governance in India?

Ans :

In the post-liberalisation period of 1991-92, there has been a lot of type on corporate governance in our country because in a number of public issues, the hard-earned money of small investors were looted by the promoters of public issues. The large number of financial scams occurring at the state and national level in the recent have contributed for corporate governance in the country. After Harshad Mehta's scam, the latest scam related to fake stamp paper amounting to Rs. 3000/- crores, at corporate levels, too, financial irregularities have caught the attention oh the public.

There are other reasons also which have given thrust to the concept of good corporate governance.

1. Directors of companies have been functioning as rubber-stamps of top management.
2. New body of investors are mostly institutional and there is an increasing need to safeguard their interests.
3. Public image is liable to be adversely affected.
4. SEBI has come into existence as regulatory body in the financial market.
5. Poor governance can attract takeover bids. Topaz Blades vs. Gillete is an example.

Organisations have to develop elaborate systems, structures and processes as part of corporate governance.

Given below is the ITC's corporate governance model. ITC decision-making process is divided into three levels.

The basic principles of good governance are:

- Clear responsibilities
- A precise distinction between direction and management
- Checks and balances in the governance structure
- Effective financial control
- Transparency

CII brought out a fairly comprehensive code titled "Desirable Corporate Governance – A Code" with the primary objective of bringing about qualitative changes in the corporate governance practices in India.

Q20. Explain the nature of Corporate Governance in Germany.

Ans :

- In many private German firms, the owner and manager may still be the same individual. In these instances, agency problems are not present.
- Even in publicly traded German corporations, a single shareholder is often dominant.
- Thus, the concentration of ownership is an important means of corporate governance in Germany, as it is in the United States.
- Historically, banks occupied the center of the German corporate governance structure, as is also the case in marry other European countries, such as Italy and France.
- As lenders, banks become major shareholders when companies they financed earlier seek funding on the stock market or default on loans. Although the stakes are usually less than 10 percent, the only legal limit on how much of a firm's stock banks can hold is that a single ownership position cannot exceed 15 percent of the bank's capital.
- Through their shareholdings, and by casting proxy votes for individual shareholders who retain their shares with the banks, three banks in particular–Deutsche, Dresdner, and Commerzbank–exercise significant power.
- Although shareholders can tell the banks how to vote their ownership position, they generally do not do so. A combination of their own holdings and their proxies results in majority positions for these three banks in many German companies.

- Those banks, along with others, monitor and control managers, both as lenders and as shareholders, by electing representatives to supervisory boards.
- German firms with more than 2,000 employees are required to have a two-tiered board structure that places the responsibility for monitoring and controlling managerial (or supervisory) decisions and actions in the hands of a separate group.
- All the functions of direction and management are the responsibility of the management board (the Vorstand), but appointment to the Vorstand is the responsibility of the supervisory tier (the Aufsichtsrat). Employees, union members, and shareholders appoint members to the Aufsichtsrat. Proponents of the German structure suggest that it helps prevent corporate wrongdoing and rash decisions by "dictatorial CEOs."
- However, critics maintain that it slows decision making and often ties a CEO's hands. In Germany the power sharing may have gone too far because it includes representation from the local community as well as unions.
- Accordingly, the corporate governance framework in Germany has made it difficult to restructure companies as quickly as can be done in the United States when performance suffers. Such is the case with EADS, the parent of Airbus.
- Part of Airbus's difficulties stem from the challenges it encountered in restructuring due to the complexities of corporate governance not only in Germany, but also in France.
- Because of the role of local government (through the board structure) and the power of banks in Germany's corporate governance structure, private shareholders rarely have major ownership positions in German firms.
- Large institutional investors, such as pension funds and insurance companies, are also relatively insignificant owners of corporate stock.
- Thus, at least historically, German executives generally have not been dedicated to the maximization of shareholder value that occurs in many countries.
- However, corporate governance in Germany is changing, at least partially, because of the increasing globalization of business. Many German firms are beginning to gravitate toward the U.S. system.
- Recent research suggests that the traditional system produced some agency costs because of a lack of external ownership power.
- According to research, countries that traditionally have more relationship-oriented capital markets such as Germany whose firms are exposed and required to meet governance aspects of financial capitalism due stock exchange listing requirements (perhaps in the United States) often begin to adopt such governance requirements.
- For example, German firms with such exposure have increasingly adopted executive stock option compensation as a long-term incentive pay policy.

Q21. Explain the Mechanisms of Corporate Governance.

Ans :

To minimize the potential for managers to act in their own self-interest or "opportunistically" the owners can implement some governance mechanisms, which are discussed under two heads, internal and external mechanisms.

A) Internal Governance Mechanism

The internal mechanisms include :

1. Committed Board of Directors
2. Shareholder activism
3. Managerial compensation

1. A Committed and Involved Board of Directors

The Board of Directors acts as a fulcrum between the owners and managers of a corporation. The duties of Board are as follows :

(i) Select or remove the CEO.

(ii) Review and approve the major strategies and plans of the corporation

(iii) Provide advice and counsel to top management.

(iv) Reviews the adequacy of the systems to comply with laws/regulations.

The Board of Directors should be active, critical participants in determining company strategies. That is, they should provide strong oversight that goes beyond simply approving the CEO's plans.

The Composition of the Board is an important issue. Both insiders and outsiders have their advantages and disadvantages. Insiders are better informed about the company, but they will not generally oppose the CEO because they may not really be considered as independent. Outsiders, who are not under the control of the CEO, can stand up to the CEO, but their level of understanding of the firm's day-to-day operations is limited.

Governance experts believe that a majority of directors should be independent and free from all ties either to the CEO or the company.

2. Shareholder Activism

This means that the shareholders of the corporation view themselves as real owners of the corporation and become actively engaged in the governance of the corporation.

(i) Being party to a suit for damages if the corporation's directors or managers fail to fulfill their obligations.

(ii) Demanding that key issues be brought up for proxy votes at annual general meetings.

(iii) Demanding information from the company.

In addition, the power of shareholders has intensified in recent years because of the increasing influence of large institutional investors such as mutual funds. Many institutional investors are aggressive in protecting and enhancing their investments. They are assuming the role of permanent shareholders and rigorously analyze issues of corporate governance. In the process, they are reinventing systems of corporate monitoring and accountability.

3. Managerial Compensation

Here, the goal is to carefully craft managerial incentive packages to align the interests of management with those of the shareholders. The most critical role of the board of directors is to create rewards and align the interests of compensation packages to the interests of the owners of the corporation i.e. long-term shareholder returns. A combination of three basic policies may create the right monetary incentives for CEOs to maximize the value of their companies.

(i) Board can require that the CEOs become substantial owners of company stock.

(ii) Salaries, bonuses, and stock options can be structured so as to provide rewards for superior performance and penalties for poor performance.

(iii) Threat of dismissal for poor performance.

In recent years, the granting of stock options has enabled top executives of publicly held corporations to earn enormous levels of compensation because they have delivered substantial increases in shareholder value.

B) External Governance Mechanisms

Internal governance mechanisms are not always enough to encourage good governance. It requires some external control mechanisms too. We discuss here several external control mechanisms that have developed in most modern economies.

1. Threats of Takeover

This is a mechanism that provides a solution when internal control mechanisms fail. If the management is behaving opportunistically, the likely response of most shareholders will be to sell their stock rather than engaging in activism. As more and more shareholders sell their stock, the value of the stock begins to decline, and at some point, the market value of the firm becomes less than the book value of the firm. A corporate raider may take over the company for a price less than the book value of the assets of the company.

The first thing that the raider may do on assuming control over the company will be to fire the under-performing managers. The risk of being acquired by a hostile raider is often referred to as the takeover constraint. The takeover constraint deters managers from engaging in opportunistic behaviour.

2. Auditors

Even when there are stringent disclosure requirements, there is no guarantee that the information disclosed will be accurate. Managers may deliberately disclose false information or withhold negative financial information. Therefore, all accounting statements are required to be audited and certified to be accurate by external auditors.

3. Banks and Analysis

Commercial and investment banks who have lent money to corporations, regularly monitor them to ensure that the borrowing firm's finances are in order and that the loan covenants are being followed. Stock analysts conduct ongoing in-depth studies of the firm and make recommendations to their clients or alerts the investing community of both positive and negative developments relating to a company.

4. Regulatory Bodies

All corporations are subject to some regulation by the government. The public corporations are required to disclose a substantial amount of financial information to bodies such as SEBI. This helps SEBI to protect the small investor to some extent.

5. Media and Public Activists

In all developed and developing economies, the press and media play an important role in monitoring the management of public corporations. Similarly, consumer groups and activists often take a crusading role in exposing corporate mismanagement.

Thus the key governance mechanisms, if used properly, ensure that managerial and shareholder interests are aligned and corporate governance plays an effective role in improving firm's performance.

5.4 Good Corporate Citizenship

Q22. Discuss briefly about Good Corporate Citizenship.

Ans :

Corporate citizenship involves the social responsibility of businesses and the extent to which they meet legal, ethical and economic responsibilities, as established by shareholders. The goal is to produce higher standards of living and quality of life for the communities that surround them and still maintain profitability for stakeholders. The demand for socially responsible corporations continues to grow, encouraging investors, consumers and employees to use their individual power to negatively affect companies that do not share their values.

Development of Corporate Citizenship

There are stages that companies go through during the process of developing corporate citizenship. Companies rise to the higher stages of corporate citizenship based on their capacity and credibility when supporting community activities, a strong understanding of community needs, and their dedication to incorporate citizenship within the culture and structure of their company.

The five stages of corporate citizenship are elementary, engaged, innovative, integrated and transforming.

(i) Elementary

In the elementary stage, known also as the compliant stage, a company's citizenship activities are basic and undefined because there is scant corporate awareness and little to no senior management involvement. Small businesses in particular tend to linger in this stage; they are able to comply with the standard health, safety and environmental laws, but they do not have the time nor the resources to fully develop a greater involvement in community activities.

(ii) Engaged

In this stage, companies will often develop policies that promote the involvement of employees and managers in activities that exceed rudimentary compliance to basic laws. Senior management is more active in developing policies for the entire corporation and assigning to all levels of management more sophisticated standards for corporate citizenship.

(iii) Innovative

Citizenship policies become more comprehensive in this stage. This occurs through increased meetings and consultations with shareholders and through participation in forums and other outlets that promote innovative corporate citizenship policies. Typically, this is the stage where corporate citizenship policies are funded and activated and become functional with assistance and support from upper-level management. Transparency comes into play in this stage as companies typically monitor how successfully they have become involved in the community, with results of this monitoring being made available through public reports.

(iv) Integrated

Citizenship activities are formalized and blend in fluidly with the company's regular operations. Performance in community activities is monitored. Citizenship activities are driven into the lines of a business. Consultations with shareholders continues, and some companies may even set up formal training in the area of community involvement for employees and management.

(v) Transforming

Companies that have reached this stage understand that corporate citizenship plays a strategic part in fueling sales growth and expansion to new markets. Economic and social involvement, support and integration is a regular part of a company's daily operations in this stage.

5.5 Environmental Change - Attaining Behavioural Control

Q23. What are the different approaches of control system to ensure information control?

Ans :

Informational control is the capability of firm to effectively respond to environmental change. A firm makes use of two major forms of control systems for assuring informational control. These two control systems are,

(i) Traditional/conventional approach to strategic control

(ii) Modern/contemporary approach to strategic control.

1. Conventional Approach to Strategic Control

The traditional approach to strategic control follows a sequential order i.e.,

(i) Firstly the strategies are formulated and the senior- level management sets the objectives.

(ii) Secondly the strategies are implemented.

(iii) Finally the performance is measured by comparing the actual performance with predetermined set of goals. The figure given below disputs the traditional approach to strategic control.

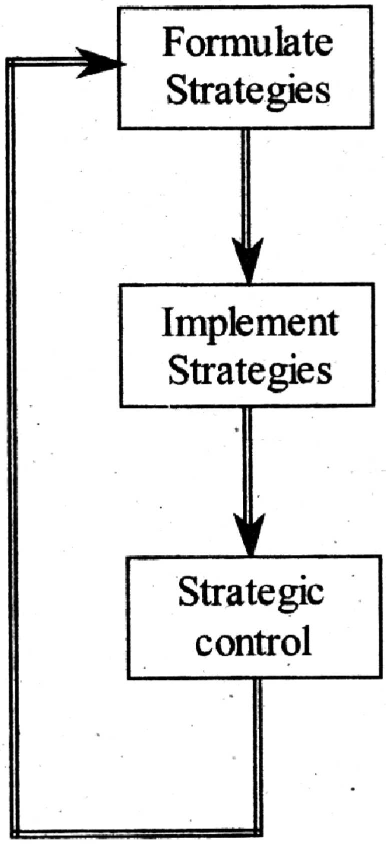


Fig. : Traditional Approach to Strategic Control

In the traditional control system the control depends on a feedback loop which is from performance measurement to strategy formulation. This type of traditional control systems are also called "single loop" learning.

However, the process involved in it is time-consuming and is tied-up with the firms annual-planning cycle. Chris Argyris of Harvard university observed that this control system only compares the actual performance with the predetermined objectives/ goals. This method is more suitable when the environment in which the firms operates is stable and simple where goals and objectives can be easily measured with a high-level of certainty and the complex measures of performance such as sales quotas, operating budgets, production schedules and other quantitative control are required upto minimum extent.

2. Contemporary/Modern Approach To Strategic Control

The most important and an indispensable part of strategic control is to anticipate and introduce both internal and external environmental changes. The modem approach to strategic control is depicted in the figure given below,

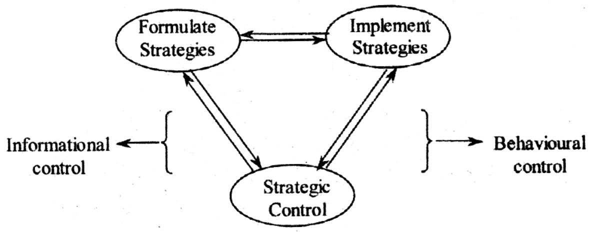


Fig. : Contemporary Approach to Strategic Control

In the above diagram, it can seen that the relationships between strategy formulation, implementation and control significantly influences each other and there are two types of strategic control i.e, informational control and behavioral control.

(a) Informational Control

Informational control mainly deals with whether the organization or firm is "Performing right things" or not.

(b) Behavioural Control

The behavioral control an the other-side determines whether the organisation is "Performing the things right" for executing the strategy.

Therefore, the informational and behavioral elements of strategic control are essential but may not be sufficient for success. The informational control deals with both the internal as well as the external environment and acts as a basis for creating an organisations strategy. The informational control under modem approach acts as part and parcel of organisational learning process which updates periodically and challenges the assumptions underlying the organisations strategy. This approach is termed as' double-loop' learning as the assumptions, premises, goals and strategies are regularly controlled, examined and assessed which intum helps in reducing the teme-lags and strengthening the organisations capability to respond quickly.

Q24. How it is possible to attain behavioural control ?

Ans :

Behavioral control is emphasized upon implementation i.e., 'carrying out/conducting the things right'. For effective implementation of strategy it is quite essential to have three major control "levels" namely culture, rewards and boundaries.

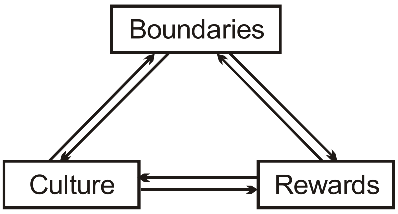


Fig. : Essential Elements of Behavioural Control

These three levels or elements of behavioural control must have consistency among them.

1. Building a Strong and Effective Culture

The term 'organisational culture' refers to a system of shared values and beliefs which would transform and shape the company's people, organisational structures and control systems in order to develop behavioural norms.

Culture can be explained in several ways each made-up depicting values that retains the 'organisations' major source of competitive advantage'.

2. Motivating with Rewards and Incentives

Reward and incentive systems depicts/acts as a strong means of effecting the organisation's culture effecting the beliefs, behaviors and attitudes of people inside the organisation. Whereas, the reward system states who will be rewarded and why? Therefore, acts as an effective motivator and control device.

In order to have effective and successful reward and incentive systems, the organisation must strengthen the fundamental core values and increase cohesion and commitment towards achieving goals and objectives.

3. Setting Boundaries and Constraints

If boundaries and constraints are used in appropriately then, it would act as a major source in fulfilling other purposes for organisations as followings,

a) Focusing Efforts According to Strategic Priorities

An important role is being played by the 'boundaries and constraints' as they mainly focus on company's strategic priorities. For example, one of the popular strategic boundary in U.S industry is Tack Welsch, a former CEO of GE claims that any business under corporate portfolio can be ranked first or second in its industry.

b) Providing Short-term Objectives and Action Plans

- Short-term objectives must have the following attributes in order to be effective, Specific and measurable.
- Specific time horizon must be defined for achieving short-term objectives.
- These short-term objectives should be attained easily inturn it also motivates the managers. Action plans are also important when short-term objectives must be attained. Action plans therefore, is a major criteria for implementing the selected strategies. Thus, action plans must be specific, clear and concise.

c) Improving Operational Efficiency and Effectiveness

Rule-based controls are more suitable and appreciable in any organisation if they hold these features.

- Stable and predictable environments.
- Many employees are unskilled and interchangeable.
- Product and service constancy is crucial.

d) Minimizing Improper and Unethical Conduct

Guidelines acts as a helpful and useful instrument to maintain smooth and effective relationships with a company's customers and suppliers. For instance, most of the companies exercise and follow certain explicit rules with respect to commercial practices like prohibition of any form of payment, bribe or kickback.

Behavioural Control in Organisations: Situational Factors

Behavioral control assures the behavior of individuals at each and every level of organisations to achieve desired goals and objectives. This behavioral control possess three types of control i.e., culture, rewards and incentives, boundaries and constraints. How several approaches to behavioral control are linked with few situational factors are being explained as follows,

(a) Culture

- Uncommonly found in professional organisations.
- Cultural aspect is related with high autonomy.
- Norms acts as foundation for behaviour.

(b) Rules

Rules refer to written and explicit form of guidelines which helps in having the external constraints/restrictions over behavior. Few situational factors are,

- Rules are associated with standardized output.
- Rotten repetitive tasks follows.
- There is need for innovation (or) creative activity upto some extent only

(c) Rewards

Rewards can be used as performance-based incentive system for motivating the employees. Some situational factors are :

- Output and performance is measured/ quantifiable.
- Appreciable mostly in. organisations which follows unrelated diversification strategies.
- Rewards helps in strengthening other means of control.

5.6 Installing Corporate Culture

Q25. What do you mean by corporate culture? Explain different types of corporate culture.

Ans :

The term culture is an Anthropological term. Culture refers to the underlying values, beliefs and codes of practice that makes a community what it is. Culture is generally subjective and reflects the meanings and understanding that we typically attribute to situations.

Deal and Kennedy says that culture is the single most important factor accounting for the success or failure of an organisation.

The following are the definitions of organisational culture,

(i) Organisational culture is defined as the set of assumptions, beliefs, values and norms that are shared by an organisation's members.

(ii) According to Edgar and Schein, organisational climate is a pattern of basic assumptions invented, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valuable and therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems.

Every organization has its own corporate culture which is different from others. Culture is characterized by the business principles, work practices, ethical behaviour, history, tradition, beliefs and so on.

In other words, corporate culture is an organizations internal work environment which explains "how tasks have to be performed in that organization".

Thus, organisational culture is a set of assumptions that the members of an organisation share in common. The assumption may be in the form of internally-oriented characteristics or externally-oriented characteristics. Internally-oriented characteristics include values, attitudes, beliefs, feelings, personality types etc., also known as abstract elements of culture. Externally-oriented characteristics include buildings, products, dresses etc., also known as material elements of the culture.

Features of Company's Corporate Culture

The corporate culture of a company or an organisation reflects the 'personality' or 'character' of its work environment. It includes the factors, which the company use for conducting its business and the behaviours which are especially meant for high-esteem. The important features of company's corporate culture are as follows,

1. **Values and Principles**

   The values, business principles and ethical standards which are practiced and recommended by the management in the organisation. Therefore, it is rightly said that actions speaks much louder than words.

2. **Company's Approach.** Towards the Employees way in which the company approaches to its employees by. The implementing official policies, procedures and operating practices symbolizes the behavior of the company personnel.

3. **The Spirit and Character Which is Spread Through-out the Work Environment**

   Is the workstation dynamic and enjoyable, methodical and all-business, tense and harassing or highly competitive and politicized? Are employees interested towards their job and relate with their task emotionally or just completes their task to draw a pay cheque? Is there any focus on entitled employee's creativity or do people have some sort of sensitivity for how to do their jobs?

4. **The way in which the Managers Interact and Relate Each Other**

   How much dependence is there on team work and open-communication?

   Upto what extent there is a good relationship among the employees and management?

   Are employees known and called by their first names?

   Does the co-workers spend little or much time together outside the workstations?

   What are the dress codes of the employees?

5. **The Strength of Peer Pressure to do Things In Specific Manner and Follow Desired Norms.**

   What actions and behaviours are acceptable and rewarded by management as compensation and promotions?

8. **Traditions and Offen-Repeated Stories**

   Does the company values and respect the traditions and offen-repeated stories? Does the people talk about 'heroic acts/events' and 'how the things goes around in the work climate".?

7. **External Stakeholders**

   How company deals with the external stakeholders especially, vendors and local communities (where it performs its operations)?

   Does it treat its suppliers as business partners or prefers tough minded, arms length business arrangements? How strong and authentic is its commitment towards corporate citizenship?

Types of Corporate Cultures

An unhealthy corporate culture has counterproductive cultural traits which unfavourably affects the work climate and company performance. The different traits which are specifically unhealthy for firms are as follows,

(a) Politicized Cultures

In a politicized internal environment, several issues are settled and the decisions are taken based on the individuals or groups having political influence.

The reason for considering the politicized internal environment as unhealthy is because of high consumption of organisational energy by internal group conflicts which would results in company giving only a little emphasis on the best political movements.

(b) Change Resistant Cultures

In the less adaptive cultures, the organisational members are suspicious about the significance of new developments and resists to change so the managers would wait till the uncertainty clears, and then starts a new course by making certain basic adjustments to their product line or by introducing a major new technology.

(c) Insular Inwardly Focused Cultures

The companies having insular, inwardly focussed culture does not considers the other company's best practices, new managerial approaches, creative videos, etc.,

When a company holds the market leader position and gains the significant market share for a longer period of time, then its personnel start believing that they possess all the answers and (if not) they can even create them, on their own. They are least bothered about suggestions given by the customers and the variations in their needs preferences.

(d) Unethical and Greed-Driven Cultures

The companies which does not gives much importance to ethical standards, or those which are operated by greedy or egoistic executives waits for the scandals to take place.

For instance, Enron's collapse in 2001 was because of its unethical corporate culture. Though its culture included the positives of product innovation, aggressive risk taking and strong zeal for global change in energy business, the arrogant, egoistic and greedy executives restricted the firm to attain its targets.

5.6.1 Promoting SMART Governance / E-Governance

Q26. Define SMART Governance / E-Governance ? Explain its components.

Ans : **(June-18)**

Definition:

E-governance, expands to electronic governance, is the integration of Information and Communication Technology (ICT) in all the processes, with the aim of enhancing government ability to address the needs of the general public. The basic purpose of e-governance is to simplify processes for all, i.e. government, citizens, businesses, etc. at National, State and local levels.

Components of E-Governance

1. G2G (Government to Government)

When the exchange of information and services is within the periphery of the government, is termed as G2G interaction. This can be both horizontal, i.e. among various government entities and vertical, i.e. between national, state and local government entities and within different levels of the entity.

2. G2C (Government to Citizen)

The interaction amidst the government and general public is G2C interaction. Here an interface is set up between government and citizens, which enables citizens to get access to wide variety of public services. The citizens has the freedom to share their views and grievances on government policies anytime, anywhere.

3. G2B (Government to Business)

In this case, the e-governance helps the business class to interact with the government seamlessly. It aims at eliminating red-tapism, saving time, cost and establish transparency in the business environment, while interacting with government.

4. **G2E (Government to Employees):** The government of any country is the biggest employer and so it also deals with employees on a regular basis, as other employers do. ICT helps in making the interaction between government and employees fast and efficient, along with raising their level of satisfaction by providing perquisites and add-on benefits.

E-governance can only be possible if the government is ready for it. It is not a one day task, and so the government has to make plans and implement them before switching to it. Some of the measures include Investment in telecommunication infrastructure, budget resources, ensure security, monitor assessment, internet connectivity speed, promote awareness among public regarding the importance, support from all government departments and so forth.

Q27. What are the objectives of E-Governance?

Ans :

1. To provide information access, services and choices of the political processes to citizens.
2. To allow the citizens to participate actively rather than accessing the information passively. This can be done by communicating, representing and encouraging the citizens.

To satisfy and fulfill the needs and expectations of the citizens. This can be achieved by simplifying the process of interaction using various online services such as ICT.

Hence, the main objective of e-Governance is to satisfy citizens and business organizations and to provide good governance to all the political parties. This can be achieved by applying various electronic means (tools) and to employ an economic, political and administration personnel for managing the affairs of the country.

5.7 Re-Designing Organizational Structure and Controls

Q28. Define Organizational Structure & Control.

Ans:

(A) Organizational Structure

Organizational structure specifies the firm's formal reporting relationships, procedures, controls and authority and decision-making processes. Developing an organizational structure that effectively supports the firm's strategy is difficult, especially because of the uncertainty about cause-effect relationships in the global economy's rapidly changing and dynamic competitive environments.

When a structure's elements (e.g., reporting relationships, procedures, and so forth) are properly aligned with one another, this structure facilitates effective implementation of the firm's strategies. Thus, organizational structure is a critical component of effective strategy implementation processes.

(B) Organization Controls

As Organizational controls guide the use of strategy, indicate how to compare actual results with expected results, and suggest corrective actions to take when the difference is unacceptable. When there are fewer differences between actual and expected outcomes, the organization's controls are more effective. It is difficult for the company to successfully exploit its completive advantages without effective organizational controls. Properly designed organizational controls provide clear insights regarding behaviors that enhance firm performance. Firms rely on strategic controls and financial controls as part of their structures to support use of their strategies.

Strategic controls are largely subjective criteria intended to verify that the firm is using appropriate strategies for the conditions in the external environment and the company's competitive advantages. Effective strategic controls help the firm understand what it takes to be successful.

Strategic controls demand rich communications between managers responsible for implementing to judge the firm's performance and those with primary responsibility for implementing the firm's strategies (such as middle-and first-level managers). These frequent exchanges are both formal and informal in nature. Strategic controls are also used to evaluate the degree to which the firm focuses on the requirements to implement its strategies.

Q29. Explain the different types of organizational structures.

Ans :

1. Functional Organization Structure

Functional organisation structure is most widely used structure. Each functional department consists of those jobs in which employees perform similar jobs at different levels. The commonly used functions are: marketing, finance and accounting, human resources, manufacturing, research and development and engineering.

Strategic Advantages:

(i) A functional structure would be effective in single business firms where key activities revolve around well defined skills and areas of specialisation.

(ii) Indepth specialisation and focussed concentration on performing functional tasks can enhance operating efficiency and the development of core competencies.

(iii) This type of structure promotes maximum utilisation of up-to-date technical skills and enables the firm to capitalise on specialisation and efficiency. These are strategically important considerations for single business companies, dominant product companies and vertically integrated companies.

(iv) The functional structure is most appropriate when firms compete on the basis of technical specialisation or efficiency in a relatively stable environment.

(v) This structure promotes common values and goals among employees of the department, facilitating co-operation and collaboration within the functional department.

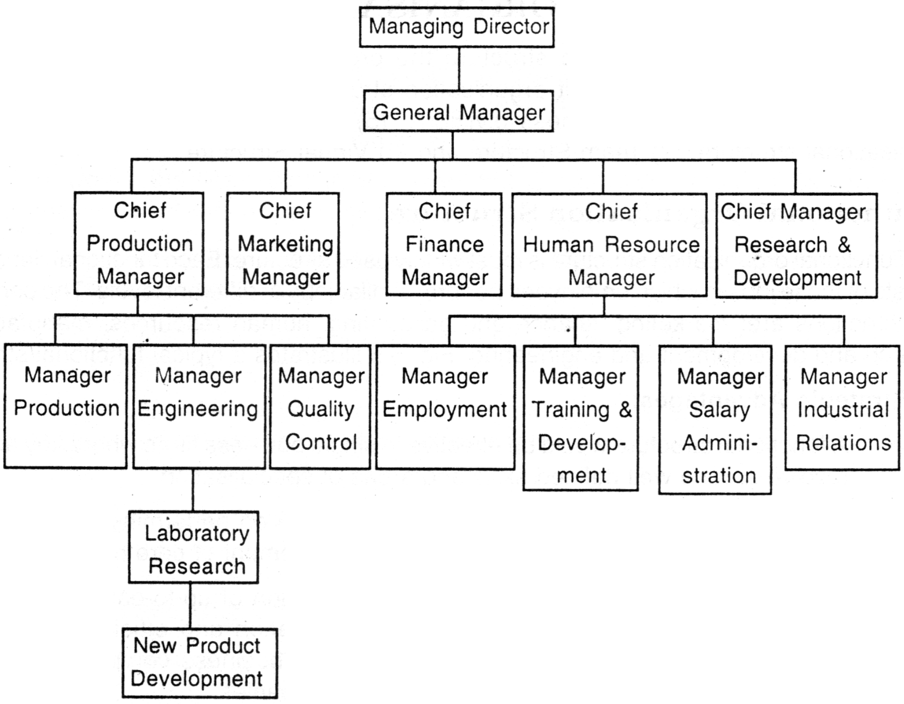


Fig. : A Functional Organisation Structure

Strategic Disadvantages:

(i) The horizontal diversification of the business reduces the efficiency of the functional structure.

(ii) The departmental members may see the activities from the narrow view point of the department rather than the total organisation. This aspect results in absence of inter-departmental co-ordination and cooperation.

(iii) Interdepartmental policies further result in conflicts. This situation leads to indecision, delay in decision-making or ineffective decision-making.

(iv) Further, the narrow specialisations kill the initiative of entrepreneurs and the zeal of innovativeness and creativeness. Consequently, the firm may lose sensitiveness to the customer demands, technological changes and environ-mental demands. These limitations of functional structure may make the firm to reassess the suitability of the structure to the strategy and decide accordingly.

2. Product Organization Structures

Activities are divided on the basis of individual products, product line, services and are grouped into departments in product organisation structure. All important functions, *viz.,* marketing, production, finance and human resource are contained within each department. This type of organisation structure overcomes many of the major limitations of functional organisational structure. Fig. presents the product organisation structure.

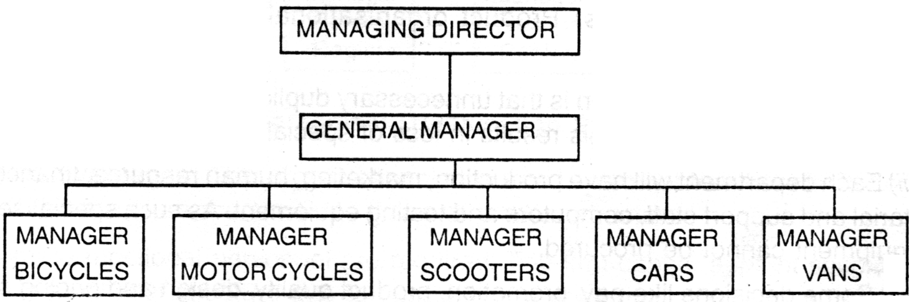


Fig. : Product Organisational Structure

Strategic Advantages:

(i) The product organisation structure is more appropriate than the functional form of organisation for firms producing multiple products.

(ii) Co-ordination among functional areas like product design, producing, distributing, marketing is effective as all functions are performed in each department.

(iii) Since, each department is independent, most of the decisions can be made at departmental level without involving the top management in this process. It will result in fast decisions, enhancement of organisational competency to compete in rapidly changing environment.

(iv) Responsibility and accountability for market share, sales, profit/loss is clearly fixed. Thus, either the credit for the success or blame for the failure of a product can be clearly attributed to a particular department. This advantage cannot present in case of functional organisation structure. Exhibit present strategic advantages and disadvantages.

Strategic Disadvantages:

(i) One of the major limitation is that unnecessary duplication of equipment and personnel among various departments. This results in loss of specialisation.

(ii) Each department will have production, marketing, human resource, finance managers, secretarial and support staff, computers and testing equipment. As such specialised personnel and equipment cannot be procured.

(iii) Some decisions like pay, promotion, product quality, design and pricing strategy may be inconsistent between departments.

3. Geographical Organization Structure

The activities or functions are grouped into departments based on the activities performed in the geographical areas/regions. Each geographical unit includes all functions required to produce and market the products in a particular geographical area. It presents a geographical organisation structure. Multinational organisations, enterprises operating in diverse geographic markets or serving an expansive geographic area are organised based on the geographic structure. This structure is also used by chain stores, power companies, restaurant chains, dairy products, banking companies, insurance companies, etc.

Strategic Advantages:

(i) Products and services are better designed to the climatic and cultural needs of specific geographical regions.

(ii) A geographical structure allows a firm to respond to the technical needs of different international area.

(iii) Producing and distributing products in different national or global locations may give the organisation to serve better the consumer needs of various nations.

(iv) This organisation structure enables a company to adapt to varying legal systems.

(v) It also allow firms pinpoint the responsibility for profits or losses.

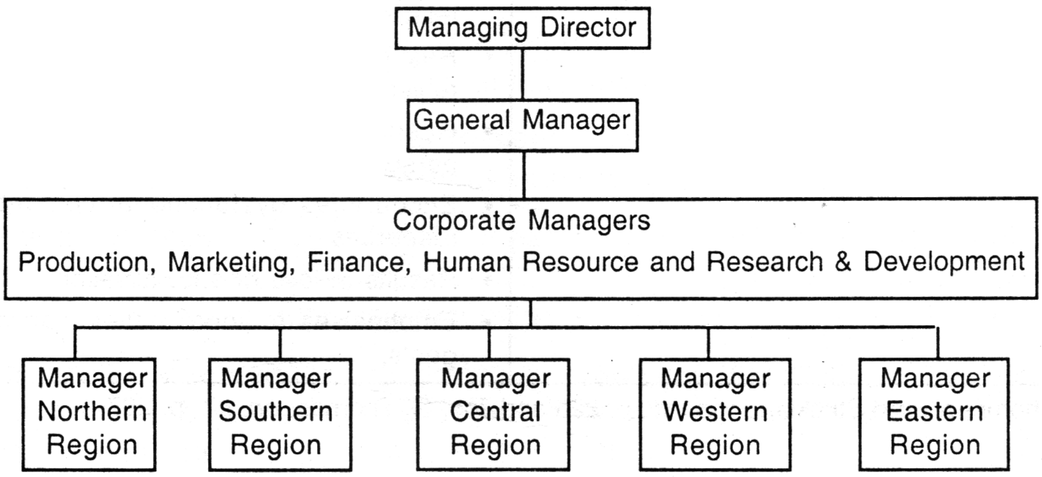


Fig. : Geographical Organisation Structure

Strategic Disadvantages:

This organisational structure is also not free from limitations. The limitations of this structure are similar to those of product structure.

(i) Often more functional personnel are required. The firm cannot appoint specialists unlike in functional structure due to duplication of personnel.

(ii) There would be duplication of equipment and facilities.

4. Decentralised Business Unit Structure

Grouping activities based on product lines has been a trend among diversified companies since 1920. In a diversified firm, the basic organisational building blocks are its business units, each business is operated as a stand-alone profit centre. It presents decentralised line of business type of organisational structure.

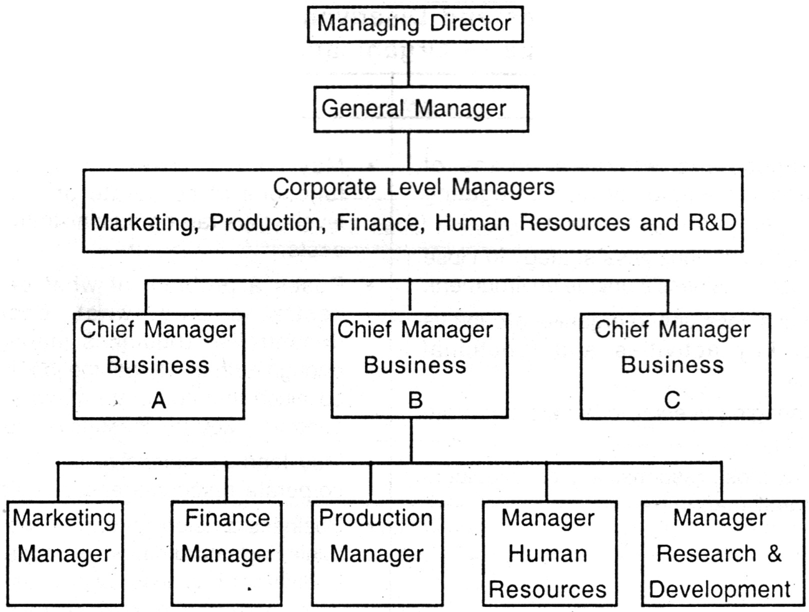


Fig. : Decentralised Line of Business Type of Organisation Structure

Strategic Advantages:

Functional structure and geographic structure are standard organisational building blocks in a single business firm. But, in multi-business firms, the businesses are diversified.

(i) Diversification is generally managed by decentralised decision-making and delegating authority and responsibility to a manager at each business unit.

(ii) Each business unit should be managed by an entrepreneurially oriented general manager who is delegated with authority to formulate and execute business strategies.

(iii) Each business unit operates as a stand-alone profit centre. Each business unit is structured on the basis of either functional structure or geographic structure depending upon strategy, key activities and operating requirements.

Strategic Disadvantages:

(i) The major problem of this type of organisation structure is absence of mechanism for coordinating related activities across business units.

5. Strategic Business Unit Structure

A single chief executive cannot control a number of decentralised units of a broadly diversified company. The business can be effectively controlled, if the related businesses are grouped into strategic units and the efficient and senior executive is delegated with the authority and responsibility for its management. The senior executive will in turn report the matter to the chief executive. This arrangement will improve strategic planning and implementation, though, it adds one layer in the organisational hierarchy. Top management coordinates the interests of the diversified business units.

A strategic business unit is a grouping of business subsidiaries based on some important strategic elements common to each. The common or related elements could be an overlapping set of competitors, a closely related strategic mission, a common need to compete globally, an ability to accomplish integrated strategic planning, common key success factors and technologically related growth opportunities.

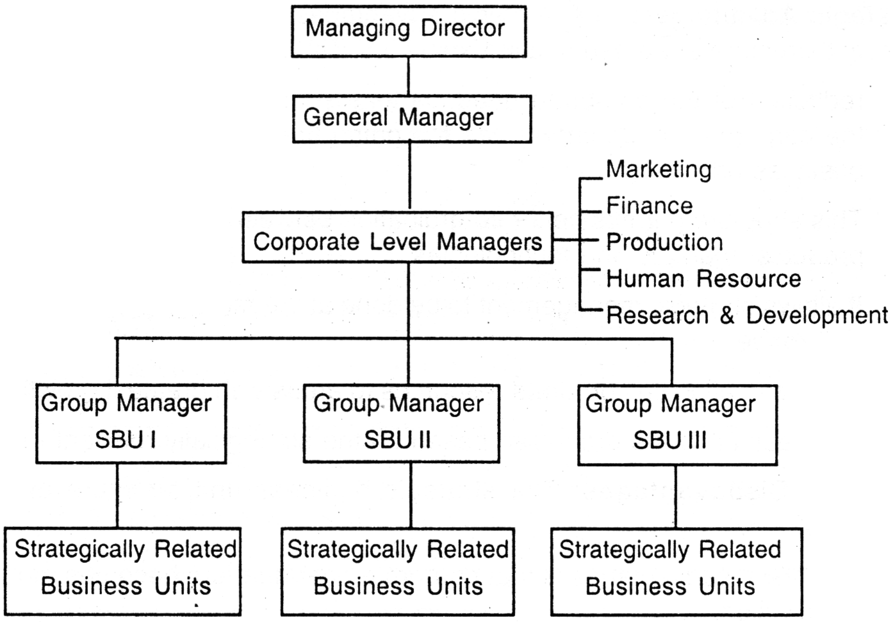


Fig. : Strategic Business Unit Type of Organisation Structure

Strategic Advantages:

(i) Reduction of the corporate headquarter's span of control. The chief executive at the corporate headquarters has to control the general managers of the strategic business units.

(ii) This structure permits better co-ordination between divisions with similar missions, products, markets and technologies.

(iii) It allows strategic management to be done at the most relevant level within the total enterprise.

(iv) It helps to allocate corporate resources to areas with greatest growth opportunities.

(v) Business units are organised based on the strategically relevant method.

Strategic Disadvantages:

(i) The first disadvantages is that corporate headquarters becomes more distant from the division.

(ii) Conflicts between/among the strategic business unit managers for greater share of corporate resources can become dysfunctional.

(iii) Corporate portfolio analysis becomes complicated one in this structure.

6. Matrix Organisation Structure

Organisational structures discussed earlier have possessed a single chain of command. In other words, employees in those structures reports to only one manager. But, the organisation structure possesses a dual chain of command. Both functional and project managers exercise authority over organisational activities, in matrix structure. Thus personnel in this structure have two superiors, *viz., a* project manager and the manager of the functional department. Fig. presents the matrix organisational structure.

A matrix organisational structure is appropriate when:

(i) Management attention must be focussed on two or more key issues (technical issues, consumer needs, functional efficiency).

(ii) Large amounts of diverse information need to be processed.

(iii) Problem solving is complex (environmental uncertainty, inter-dependence among organisational units, complex products or technology).

(iv) Economies of scale require the sharing of human resource expertise to achieve high performance.

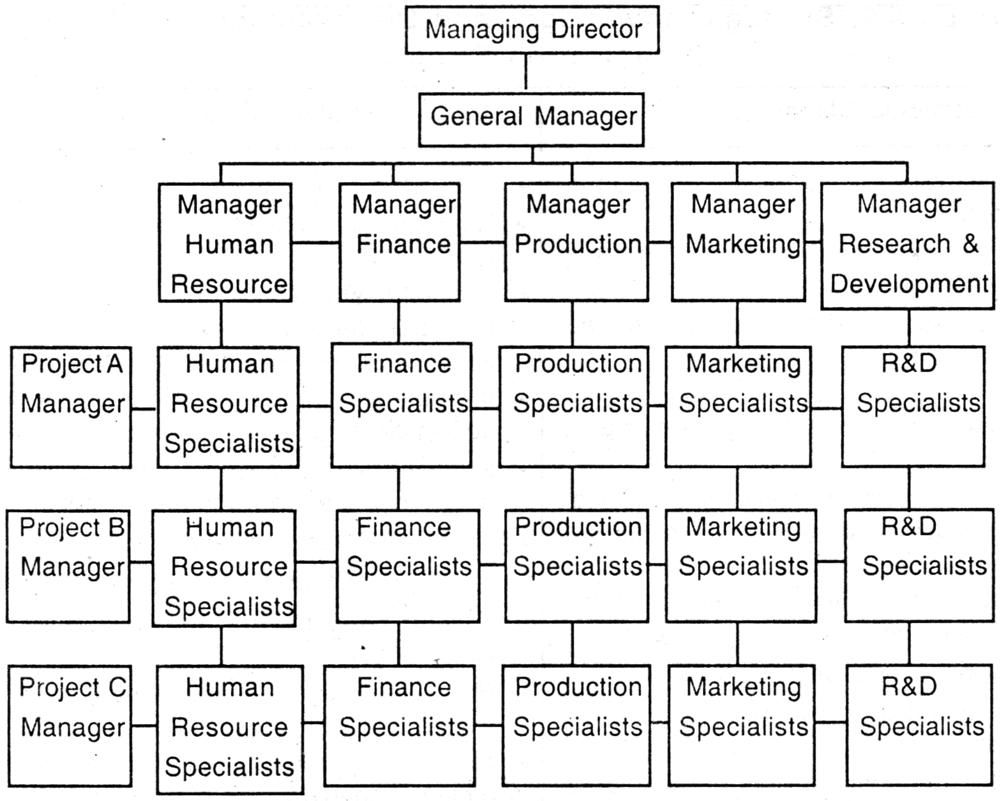


Fig. : Matrix Organisation Structure

Strategic Advantages:

(i) The company can have the advantages of both project type of organisational structure and functional organisation structure.

(ii) Functional personnel are paid for their services whenever they are used by project managers. This practice enables the management to reduce the cost.

(iii) This structure has considerable flexibility. The personnel can be transferred from one project to the other depending upon the need of the project.

(iv) The lower level functional employees are highly motivated and satisfied with their job as they are involved in decision-making.

(v) Each project manager is in-charge of a unit. Therefore, he can be developed as a general manager through performing general managerial functions.

Strategic Disadvantages:

(i) Greater administrative costs associated with its operation. Personnel spend much of their time in meetings and exchanging of information to coordinate functional areas with projects.

(ii) In view of the two forms associated in this structure, they are characterised by conflicts. The most critical conflict is between functional managers and project managers.

(iii) Functional employees experience stress by working in matrix structure. Reporting to two bosses, creates role ambiguity and role conflict. Some companies reverted their organisational structures back to traditional structures from matrix structures due to these problems.

7. Team Organisation Structure

Strategies of business are not always static. They go on changing depending upon internal and external environmental factors. Hence, a single type of organisational structure is not suitable for all situations. Blending the basic forms of organisation to match the structure to strategy in the units concerned in essential. Another option is to supplement special situation devices to the basic organisational structure. This option is Team structure.

Team structure takes three forms, viz.,

(i) Project Team

(ii) Task Force Team

(iii) Venture Team.

(i) Project Team: Project teams are created to handle special kind of situations with a finite life expectancy. Project teams are self-sufficient work groups. These are created to supervise the completion of a special activity. The special activities include: setting up a new technological process, starting up a new venture, producing a new product, initiating and completion of a joint venture and the like.

(ii) The Task Force Team: Interdisciplinary assignments necessitate the formation of task force team. A task force team consists of top level executives and specialists in different areas from the organisation. The advantages of special task force team include: increased opportunity for creativity, open communication, cross-functional authority, effective integration of talents, quick conflict resolution, collaborative approach for problem solving.

(iii) The Venture Team: Venture team is a group of individuals. The purpose of forming this team is to bring a specific product or a new business into being. The problems of venture team are:

(i) Difficulty of deciding the manager to whom the report should be made.

(ii) Source of funding to the venture, i.e., is the source from department or business or corporation.

(iii) problem of coordinating large number of different ventures.

Q30. Describe the redesigning strategies of firm.

(OR)

Explain briefly about restructuring strategies of a firm.

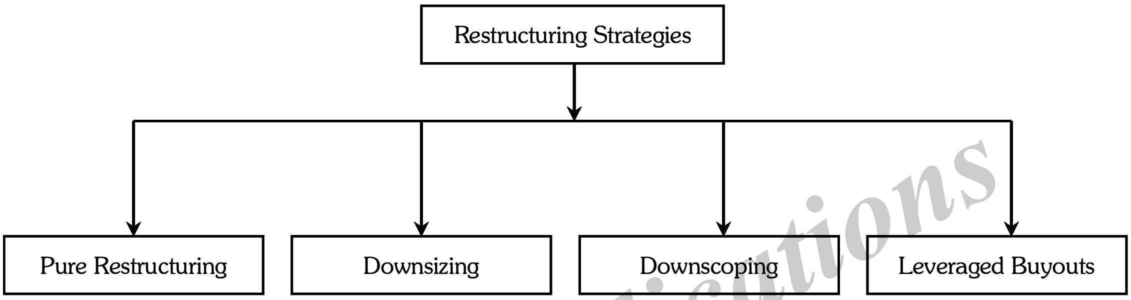
Ans :

Restructuring is a set of discrete determined measures which are taken to stay ahead in the competition and to improve the value of the organization. The main aim of restructuring is to transform the organisation or redesign the firm so that it provides maximum value to its owners, by competing directly with other suppliers in the market who provides similar products and services. The restructured organisation can provide quality products and services at low price which helps in satisfying the needs of customers and earning adequate profits.

Types of Restructuring Strategies

Restructuring strategies are those strategies which facilitate in changing the financial structure or the sets of businesses of a firm. These strategies are useful in situations when acquisitions or mergers show a signal of negative results. Changes in external and internal environment also make the firms to go for the restructuring strategies. The restructuring strategies are termed as the best way to make use of the available opportunities in the markets.

Restructuring strategies are basically of four types i.e., pure restructuring, down sizing, down scooping and leveraged Buyouts.



1. Pure Restructuring

Under pure restructuring, the company focuses on changing the business status or it may change the business relations rather than changing its business portfolio or business size. It establishes new subsidiaries and it may sometimes rearranges the business for better control.

Pure restructuring is also carried out for tax considerations. For this, the company may spin off a subsidiary or merge a subsidiary with the parent company.

2. Downsizing

Downsizing strategy refers to the reduction in workforce who performs the operations of firm. There are many reasons behind following this strategy. One basic and important reason is to minimize the costs upto the maximum extent. Since 1980's downsizing strategy is being greatly followed by majority of the worldwide firms. As a result thousands of employees are losing their jobs. In the year 2001 - 2002 nearly 1 million individuals became jobless due to downsizing. Thus strategy is considered as one of the significant restructuring strategy.

3. Downscoping

Downscoping brings positive results than downsizing. A downscoping strategy is the one which makes the firms to refocus on its core competencies. Under this strategy, a particular firm trips to remove its businesses which are not related to its core competencies.

Downscoping strategy allows the firms to concentrate on few businesses only in highly strategic manner. This strategy is mostly used in United States when compared to the other countries. Downscoping significantly increases the effectiveness, efficiency and competitiveness of the firms. The Management of the firms can better understand and administer various issues as the businessess are less in number. Downscoping might also result in downsizing. In this case only skilled and professional employees would be able to retain their job.

4. Leveraged Buyouts

Leveraged Buyout is a restructuring strategy, wherein a party purchases all the assets of the firm with an aim to make it private. Apart from many reasons of buyouts few basic reasons for leveraged buyout is safeguarding the firm against the unfavorable financial market, enabling the owners to emphasize on promoting innovations and introducing in the market. Sometimes, it may also happen that the managers of a company perform the functions for their self interest and not in the interest of shareholders. In such circumstances, trading of such company's shares would be stopped and the assets would be sold to the other private owners.

5.8 Strategic Leadership

Q31. What is strategic leadership ? In what ways are top executives considered important resources for an organization.

Ans :

Strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. Multifunctional in nature, strategic leadership involves managing through others, managing an entire enterprise rather than a functional subunit, and coping with change that continues to increase in the global economy. Because of the global economy's complexity, strategic leaders must learn how to effectively influence human behavior, often in uncertain environments. By word or by personal example, and through their ability to envision the future, effective strategic leaders meaningfully influence the behaviors, thoughts, and feelings of those with whom they work.

The ability to attract and then manage human capital may be the most critical of the strategic leader's skills, especially in light of the fact that not being able to fill key positions with talented human capital constrains firm growth. Increasingly, leaders throughout the global economy possess or are developing this skill. Some believe, for example, that leaders now surfacing in Chinese companies understand the rules of competition in market-based economies and are leading in ways that will develop their firm's human capital.

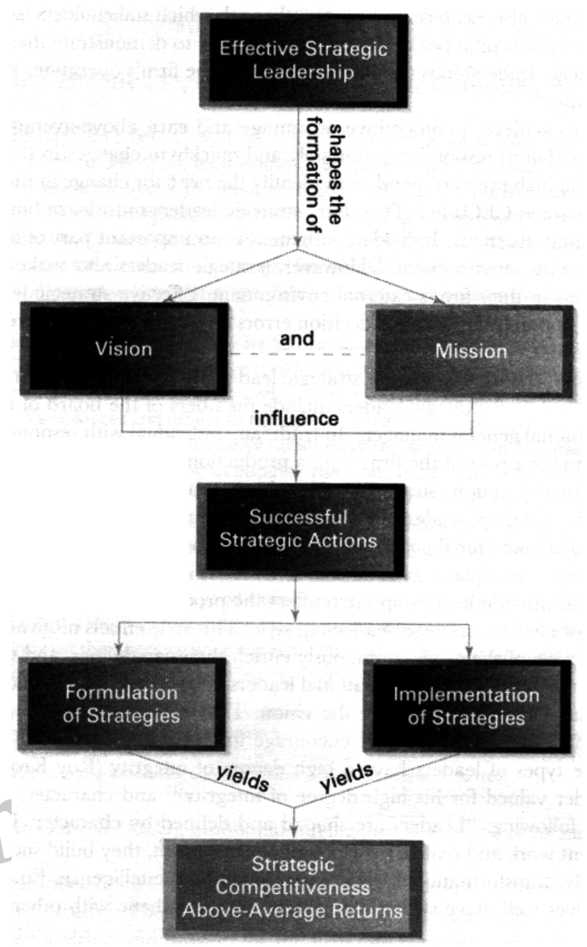


Fig. : Strategic Leadership and the Strategic Management Process

However, for some of these leaders, learning how to successfully compete in market-based economies creates a great deal of stress, causing some analysts to say that "progress, as always, comes with a price."

In the twenty-first century, intellectual capital that the firm's human capital possesses, including the ability to manage knowledge and create and commercialize innovation, affects a strategic leader's success.

Effective strategic leaders also establish the context through which stakeholders (such as employees, customers, and suppliers) can perform at peak efficiency. Being able to demonstrate these skills is important, given that the crux of strategic leadership is the ability to manage the firm's operations effectively and sustain high performance over time.

A firm's ability to achieve a competitive advantage and earn above-average returns is compromised when strategic leaders fail to respond appropriately and quickly to changes in the complex global competitive environment. The inability to respond or to identify the need for change in the competitive environment is one of the reasons some CEOs fail. Therefore, strategic leaders must learn how to deal with diverse and complex environmental situations. Individual judgment is an important part of learning about and analyzing the firm's competitive environment.

However, strategic leaders also make mistakes when evaluating competitive conditions in their firm's external environment. Effective strategic leaders have the courage to admit to and accept responsibility for such decision errors and then to ask for corrective feedback from peers, superiors, and employees.

The primary responsibility for effective strategic leadership rests at the top, in particular with the CEO. Other commonly recognized strategic leaders include members of the board of directors, the top management team, and divisional general managers. In truth, any individual with responsibility for the performance of human capital and/or a part of the firm (e.g., a production unit) is a strategic leader. Regardless of their title and organizational function, strategic leaders have substantial decision-making responsibilities that cannot be delegated. Strategic leadership is a complex but critical form of leadership. Strategies cannot be formulated and implemented for the purpose of achieving above-average returns without effective strategic leaders.

Q32. Explain the components of strategic leadership.

Ans :

Now together let us try to understand in depth the strategic leadership.

1. The strategic component

Leadership implies setting a direction that others will follow. And this direction must not be random or haphazard. It must be guided by some form of strategic sense- an intuitive, entrepreneurial sensing of the "shape of the future" and of opportunities and goal. It is a unique blend of thinking and feeling, analysis and intuition. Having a strategic component is the trait that sets leadership from management.

2. The action component

Leadership also implies movement. A leader moves an organization from point A to point B. Vision which is defined as a sense of strategic direction is admirable and necessary, but action is the end point. So leaders must be driven by a strong propensity for action.

Of course managers, too are action oriented: the difference is " managers ride and catch the waves , leaders create the waves" In other words it is a combination of vision and action that marks a true leader.

3. The culture component

It is critically important to develop a strategic culture in a organization. A culture in which strategic thinking, learning and action are widely dispersed and a culture that creates a climate of openness and trust. The reason for this truth is obvious: leadership communicates the vision and drives towards action, but action only happens through people.

4. The socio-political component

As if the challenges of competition, markets, and technologies were not enough, the current power shift in the world - the confluence of democratization, market systems, privatization and deregulation- is creating a mine field of social and political issues for the cooperation.

- **Governance:** This is defined as achieving legitimacy for the dispersion of power, decision making, and accountability among the corporations' multiple constituencies.
- **Equity:** This is defined as achieving perceived fairness in the distribution of economic wealth. It is also the pain of restructuring the organization in the demand of the stake holders.

- **Employment:** This is defined as satisfying the societal need of job creation. It is also the employees demand of securing the employment in the face of global restructuring.
- **Public/private sector roles:** This is defined as working together to achieve a viable and publicly accepted redefinition of the division of roles and responsibilities between the public and private sectors.

5. The moral component

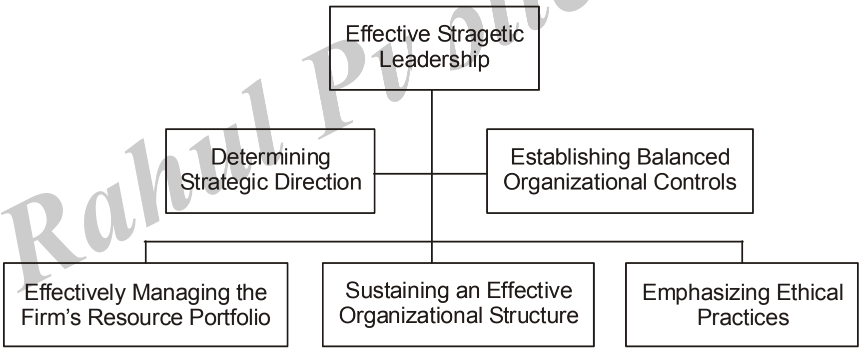
The moral dimension of corporate leadership should be obvious to all. It defines a leader to be honest, fair, and open. The point here is that executive's, and most certainly leaders, must always use a moral compass to navigate through the complexities of every decisions . Strategic leadership should set a moral tone of the organization, by word and deed.

To conclude I would like to say that in this time of transition, it is important for all of us to engage in a debate about the true meaning of the term "strategic leadership" as it effects our profession.

Q33. What is the effect of strategic leadership on determining the firm's strategic directions?

Ans :

Several identifiable actions characterize strategic leadership that positively contributes to effective use of firm's strategies. We present the most important of these actions in Figure. Many of the actions interact with each other. For example, managing the firm's resources effectively includes developing human capital and contributes to establishing a strategic direction, fostering an effective culture, exploiting core competencies, using effective organizational control systems, and establishing ethical practices.



1. Determining Strategic Direction

Determining the strategic direction involves specifying the image and character the firm seeks to develop over time. The strategic direction is framed within the context of the conditions (such as opportunities and threats) strategic leaders expect their firm to face in five, ten or more years.

2. Effectively Managing the Firm's Resource Portfolio

Probably the most important task for strategic leaders is effectively managing the firm's portfolio of resources. Firms have multiple resources that can be categorized into one of the following: financial capital, human capital, social capital, and organizational capital (including organizational culture). The importance of these resources is shown in the Strategic Focus.

Strategic leaders mange the firm's portfolio of resources by organizing them into capabilities, structuring the firm to use the capabilities, and developing and implementing a strategy to leverage those resources to achieve a competitive advantage, In particular, strategic leaders must exploit and maintain the firm's core competencies and develop and retain the firm's human and social capital.

3. Sustaining an Effective Organizational Culture

We defined Organizational culture as a complex set of ideologies, symbols, and core values that is shared throughout the form and influences the way business, Evidence suggests that a firm can develop core competencies in terms of both the capabilities it possesses and the way the capabilities are leveraged by strategies to produce desired outcomes.

In other words, because the organizational culture influences how the firm conducts its business and helps regulate and control employees' behavior, it can be a source of competitive advantage. Thus, shaping the context within which the firm formulates and implements its strategies- that is, shaping the organizational culture-is a central task of strategic leaders.

4. Emphasizing Ethical Practices

The effectiveness of processes used to implement the firm's strategies increases when they are based on ethical practices. Ethical companies encourage and enable people at all organizational levels to act ethically when doing what is necessary to implement the firm's strategies. In turn, ethical practices and the judgment on which they are based create "social capital" in the organization in the "goodwill available to individuals and groups" in the organization increases.

Alternately, when unethical practices evolve in an organization, they may become acceptable to many managers and employees throughout the organization. One study found that in these circumstances, managers were particularly likely to engage in unethical practices if they had not been able to meet their goals. In other words, they engaged in such practices to help them meet their goals.

5. Establishing Balanced Organizational Controls

Organizational controls are basic to a capitalistic system and have long been viewed as an important part of strategy implementation processes. Controls are necessary to help ensure that firms achieve their desired outcomes. Defined as the "formal, information based... procedures used by managers to maintain or alter patterns in organizational activities," controls help strategic leaders build credibility, demonstrate the value of strategies to the firm's stakeholders, and promote and support strategic change.

Most critically, controls provide the parameters within which strategies are to be implemented, as well as corrective actions to be taken when implementation-related adjustments are required.

Q34. As a strategic leader, what actions could you take to establish and emphasize ethical practices in your firm.

Ans :

The effectiveness of processes used to implement the firm's strategies increases when they are based on ethical practices. Ethical companies encourage and enable people at all organizational levels to act ethically when doing what is necessary to implement strategies. In turn, ethical practices and the judgment on which they are based create "social capital" in the organization, increasing the "goodwill available to individuals and groups" in the organization. Alternatively, when unethical practices evolve in an organization, they may become acceptable to many managers and employees. One study found that in these circumstances, managers were particularly likely to engage in unethical practices to meet their goals when current efforts to meet them were insufficient.

To properly influence employees' judgment and behavior, ethical practices must shape the firm's decision-making process and must be an integral part of organizational culture. In fact, research evidence suggests that a value-based culture is the most effective means of ensuring that employees comply with the firm's ethical requirements. In other words, managers acting opportunistically take advantage of their positions, making decisions that benefit themselves to the detriment of the firm's stakeholders. But strategic leaders are most likely to integrate ethical values into their decisions when the company has explicit ethics codes, the code is integrated into the business through extensive ethics training, and shareholders expect ethical behavior.

Firms should employ ethical strategic leaders–leaders who include ethical practices as part of their strategic direction for the firm, who desire to do the right thing, and for whom honesty, trust, and integrity are important. Strategic leaders who consistently display these qualities inspire employees as they work with others to develop and support an organizational culture in which ethical practices are the expected behavioral norms.

Strategic leaders can take several actions to develop an ethical organizational culture. Examples of these actions include

1. establishing and communicating specific goals to describe the firm's ethical standards (e.g., developing and disseminating a code of conduct);
2. continuously revising and updating the code of conduct, based on inputs from people throughout the firm and from other stakeholders (e.g., customers and suppliers);
3. disseminating the code of conduct to all stakeholders to inform them of the firm's ethical standards and practices;
4. developing and implementing methods and procedures to use in achieving the firm's ethical standards (e.g., using internal auditing practices that are consistent with the standards);
5. creating and using explicit reward systems that recognize acts of courage (e.g., rewarding those who use proper channels and procedures to report observed wrongdoings); and
6. creating a work environment in which all people are treated with dignity.

The effectiveness of these actions increases when they are taken simultaneously and thereby are mutually supportive. When strategic leaders and others throughout the firm fail to take actions such as these—perhaps because an ethical culture has not been created—problems are likely to occur.

5.9 Strategic Entrepreneurship

Q35. Define Strategic Entrepreneurship.

Ans :

Strategic entrepreneurship (SE) involves simultaneous opportunity-seeking and advantage-seeking behaviors and results in superior firm performance. On a relative basis, small, entrepreneurial ventures are effective in identifying opportunities but are less successful in developing competitive advantages needed to appropriate value from those opportunities. In contrast, large, established firms often are relatively more effective in establishing competitive advantages but are less able to identify new opportunities.

We argue that SE is a unique, distinctive construct through which firms are able to create wealth. An entrepreneurial mindset, an entrepreneurial culture and entrepreneurial leadership, the strategic management of resources and applying creativity to develop innovations are important dimensions of SE. Herein we develop a model of SE that explains how these dimensions are integrated to create wealth.

Strategic entrepreneurship is taking entrepreneurial actions using a strategic perspective. When engaging in strategic entrepreneurship, the firm simultaneously focuses on finding opportunities in its external environment that it can try to exploit through innovations. Identifying opportunities to exploit through innovations is the entrepreneurship part of strategic entrepreneurship, while determining the best way to manage the firm's innovation efforts is the strategic part. Thus, strategic entrepreneurship finds firms integrating their actions to find opportunities and to successfully innovate as a primary means of pursuing them.

In addition to innovating through internal activities, firms can develop innovations by using cooperative strategies, such as strategic alliances, and by acquiring other companies to gain access to their innovations and innovative capabilities. Most large, complex firms use all three methods to innovate.

The method the firm chooses to innovate can be affected by the firm's governance mechanisms. Research evidence suggests, for example, that inside board directors with equity positions favor internal innovation while outside directors with equity positions prefer acquiring innovation. The chapter closes with summary comments about how firms use strategic entrepreneurship to create value and earn above-average returns.

Q36. What is entrepreneurship? What are entrepreneurial opportunities?

Ans :

Entrepreneurship is the process by which individuals or groups identify and pursue entrepreneurial opportunities without being immediately constrained by the resources they currently control. Entrepreneurial Opportunities are conditions in which new goods or services can satisfy a need in the market.

These opportunities exist because of competitive imperfections in markets and among the factors of production used to produce them and when information about these imperfections is distributed asymmetrically (that is, not equally) among individuals. Entrepreneurial opportunities come in a host of forms (e.g., the chance to develop and sell a new product and the chance to sell an existing product in a new market). Firms should be receptive to pursuing entrepreneurial opportunities whenever and wherever they may surface.

As these two definitions suggest, the essence of entrepreneurship is to identify and exploit entrepreneurial opportunities-that is, opportunities others do not see or for which they do not recognize the commercial potential. As a process, entrepreneurship results in the "creative destruction" of existing products (goods or services) or methods of producing them and replaces them with new products and production methods. Thus, fins engaging entrepreneurship place high value on individual innovations as well as the ability to continuously innovate across time.

Peter Drucker argued that "innovation is the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual. Moreover, Drucker suggested that innovation is "the means by which the entrepreneur either created new wealth-producing resources or endows existing resources with enhanced potential for creating wealth. Thus, entrepreneurship and the innovation resulting form it are important for large and small firms, as well as for start-up ventures, as they compete in the 21st –century competitive landscape.

Innovation is a key outcome firms seek through entrepreneurship and is often the source of competitive success, especially in turbulent, highly competitive environments.

Innovation is the process of creating a commercial product from an invention. Innovation begins after an invention is chosen for development.

Q37. Define International Entrepreneurship.

Ans :

International Entrepreneurship is a process in which firms creatively discover and exploit opportunities that are outside their domestic markets in order to develop competitive advantage.

Three ways of firms innovate.

1. **Internal Innovation**

   In established organizations, most innovation comes from efforts in research and development (R&D). This is the case with he innovations through which Toyota Motor Company produced the prius, a gas-electric hybrid. As explained in the Strategic Focus, this is also the case at panera Bread Company. While reading about Panera, observe how the firm relies on its R&D activities to continuously improve the quality of the breads it makes as well as to continuously provide customers with innovative food items.

2. **Incremental and Radical Innovation**

   Firms produce two types of internal innovations- incremental and radical innovations-when using their R&D activities. Most innovations are incremental-that is, they build on existing knowledge bases and provide small improvements in the current product lines. Incremental innovations are evolutionary and linear in nature. The markets for incremental innovations are well-defined, product characteristics are well understood, profit margins tend to be lower, production technologies are efficient, and competition is primarily on the basis of price.

3. **Autonomous Strategic Behavior**

Autonomous strategic behavior is a bottom-up process in which product champions pursue new ideas, often through a political process, by means of which they develop and coordinate the commercialization of a new good or service until it achieves success in the marketplace. A product champion is an organizational member with an entrepreneurial vision of a new good or service who seeks to create support for its commercialization. Product champions play critical roles in moving innovations for ward.

5.10 Crafting a Social Responsibility Strategy

Q38. How social responsibility strategy is crafted ? Explain.

Ans :

Definition

Social responsibility strategy of a company can be defined as, specific combination of socially beneficial activities it select or choose among other alternatives in order to assist and towards contributing their time, money and other resources'.

In order to be socially responsible a company or a firm needs to represent itself as a social conscience and select alternative means to exercise social responsibility.

1. **Efforts to Use an Ethical Strategy and Observe Ethical Principles in Carrying Out the Business**

Wholehearted open commitment by a company or a firm is quite essential in order to observe ethical principles. This is because, few unethical strategies and conduct are not suitable with the concept of good corporate citizenship and socially responsible business conduct/behavior.

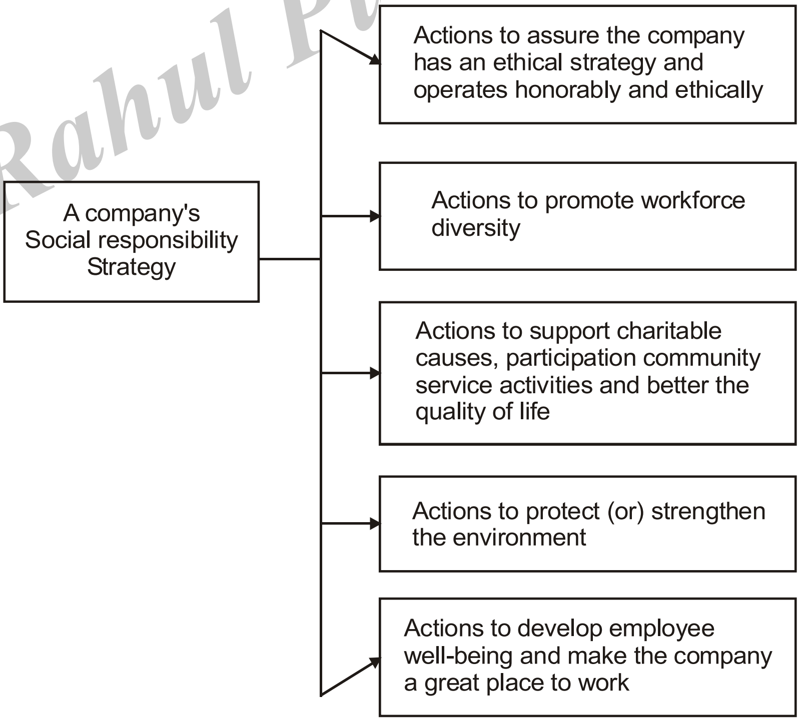


Fig. : Demyelinating a Social Conscience : The Five Components of Socially Responsible Business Behaviour

2. **Making Charitable Contributions, Donating Money and the Time of Company Management Towards the Community Service Efforts, Supporting Different Important Organisational Causes and Reaching out to Make a Difference in the Lives of the Disadvantaged.** Certain companies of corporate citizenship satisfies three corporate citizenship and community activities by increasing their efforts immensely. Consider an example of microsoft and Johnson and Johnson who helps and assist broad range of community, art, social-welfare and environmental programs.

   Someother company wants to put in their efforts in a confined and restricted manner. For example Mc Donald's focuses basically upon sponsoring Ronald Mc Donald House program. British telecom on the otherside has fixed one percent of profits to spend on the communities especially for education, teacher training, in- school workshops and digital technology. Pharmaceutical companies like Glaxo Smith Kline and other companies have also attempted to either donate or provide huge discounts on medicines for the easy distribution in the less-developed countries. Backward countries.

   Number of companies desires to work closely with the community personnel in order to minimise the influence of hiring more number of new employees also offers the outplacement services to laid-off employees. Even some companies are engaged in strengthening their philanthropic efforts by motivating employees to assist charitable trust and participate in community activities via conducting programs that best suits the employee contributions.

3. **Actions to safeguard or Improve the Environment and in Particular to Reduce or Abolish any Adverse Effect on the Environment Resulting out from the Company's Own Business Activities.** Social responsibility refers to the 'environmental protection' i.e., more than what is legally needed. Companies acts as the 'caretaker' or 'stewards' of the environment from social responsibility point of view i.e., make use of best available science and technology in order to attain higher or greater environmental standards. Example include, Retailers like home depot in the united states and B and Q in the united kingdom focused their suppliers to introduce use strong and powerful environmental protection practices.

4. **Actions to Develop a Work Environment Which Improves the Quality of Life for Employees and makes the Company a Great Place to Work.** Many companies attempts to implement a new work environment which would help in increasing the quality of life for employees. It may include different job assignments, career development programs and monitoring, quicker career advancement appealing compensation incentives, ongoing training to ensure the future employability, added decision-making power, onsite day care, flexible work schedule for individual parents, work place exercise facilities, special leaves to take care of sick family members, work-at-home opportunities, gender pay equity, show case plants and offices, special safety programs etc.

5. **Actions to Build a Workforce that is Diverse with Respect to Gender, Race, National Origin and other Aspects that Different People Bring to the Workplace.** Creater number of larger organisations in the united states have introduced a new workforce diversity programs which assures the employees that their worplaces are and appealing to ethnic minorities and also to the other attractive groups. This workforce diversity may results in sound business like Johnson/Johnson, Pizfer and Coca- Cola which assumes that reputation for workforce diversity is a right path for recruiting employees easily.

   Multinational Companies (MNC's) especially makes use of the workforce diversity programs as visible strategic component while few other companies uses the diversity programs as a drive to spread suppliers i.e., sourcing items from small businesses owned and managed by women or ethnic minorities.

When all these activities of socially responsible companies pursues in conducting their business behaviour is termed as social responsibility strategy. An executive at Royal Dutch Shell States, corporate social responsibility is not simply a cosmetic but, it must be rooted expressed in our values that makes a difference in the way we conduct/ do business'. Therefore, few companies tries to combine social responsibility objectives under their missions and entire performance targets by which they can easily observe social performance and environmental metrics an important aspect in evaluating the whole performance of the company from future perspective.

5.11 Social and Ethical Responsibilities of Corporate Organizations

5.11.1 Business Ethics

Q39. What is Business Ethics? Explain the features, Elements and Need of Business Ethics.

Ans : **(Oct.-20, June-19)**

Business ethics is an enquiry of ethics in the field of business. It concentrates on moral standards that the system of business, business organizations, and individuals with in the business organizations and individuals who deal with business organizations have to evaluate and follow in their day to day dealings and decisions..

Definitions of Business Ethics

Business ethics is the application of general ethical principles and standards to business behaviour.

Fred R. David defines business ethics as 'principles of conduct within organisations that guide decision-making behaviour." Business actions are judged by the general ethical standards of society, not by a special set of its own rules made by a business.

"Business ethics refer to right or wrong behaviour in business decisions".

– ***Rogene A. Buchholz***

"Business ethics is the application of general ethical ideas to business".

– ***Postm Fredrick, and Lawrence,***

"Business ethics is the study of good and evil, right and wrong, just and unjust actions of businessmen".

– ***George A. Stenier***

"Business ethics is a specialized study of moral right or wrong. It concentrates on moral standards as they apply to business policies, institutions and behaviour".

– ***Velasquez***

Features of Business Ethics

The characteristics or features of business ethics are :

1. **Code of Conduct**

   Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.

2. **Based on Moral and Social Values**

   Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.

3. **Gives Protection to Social Groups**

   Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, share-holders, creditors, etc.

4. **Provides Basic Framework**

   Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.

5. Voluntary

Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

6. Requires Education and Guidance

Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.

7. Relative Term

Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

8. New Concept

Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

Elements of Business Ethics

1. Values

Values are the moral beliefs held by an individual, an organization and a society. Values represent moral convictions and are relatively permanent. For example, a company may charge reasonable prices due to its value systems inspite of its monopoly position in the industry.

2. Rights

Rights are the claims of the individual or organization. For example, every citizen of India enjoys certain rights under the country's constitution.

3. Duties

Duties are the obligations of a person or an organization. For example, every citizen has the duty to follow the country's law.

Need or Importance of Business Ethics

These twelve points below discuss the need, importance of business ethics.

1. Stop Business Malpractices

Some unscrupulous businessmen do business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, etc. These business malpractices are harmful to the consumers. Business ethics help to stop these business malpractices.

2. Improve Customers' Confidence

Business ethics are needed to improve the customers' confidence about the quality, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical rules. They feel that such businessmen will not cheat them.

3. Survival of Business

Business ethics are mandatory for the survival of business. The businessmen who do not follow it will have short-term success, but they will fail in the long run. This is because they can cheat a consumer only once. After that, the consumer will not buy goods from that businessman. He will also tell others not to buy from that businessman. So this will defame his image and provoke a negative publicity. This will result in failure of the business. Therefore, if the businessmen do not follow ethical rules, he will fail in the market. So, it is always better to follow appropriate code of conduct to survive in the market.

4. Safeguarding Consumers' Rights

The consumer has many rights such as right to health and safety, right to be informed, right to choose, right to be heard, right to redress, etc. But many businessmen do not respect and protect these rights. Business ethics are must to safeguard these rights of the consumers.

5. Protecting Employees and Shareholders

Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers, etc. It protects them from exploitation through unfair trade practices.

6. Develops Good Relations

Business ethics are important to develop good and friendly relations between business and society. This will result in a regular supply of good quality goods and services at low prices to the society. It will also result in profits for the businesses thereby resulting in growth of economy.

7. Creates Good Image

Business ethics create a good image for the business and businessmen. If the businessmen follow all ethical rules, then they will be fully accepted and not criticised by the society. The society will always support those businessmen who follow this necessary code of conduct.

8. Smooth Functioning

If the business follows all the business ethics, then the employees, shareholders, consumers, dealers and suppliers will all be happy. So they will give full cooperation to the business. This will result in smooth functioning of the business. So, the business will grow, expand and diversify easily and quickly. It will have more sales and more profits.

9. Consumer Movement

Business ethics are gaining importance because of the growth of the consumer movement. Today, the consumers are aware of their rights. Now they are more organised and hence cannot be cheated easily. They take actions against those businessmen who indulge in bad business practices. They boycott poor quality, harmful, high-priced and counterfeit (duplicate) goods. Therefore, the only way to survive in business is to be honest and fair.

10. Consumer Satisfaction

Today, the consumer is the king of the market. Any business simply cannot survive without the consumers. Therefore, the main aim or objective of business is consumer satisfaction. If the consumer is not satisfied, then there will be no sales and thus no profits too. Consumer will be satisfied only if the business follows all the business ethics, and hence are highly needed.

11. Importance of Labour

Labour, i.e. employees or workers play a very crucial role in the success of a business. Therefore, business must use business ethics while dealing with the employees. The business must give them proper wages and salaries and provide them with better working conditions. There must be good relations between employer and employees. The employees must also be given proper welfare facilities.

12. Healthy Competition

The business must use business ethics while dealing with the competitors. They must have healthy competition with the competitors. They must not do cut-throat competition. Similarly, they must give equal opportunities to small-scale business. They must avoid monopoly. This is because a monopoly is harmful to the consumers.

Q40. What are the principles of business ethics ?

Ans :

The Principles of business ethics developed by well known authorities like Cantt, J. S.Mill, Herbert Spencer, Plato, Thomas Garret, Woodrad, Wilson etc are as follows:

1. Sacredness of Means and Ends

The first and most important principles of business ethics emphasize that the means and techniques adopted to serve the business ends must be sacred and pure. It means that a good end cannot be attained with wrong means, even if it is beneficial to the society.

2. Not to do any Evil

It is unethical to do a major evil to another or to oneself, whether this evil is a means or an end.

3. Principle of Proportionality

This principle suggests that one should make proper judgment before doing anything so that others do not suffer from any loss or risk of evils by the conducts of business.

4. Non cooperation in Evils

It clearly points out that a business should not co-operate with any one for doing any evil acts.

5. Co-operation with Others

This principles state that business should help others only in that condition when other deserves for help.

6. Publicity

According to W. Wilson, anything that is being done or to be done, should be brought to the knowledge of everyone. If everyone knows, none gets opportunity to do an unethical act.

7. Equivalent price

According to W. Wilson, the people are entitled to get goods equivalent to the value of money that he will pay.

8. Universal Value

According to this principle the conduct of business should be done on the basis of universal values.

9. Human Dignity

As per this principle, man should not be treated as a factor of production and human dignity should be maintained.

10. Non Violence

If businessman hurts the interests and rights of the society and exploits the consumer by overlooking their interests this is equivalent to violence and unethical act.

Q41. What are the levels of business ethics?

Ans :

In our mission to define business ethics, Johnson and Schools provide a useful way of classifying the diverse elements therein:

- **The Macro Level**

  The role of business in the national and international organization of society the relative virtues of different political/social systems, such as free enterprise, centrally planned economies, etc., international relationships and the role of business on an international scale.

- **The Corporate Level**

  Corporate social responsibility ethical issues facing individual corporate entities (private and public sector) when formulating and implementing strategies.

- **The Individual Level**

  The behaviour and actions of individuals within organisations.

5.11.2 Corporate Social Responsibility

Q42. Define Corporate Social Responsibility? What are the reasons for Corporate Social Responsibility ?

Ans :

Corporate social responsibility is self-imposed restriction by companies on their activities. CSR is a recent term but it has been followed by companies from many years ago. Companies know their responsibilities towards the society where they exist. As CSR concept is based on ethics, companies following CSR policies always strive to develop the society and environment. CSR refers to those activities through which companies control their actions and check whether they are following ethical and legal norms. CSR should be followed voluntarily by each and every company whether it is small or big, or multinational or local.

Definition of Corporate Social Responsibility

(i) **According to Cannon,** "Corporate social responsibility means devising corporate strategies and building a business with the society's needs in mind".

(ii) **According to Koontz and O'Donnel,** "Social responsibility is the personal obligation of every one as he acts for his own interests to assure that the rights and legitimate interests of all others are not impinged".

(iii) **According to Lord Holme and Richard Watts,** "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large'.

(iv) **According to Keith Devis and Robert Blomstrom,** "Corporate social responsibility is the obligation of decision-maker to take actions which protect and improve the welfare of society as a whole along with their own interests".

(v) **According to the United Nations Industrial Development Organization (UNIDO),** "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders".

Reasons for the CSR

After considering the arguments for and against CSR, it becomes evident that it is in the enlightened self-interest of companies to be good corporate citizens and devote some of their resources and energies to employees, the communities in which they operate, and society in general.

There are five important reasons why companies should undertake social responsibilities.

1. **Self-Interest of the Organisation**

Every organisation obtains critical inputs from the environment and converts them into goods and services to be used by society at large. In this process they help shareholders to get appropriate returns on their investment. It is expected that organisations acknowledge and act upon the interest and demands of other stakeholders such as citizens and society in general that are beyond its immediate constituencies – owners, customers, suppliers and employees. That is, they must consider the needs of the broader community at large, and act in a socially responsible way.

2. **It generates Internal Benefits**

CSR generates internal benefits like employee recruitment, workforce retention and training. Companies with good CSR reputation are better able to attract and retain employees compared to companies with tarnished reputations. Some employees just feel better about working for a company committed to improving society. This can contribute to lower turnover and better worker productivity. This also benefits the firm by way of lower costs for staff recruitment and training. Provision of good working conditions results in greater employee commitment.

3. **It Reduces Risks**

CSR reduces the risk of damage to reputation and increases buyer patronage. Consumer, environmental and human rights activist groups are quick to criticize businesses that are not socially responsive. Pressure groups can generate adverse publicity, organize boycotts, and influence buyers to avoid an offender's products. Research has shown that adverse publicity is likely to cause a decline in a company's stock price.

4. **In the Best Interest of Shareholders**

CSR is in the best interest of shareholders. Well-conceived social responsibility strategies work to the advantage of shareholders in several ways. Socially responsible behaviour can help avoid or prevent legal and regulatory actions that could prove costly or burdensome.

A study of leading companies found that environmental compliance and developing eco-friendly products can enhance earnings per share, profitability, and the likelihood of winning contracts.

5. It gives Competitive Advantage

Being known as a socially responsible firm may provide a firm a competitive advantage. For example, firms that are eco-friendly enhance their corporate image. In western countries, many consumers boycott products that are not "green". Companies that take the lead in being environmentally friendly, such as by using recycled materials, producing 'green' products, and helping social welfare programmes, enhance their corporate image.

Q43. Distinguish between social and ethical responsibilities.

Ans :

Social Responsibilities	Ethical Responsibilities
1. Social responsibility is concerned with anything that is encouraging the social development and improve social welfare such as establishment of school, road, buildings or any other social infrastructure.	1. Ethical responsibility is giving a moral responsibility to a person to do certain thing.
2. The primary objective of social responsibility is to help the society to enjoy some benefits and it involves the production of some public goods like roads, provision of drinking water etc.	2. The primary objective of ethical responsible is to enhance the ethical standards of both givers and receivers.
3. Business organizations usually expect social responsibility	3. Business organizations do not expect to have ethical responsibility.

Short Question and Answers

1. Implementation of Strategy

Ans :

In simple words strategy implementation is the process of chosen to strategy to action. Strategy implementation involves the design and management (Action) of systems to achieve the best integration of people, structure, processes and resources in an efficient and most optimum use.

The process of strategy implementation involves the following process, routine or functions :

i) Structuring and organising the available resources in ways that are supportive of strategic accomplishment.

ii) Developing functional policies for each critical function and allocation of resources.

iii) Developing appropriate information system.

iv) Developing and implementing suitable management system.

v) Evaluation and review of strategy.

2. Nature of Strategic Evaluation and Control

Ans :

Strategic Evaluation and Control enables the strategists to determine the effectiveness of the formulated strategy in attaining the organizational objectives.

F.R.David stated that strategy evaluation involves three primary activities, which are as follows,

(i) Assessing the fundamental basis of an organizational strategy.

(ii) Differentiating actual results and the expected results.

(iii) Taking corrective actions to make sure that performance is as per the plans.

Strategy evaluation functions at two levels,

(i) **Strategy Level:** At this level, the managers evaluate the compatibility of the strategy with the environment.

(ii) **Operational Level:** At this level, the managers determine the way in which the strategy is effectively accomplished by the organization.

3. What is strategic control?

Ans :

The process of strategic management makes it clear that a strategy is formulated on The basis of several assumptions. These relate to the environmental and organisational factors, which are dynamic and eventful. There is a considerable gap between the time when a strategy is formulated and the time when it is implemented. The process of implementation is itself time-consuming. During this intervening period, there is a possibility that the assumptions made while formulating a strategy will not remain valid or, at least, are no longer so relevant.

Strategic controls take into account the changing assumptions that determine a strategy, continually evaluate the strategy as it is being implemented, and take the necessary steps to adjust the strategy to the new requirements. In this manner, strategic controls are early warning systems and differ from post-action controls which evaluate only after the implementation has been completed. You could think of strategic control as analogous to the continuous evaluation system used in your business school and distinguish it from the end-of-the term examination system used in traditional universities.

4. Premise Control

Ans :

Every strategy is based on certain assumptions about environmental and organisational factors. Some of these factors are highly significant and any change in them can affect the strategy to a large extent. Premise control is necessary to identify the key assumptions, and keep track of any change in them so as to assess their impact on strategy and its implementation. For instance, a company may base its strategy on important assumptions related to environmental factors (e.g. government policies), industrial factors (e.g. nature of competition), and organisational factors (e.g. breakthrough in R&D). Premise control serves the purpose of continually testing the assumptions to find out whether they are still valid or not.

5. Implementation Control

Ans :

The implementation of a strategy results in a series of plans, programmes, and projects. Resource allocation is done to implement these. Implementation control is aimed at evaluating whether the plans, programmes, and projects are actually guiding the organisation towards its predetermined objectives or not. If, at any time, it is felt that the commitment of resources to a plan, programme or project would not benefit the organisation as envisaged, they have to be revised. In this manner, implementation control may lead to strategic rethinking.

6. Define Corporate Governance.

Ans :

Corporate governance is the set of mechanisms used to manage the relationship among stakeholders and to determine and control the strategic direction and performance of organizations. At its core, corporate governance is concerned with identifying ways to ensure that strategic decisions are made effectively. Governance can also be thought of as a means corporations use to establish order between parties (the firm's owners and its top-level managers) whose interests may conflict.

Thus, corporate governance reflects and enforces the company's values. In modern corporations – especially those in the United States and the United Kingdom – a primary objective of corporate governance is to ensure that the interests of top-level managers are aligned with the interests of the shareholders. Corporate governance involves oversight in areas where owners, managers, and members of boards of directors may have conflicts of interest.

7. Good Corporate Citizenship

Ans :

Corporate citizenship involves the social responsibility of businesses and the extent to which they meet legal, ethical and economic responsibilities, as established by shareholders. The goal is to produce higher standards of living and quality of life for the communities that surround them and still maintain profitability for stakeholders. The demand for socially responsible corporations continues to grow, encouraging investors, consumers and employees to use their individual power to negatively affect companies that do not share their values.

Development of Corporate Citizenship

There are stages that companies go through during the process of developing corporate citizenship. Companies rise to the higher stages of corporate citizenship based on their capacity and credibility when supporting community activities, a strong understanding of community needs, and their dedication to incorporate citizenship within the culture and structure of their company.

8. Define SMART Governance.

Ans :

E-governance, expands to electronic governance, is the integration of Information and Communication Technology (ICT) in all the processes, with the aim of enhancing government ability to address the needs of the general public. The basic purpose of e-governance is to simplify processes for all, i.e. government, citizens, businesses, etc. at National, State and local levels.

Components of E-Governance

(i) G2G (Government to Government)

When the exchange of information and services is within the periphery of the government, is termed as G2G interaction. This can be both horizontal, i.e. among various government entities and vertical, i.e. between national, state and local government entities and within different levels of the entity.

(ii) G2C (Government to Citizen)

The interaction amidst the government and general public is G2C interaction. Here an interface is set up between government and citizens, which enables citizens to get access to wide variety of public services. The citizens has the freedom to share their views and grievances on government policies anytime, anywhere.

(iii) G2B (Government to Business)

In this case, the e-governance helps the business class to interact with the government seamlessly. It aims at eliminating red-tapism, saving time, cost and establish transparency in the business environment, while interacting with government.

(iv) G2E (Government to Employees): The government of any country is the biggest employer and so it also deals with employees on a regular basis, as other employers do. ICT helps in making the interaction between government and employees fast and efficient, along with raising their level of satisfaction by providing perquisites and add-on benefits.

9. What is strategic leadership?

Ans :

Strategic leadership is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary. Multifunctional in nature, strategic leadership involves managing through others, managing an entire enterprise rather than a functional subunit, and coping with change that continues to increase in the global economy. Because of the global economy's complexity, strategic leaders must learn how to effectively influence human behavior, often in uncertain environments. By word or by personal example, and through their ability to envision the future, effective strategic leaders meaningfully influence the behaviors, thoughts, and feelings of those with whom they work.

The ability to attract and then manage human capital may be the most critical of the strategic leader's skills, especially in light of the fact that not being able to fill key positions with talented human capital constrains firm growth. Increasingly, leaders throughout the global economy possess or are developing this skill. Some believe, for example, that leaders now surfacing in Chinese companies understand the rules of competition in market-based economies and are leading in ways that will develop their firm's human capital.

Q10. Distinguish between social and ethical responsibilities.

Ans :

Social Responsibilities	Ethical Responsibilities
1. Social responsibility is concerned with anything that is encouraging the social development and improve social welfare such as establishment of school, road, buildings or any other social infrastructure.	1. Ethical responsibility is giving a moral responsibility to a person to do certain thing.
2. The primary objective of social responsibility is to help the society to enjoy some benefits and it involves the production of some public goods like roads, provision of drinking water etc.	2. The primary objective of ethical responsible is to enhance the ethical standards of both givers and receivers.
3. Business organizations usually expect social responsibility	3. Business organizations do not expect to have ethical responsibility.

Choose the Correct Answers

1. _______ defines the firm's formal relationships, procedures, controls, authority and decision making processes. [a]
   (a) Organisational structure (b) Organisational controls
   (c) Strategic control (d) Financial control

2. _______ uses accounting based measures such as, ROI [Return on Investment] and ROA [Return on Assets] to evaluate the financial performance of the company. [b]
   (a) Strategic control (b) Financial control
   (c) Organisational structure (d) Corporate culture

3. _______ means undertaking entrepreneurial actions from strategic perspective. [c]
   (a) Corporate entrepreneurship (b) Entrepreneurship dimension
   (c) Strategic entrepreneurship (d) Entrepreneurship application

4. Task-related personality tracts induces _______ . [d]
   (a) Passion and courage (b) Internal locus of control
   (c) Flexibility and adaptability (d) All the above

5. _______ is the theme of strategic leadership. [d]
   (a) Sense of humor (b) Humility
   (c) Trust worthiness (d) Strategic vision and Pragmatism

6. _______ directs and inspires in creating and executing vision, mission and strategies to achieve the organisational goals. [a]
   (a) Strategic leadership (b) Strategic entrepreneurship
   (c) Entrepreneur (d) Corporate entrepreneurship

7. Multi-divisional structure (m-form) consists of three variations. They are _______, and _______. [b]
   (a) Corporate, SBU and functional form
   (b) Cooperative, strategic business unit and competitive form
   (c) SBU, functional and strategic form
   (d) Strategic, functional and cooperative form

8. _______ are of three forms and helps in managing and controlling the managerial decisions (viz., ownership concentration. Board of directors, Executive compensation). [c]
   (a) External governance mechanisms
   (b) Corporate governance
   (c) Internal governance mechanisms
   (d) Social responsibility

9. Two major responsibilities of ________ are, [d]

   (i) To provide executive leadership and a strategic vision and

   (ii) To manage the strategic planing process.

   (a) Leader (b) Shareholder

   (c) Entrepreneur (d) Top-management/Senior Executives

10. One of the external governance mechanism is ________ . [a]

   (a) Auditor (b) Executive compensation

   (c) Shareholder (d) Senior management/Executives

Fill in the blanks

1. _______ deals with setting policies, designing the organisational structure and developing a corporate culture to accomplish the organisational objectives.

2. Implementation of a strategy is much more complicated issue when compared to _______.

3. _______ mainly concentrates on whether the firm is “doing the right things” or not.

4. _______ and _______ are the approaches to strategic control.

5. The essential elements of behavioral control are _______ and _______.

6. Organisational structure is defined as set of _______ that are shared by an organisation’s members.

7. _______ is a continuous and ongoing behavior process.

8. _______ is the set of mechanisms that helps to govern the relationships among the shareholders.

9. _______ is also termed as ‘content reward leadership’.

10. _______ is highly dynamic and multi-dimensional in nature.

Answers

1. Strategy implementation
2. Strategy formulation
3. Informational control
4. Traditional and Contemporary approach
5. Boundaries, culture and Rewards
6. Assumptions, beliefs values and norms
7. Leadership
8. Corporate governance
9. Transactional leadership
10. Culture

FACULTY OF MANAGEMENT

M.B.A IV - Semester (CBCS) Examination

October - 2020

STRATEGIC MANAGEMENT

Time : 2 Hours] [Max. Marks : 80

PART - A (4 × 5 = 20 Marks)

Note: Answer any four questions.

ANSWERS

1.	Define Strategic Management	(Unit - I, Q.No.2)
2.	Value Chain Analysis	(Unit - II, Q.No.20)
3.	Strategy Formulation	(Unit - III, SQA.9)
4.	Diversification Strategy	(Unit - IV, Q.No.7)
5.	SMART Governance	(Unit - V, SQA.8)

PART - B (4 × 15 = 60 Marks)

Note: Answer any four questions.

6.	Discuss the need any four importance of strategic management.	(Unit - I, Q.No.5)
7.	Explain the various elements of strategic management process.	(Unit - I, Q.No.7)
8.	What are the various environmental factors that affect a business? Explain them in detail.	(Unit - II, Q.No.7)
9.	Discuss the methods of identifying the opportunities and thetas of a business in this pandemic situation.	(Unit - II, Q.No.15)
10.	Discuss the relevance of long term objectives in strategy formulation.	(Unit - III, Q.No.1)
11.	Discuss the strategies suitable for runner-up firms.	(Unit - III, Q.No.23)
12.	Discuss various methods creating value through intense growth strategies.	(Unit - IV, Q.No.4)
13.	List out different outsourcing strategies and also explain the drivers of outsourcing.	(Unit - IV, Q.No.14,16)
14.	Discuss different types and techniques used for strategic control.	(Unit - V, Q.No.9)
15.	Explain the social and ethical responsibilities of corporate organizations.	(Unit - V, Q.No.39)

FACULTY OF MANAGEMENT

M.B.A IV - Semester (CBCS) Examination

May / June - 2019

STRATEGIC MANAGEMENT

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

[Short Answer type]

Note : Answer all the questions from Part - A and Part - B.
Each question carries 4 marks in Part - A and 12 marks in Part - B.

ANSWERS

1. State the salient features of strategic management. **(Unit - I, Q.No. 2)**
2. What is meant by core competencies ? **(Unit - II, Q.No. 22)**
3. State the indications for weak and crisis business. **(Unit - III, Q.No.24)**
4. State the reasons for market diversification. **(Unit - IV, Q.No. 7)**
5. What is SMART Governance ? **(Unit - V, SQA. 8)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer type]

6. (a) Describe the basic elements in strategy formulation. **(Unit - III, Q.No. 1)**

(OR)

(b) Explain the system of crafting and executing a strategy for business entity. **(Unit - I, Q.No. 28)**

7. (a) Discuss the advantages in the process of environmental analysis relating to a strategic decision. **(Unit - II, Q.No. 4)**

(OR)

(b) Describe the vital aspects in BGG and GE models. **(Unit - II, Q.No. 10,12)**

8. (a) Explain the causative factors for developing corporate level international strategy. **(Unit - IV, Q.No. 1)**

(OR)

(b) Discuss the merits and demerits in strategic alliances. **(Unit - IV, Q.No. 26)**

9. (a) Explain the features and strategies in the courses of industry life cycle. **(Unit - III, Q.No. 17)**

(OR)

(b) Describe the elements in competitive analysis and its advantage. **(Unit - III, Q.No. 4)**

10. (a) Discuss the necessity of corporate governance under changing business environment. **(Unit - V, Q.No. 17)**

(OR)

(b) Explain the significance and applicability of social and ethical responsibilities of corporate entities. **(Unit - V, Q.No. 39,SQA.10)**

FACULTY OF MANAGEMENT

M.B.A IV - Semester (CBCS) Examination

May / June - 2018

STRATEGIC MANAGEMENT

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

[Short Answer type]

ANSWERS

1. What are the objectives of strategic management ?

Ans :

The two objectives in strategic management are,

1. Strategic objectives and
2. Financial objectives.

1. Strategic Objectives

Strategic objectives are concerned with positioning the firm in relation to external forces such as, customers bargaining power, supplier's bargaining power, threat from substitutes, threat from new entrants and impact of competition prevailing in the industry. Strategic objectives may comprises of increasing the market share, changing the firm's market position etc.

2. Financial Objectives

Usually, managers measure the strategic performance of the firm based on the achievement of financial objectives. In case if the strategic objective of the firm is to improve efficiency then its financial objective would be to improve return on capital or return assets.

Based on time, objectives of strategic management can be categorized into two types. They are,

(i) Long-term objectives and

(ii) Short-term objectives.

(i) Long-Term Objectives

Long-term objectives focus on achieving long -term position. Long-term objectives deal with development of a firm over many years. For instance, becoming a market leader, achieving sustainable growth etc., comes under long term objectives.

(ii) Short-Term Objectives

Short-term objectives emphasis on monthly or yearly performance of the firm. Short-term objectives are tangible objectives which can be achieving within a short period of time. An objective to increase monthly sales comes under short term objectives.

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2. State the key drivers for a change. **(Unit - II, SQA. 6)**
3. State the stages in industry life cycle. **(Unit - III, Q.NO. 17)**
4. What are the benefits from outsourcing strategies ? **(Unit - IV, SQA. 12)**
5. Distinguish between social and ethical responsibilities. **(Unit - V, SQA. 10)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer type]

6. (a) Discuss the process and tasks of strategic management in a corporate entity. **(Unit - I, Q.No. 7,8)**

(OR)

(b) Explain the pre-requisites for developing a strategic model and its implementation. **(Unit - I, Q.No. 31,32,33)**

7. (a) Describe the external and internal environmental analysis for the creation of a good strategy. **(Unit - II, Q.No. 5)**

(OR)

(b) Discuss the essential elements in SWOT analysis and value chain analysis. **(Unit - II, Q.No. 15,20)**

8. (a) Explain the basic steps in strategy formulation. **(Unit - III, Q.No. 1)**

(OR)

(b) Describe a suitable strategy for business leaders and followers. **(Unit - III, Q.No. 22)**

9. (a) Explain the reasons for development of alternative strategies in a competitive business environment. **(Unit - IV, Q.No. 2)**

(OR)

(b) Discuss the advantages and limitations in mergers and acquisitions. **(Unit - IV, Q.No. 19,22)**

10. (a) State the vital issues in strategies evaluation and controls. **(Unit - V, Q.No. 14)**

(OR)

(b) Explain the policies for SMART governance. **(Unit - V, Q.No. 26)**

FACULTY OF MANAGEMENT
M.B.A IV - Semester (CBCS) Examination
Model Paper - I
STRATEGIC MANAGEMENT

Time : 3 Hours] [Max. Marks : 80

PART - A (5 × 4 = 20 Marks)

[Short Answer type]

ANSWERS

1. Strategy Formulation. **(Unit - I, SQA. 4)**
2. Advantages of SWOT Analysis. **(Unit - II, SQA. 7)**
3. Focussed Strategy. **(Unit - III, SQA. 5)**
4. Vertical Integration. **(Unit - IV, SQA. 3)**
5. Distinguish between social and ethical responsibilities. **(Unit - V, SQA. 10)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer type]

6. (a) Explain the process of strategic management. **(Unit - I, Q.No. 7)**

(OR)

(b) Why are crafting and executing strategy important ? **(Unit - I, Q.No. 28)**

7. (a) Discuss about Macro Environmental Factors. **(Unit - II, Q.No. 7)**

(OR)

(b) Explain the concept of Michael Porter five force model. **(Unit - II, Q.No. 17)**

8. (a) What is competitive advantage ? Explain the nature and significance of competitive advantage. **(Unit - III, Q.No. 4)**

(OR)

(b) Explain Strategies for Competing in Maturing Industries? **(Unit - III, Q.No. 19)**

9. (a) What is Corporate Level Strategy? Explain different types of Corporate Level Strategy. **(Unit - IV, Q.No. 3)**

(OR)

(b) What are the differences between merger and acquisition. **(Unit - IV, Q.No. 23)**

10. (a) What are the different approaches of control system to ensure information control? **(Unit - V, Q.No. 23)**

(OR)

(b) How social responsibility strategy is crafted ? Explain. **(Unit - V, Q.No. 38)**

FACULTY OF MANAGEMENT

M.B.A IV - Semester (CBCS) Examination

July - 2021

STRATEGIC MANAGEMENT

Time : 2 Hours] [Max. Marks : 80

PART - A (4 × 5 = 20 Marks)

Note : Answer any Four questions

1. State the strategic Vision and Mission.
2. Write about Capability Building.
3. Explain the strategies of Runner-up firms.
4. What are the Drivers of Outsourcing?
5. What is Strategic Entrepreneurship?

PART - B (4 × 15 = 60 Marks)

Note : Answer any Four questions

6. What is Strategic Management? Explain the tasks of strategic management and factors shaping strategy.
7. Discuss the development of a strategic model and its positioning.
8. Explain a Specific Industry Analysis with the help of BCG Model.
9. Discuss the use of SWOT Analysis.
10. Discuss different stages of Industry Life Cycle.
11. Explain the Strategies adopted by Business Leaders.
12. Explain how Offensive and Defensive Strategies Create Value.
13. Discuss the benefits of Merger and Acquisition Strategies.
14. Discuss the need and significance of Social and Ethical Responsibilities of Corporate Organizations.
15. Explain how Re-designing Organizational Structure helps for better control.