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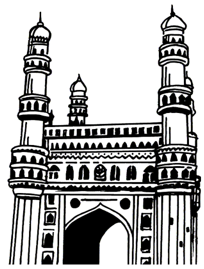

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1.1 Business

1.1.1 Definitions

Q1. Define Business.

Ans :

Introduction

Business is a state of being busy. The primary aim of conducting business is to earn profit.

Business is related to the continuous and regular production & distribution of goods & services for the purpose of satisfying human wants and earning profit. Production refers to changing the form of resources and/or adding value to them so that they can be used for consumption.

Goods can be either agricultural goods or manufactured goods. Such goods are made with the help of manpower or with the use of machines.

Example

Growing mangoes on a piece of land is an example of agricultural production. Converting the mangoes into pulp/juices and selling them in the market is an example of manufactured goods.

Distribution, on the other hand, is the process of making the products and/or services available for consumption in the market. This process includes actual buying and selling along with the arrangement for transportation, advertising, warehousing and other aids to trade that help the products to reach the consumers.

Definitions

(i) **According to Stephenson defines business** as, "The regular production or purchase and sale of goods undertaken with the object of earning profit and acquiring wealth through the satisfaction of human wants".

(ii) **According to Prof. Haney**, "Business activities are all those human activities which are directed towards the production and processing of wealth".

1.1.2 Business Objectives

Q2. Explain the objectives of business.

Ans : **(Imp.)**

The main objective of a business undertaking is to earn profits. Profit-earning is considered necessary for the survival of the business. Now-a-days, the values of society have changed and society expects more from the business than merely earning profits. The objectives of business may be categorized under five heading :

A) Economic Objectives

B) Human Objectives

C) Social Objectives.

D) Organic Objectives

E) National Objectives

A) Economic Objectives

1. Profit Earning

It cannot be denied that business is started for earning profits. Profit is the basic incentive to business pursuits. Profits are needed to face various uncertainties like trade cycle, change in demand pattern, fluctuations in money markets. A business needs profits not only for its existence but also for expansion and diversification.

The investors want an adequate return on their investments, workers want higher wages and the entrepreneur needs money for reinvesting.

2. Production of Goods

The profit can be earned only when exchange of goods and services takes place. So, the next objective is to produce more goods and sell them to the consumers. The producers estimate the demand for goods and produce accordingly. The tastes, preferences and paying capacity of consumers must be taken into account.

3. Creating Markets

The aim of the businessman is to sell products. Marketing consists of the efforts which effect transfers in ownership of goods and care for their physical distribution. Marketing covers all those activities which relate to the creation of time, place and possession utility.

The businessman searches for new consumers for increasing his sales. An effort is made to retain old consumers by supplying them better quality goods at reasonable prices.

4. Technological Improvement

A businessman should always strive to use latest metaphors of production. In the world of competition, everybody tries to sell its products by offering good quality products at lower prices. This is possible when latest technology is used for producing goods.

B) Human Objectives

Human objectives of business require that a workable balance should be maintained among the claims of various interested groups like employees, shareholders and consumers. These objectives can be discussed as follows :

1. Welfare of Employees

The employees should be looked upon as human beings. The old theory that workers should be coerced to get more work is no longer valid. The traditional businessman in India has always been in favour of 'Iron rod theory'. With the advent of industrialization, production has increased many times resulting in more profits to the businessman.

The employees of an enterprise help in increasing the profitability and they should also be given a due share in profits. It may be in the form of bonus, increased allowances or spending money on their welfare.

2. Satisfaction of Consumers

The consumers should be provided quality goods at reasonable prices. The tastes, likings and requirements of the consumers should be given due weightage.

The business is meant for consumers and their satisfaction should be the main objective of the business. So, responsibility to consumers means setting up and maintaining standards of quality and service in addition to reasonable price.

3. Satisfaction of Shareholders

In the present world ownership and management are in two different hands. The shareholders are spread all over the country and they have no hand in the day-to-day working of the business. The management should give reasonable return on the money invested by the shareholders.

C) Social Objectives Or Social Responsibility of The Business

The business has two aspects :

i) Individual ; and

ii) Social.

Profit motive can be counted as individual aspect and social obligations can be considered as social aspect. Business exists in society and is a part of it. The business should conform to various social needs. The present business activities are different from older times. The business is required to meet varied needs of the society. The social responsibility of the business can be studied as follows:

1. Availability of Goods

The business should ensure the supply of goods to meet the requirements of the society. The business should estimate the total demand for various commodities and adjust the production accordingly. The Governments are also undertaking the work of co-ordinating business activities according to the needs of the society. This is done through various licensing laws. The licences are issued according to the demand for various goods.

2. Supply of Quality Goods

The supply of quality goods and services to consumers at reasonable price is the reasonability of the business. The business should aim at consumer satisfaction.

The supply of adulterated goods, poor in quality, unusable or harmful to health will be against business ethics. In the present scarcity-ridden periods, the consumer is worst affected. He is supplied poor quality goods at higher prices and still the goods are not made available in abundance.

A business cannot flourish in the long run if it ignores consumers. It is the duty of the business to study wants and needs of consumers and provide them with quality goods at reasonable prices.

3. Co-operation with the Government

Business should co- operate with the Government in helping it to achieve the objectives of socialistic pattern of society. The Government of India has devised rules both for public and private sectors.

The Government has fixed priorities for the execution of major policies for the growth and development of the nation. It is not uncommon on the part of Indian businessmen to adopt tactics and strategies that go counter to the declared policies of the Government. The businessmen also try to evade various taxes.

4. Creation of more Employment

The business can help the society by creating more and more job opportunities. The expansion of business not only helps in employing more persons in the factory but it has a multiple effect. Persons are required at various levels in the channels of distribution from the producers to the consumers.

The business community should plough back its profit for further expansion of business activities which will ultimately create new job opportunities.

5. Utilizing National Resources Properly

The business should put the scarce national resources to the best possible user-Wastage of anything will not only be the loss of the enterprise but it will be a national loss.

D) Organic Objectives

A business enterprise consists of people and it is organized to meet social needs. A business has the following organic objectives :

1. Survival

The first objective of business is to survive. It has to ensure that only those activities are taken up which are beneficial to the society. It should try to create demand for its products so that it is able to earn profits. Various factors of production are paid out of profits. A losing concern cannot survive for long.

2. Growth

A business enterprise may be compared to human anatomy . As a human body grows through various stages, that is, from infancy to childhood, from childhood to adolescence, from adolescence to adulthood and from adulthood to maturity, a business unit also passes through various phases during its existence.

A business unit tries to utilize its resources properly so that it is able to plough back its profits for further expansion and diversification.

3. Earn Recognition and Prestige

A business enterprise always aims to get recognition from those with whom it deals. This is possible only if it serves them well. It should have good rapport with the suppliers and dealers by keeping proper schedules of payments and supply of goods. The consumer should be supplied good quality products at reasonable prices. The payment of various taxes, etc.

E) National Objectives

A business does not exist for itself only, it contributes substantially to the national uplift. It should see the needs and requirements of the nation and meet priorities fixed by the government.

A business has the following national objectives :

1. Helping National Efforts

A business aims at helping the national efforts of improving economic position of the society. Every government fixes national priorities for the nation.

The business should enter those fields of industrial activity which remained neglected so far Rural industrialization and balanced regional growth are the priorities of Indian Government. Businessmen should set up new units in backward and under-developed areas so that people living there get employment opportunities and resources available there are fully utilized.

2. Development of Small Entrepreneurs

Big business houses should help in the development of small undertakings. They should not treat small-scale as their competitor.

Small units should be patronised by purchasing their products for further assembling etc. Big units may also help by encouraging ancillary units to sell their products to them and arranging industrial inputs for them.

3. National Self-Sufficiency and Export Development

Business can play an important role in making the country self reliant. It should produce all those goods which are imported from outside. Efforts should also be made to produce those goods which find ready market in foreign countries. This will help in earning foreign exchange. A self-reliant nation has more prestige in international community.

4. **Development of Skilled Personnel**

Every country needs trained and skilled personnel for the development of its industry. Business houses can provide technical knowledge and training to their employees. This helps in skill formation for the country's growth and development. In India.

Q3. Define business policy. Explain the features of business policy.

Ans :

Meaning

- The term "Business Policy" comprises of two words, Business and Policy. Business as we know means exchange of goods and services for increasing utilities.
- Policy may be defined as "the mode of thought and the principles underlying the activities of an organization or an institution."
- Policies are general statements of principles which guide the thinking, decision making and actions in an organization.
- Business policy is a set of principles and rules which directs the decisions of the subordinates. Policies are framed by the top level management to serve as a road map for operational decision making. It is helpful in stressing the rules, principles and values of the organization. Policies are designed, by taking opinions and general views of a number of people in the organization regarding any situation.
- They are made from the past experience and basic understanding. In this way, the people who come under the range of such policies will completely agree upon its implementation.

- Policies help the management of an organization to determine what is to be done, in a particular situation. These have to be consistently applied over a long period of time to avoid discrepancies and overlapping.

Definition

According to R.E.Thomas: "Business Policy, basically, deals with decisions regarding the future of an ongoing enterprise. Such policy decisions are taken at the top level after carefully evaluating the organizational strengths and weaknesses in relation to its environment".

Features of Business Policy:

An effective business policy must have following features)

(a) Specific: Policy should be specific/ definite. If it is uncertain, then the implementation will become difficult.

(b) Clear: Policy must be unambiguous. It should avoid use of jargons and connotations. There should be no misunderstandings in following the policy.

(c) Reliable/Uniform: Policy must be uniform enough so that it can be efficiently followed by the subordinates.

(d) Appropriate: Policy should be appropriate to the present organizational goal.

(e) Simple: A policy should be simple and easily understood by all in the organization.

(f) Inclusive/Comprehensive: In order to have a wide scope, a policy must be comprehensive.

(g) Flexible: Policy should be flexible in operation/application. This does not imply that a policy should be altered always, but it should be wide in scope so as to ensure that the line managers use them in repetitive/routine scenarios.

(h) Stable: Policy should be stable else it will lead to indecisiveness and uncertainty in minds of those who look into it for guidance.

1.2 Types of Business Policy

Q4. Explain the classification of Business Policy.

Ans : **(Imp.)**

Policies may be divided into different types of policies from different approaches.

A) On the Basis of Source:

Koontz and O'Donnell divide the sources of policy into the following four types:

1. Originated Policy
2. Appealed Policy
3. Implied Policy
4. Externally imposed policy

1. Originated Policy

By originated policy they refer to policy which originates from the top management itself. These policies are aimed at guiding the managers and their subordinates in their operations. They flow basically from the organization's objectives as defined by top management.

From the broad policy at the top, other derived policies may be developed at subsequent levels depending upon the extent of decentralization. However all such policies, whether originated by top management or subordinate managers, are described as "originated policy".

2. Appealed Policy

It is meant decisions given in case of appeals in exceptional cases upto management hierarchy. In case of doubts, an executive refers to higher authority on how he should handle the matter. The direction that he gets is described as appealed policy and constitutes precedent for future managerial action.

3. Implied Policy

Implied policy is meant policies which emanate from conduct. It also originates where existing policies are not enforced.

Again, guidelines may be provided by the decision makers unconsciously and become implied policies.

4. **Externally Imposed Policy**

Policies may be imposed externally that is from outside the organization on such as by Government control or regulation, trade associations and trade union etc.

B) On the Basis of different Levels

Policies are divided into the following types on the basis of levels:

1. Basic Policies.
2. General policies.
3. Departmental Policies.

1. **Basic Policies**

Policies which are followed by top management level are called as basic policies. For example, the branches will be opened different place where the sales exceed Rs. Five, lakhs.

2. **General Policies**

These policies affect the middle level management and more specific than basic policies.

Example: Payment will be provided for overtime work only if it is allowed by the management.

3. **Department Policies**

These policies are highly specific and applicable to the lower levels of management.

Example: Tea will be provided free for workers in night shifts.

C) On the Basis of Managerial Functions

Policies arise from decision pertaining to fundamental managerial functions are called managerial policies.

These includes the following policies:

1. Planning policies.
2. Organization policies.
3. Motivation and control policies.

1. **Planning Policies**

Planning policies involve the future course of action. Mere policies are formulated as to achieve the targets regarding the future. Planning policies may formulate for whole organization or for divisional departments.

2. **Organization Policies**

These policies are highly specific to organizational goals and objectives.

3. **Motivation and Control Policies**

Here policies are formulated to motivate people and control the activities, which leads to achieve the organizational objectives with the fullest satisfaction of employees.

D) On the Basis of Dissemination

Policies can be classified into two types on the basis of dissemination:

1. Written statements—Explicit policies.
2. Oral dissemination—Implicit policies.

1. **Explicit Policies**

Policies which are in writing or included in the manual or records are called explicit policies. In case of written statements adequate media should be used.

The following are some of the written media:

(a) Bulletinsor notice boards.

(b) Hews releases.

(c) Company manuals or handbooks.

Advantages

(a) All the members of the organization can be guided as to the exact interpretation of policies so that they all possess a common understanding.

(b) It can be more easily reviewed from time to time to meet changing conditions.

(c) It can be checked more readily for compliance within the organization.

(d) Policies becomes available in the same form to all concerned.

(e) They can be communicated and taught to new employees more readily.

(f) The process of writing down policies forces the managers concerned to think through more clearly about the policy.

Disadvantage

(a) Written policies are inclined to promote rigid thinking and prevent flexibility which may be undesirable in special circumstances.

(b) It is difficult to adopt written policies to situations and conditions which change from time to time. There is bound to be a time lag for incorporation of such changes into existing written policies.

(c) Although in one sense there is uniform communication of policies in the form of a written statement it is likely to be interpreted in many cases differently depending on the background of the interpreter.

(d) In case of confidential policy statements, there is a greater chance of their being communicated to those from whom they are to be kept secret, thus, probably marring the strength of the organization.

(e) Difficult to write it accurately and adequately.

2. Implicit Policies:

Implicit policies are disseminated merely by word of mouth through the key people in an organization. Policies which are not in writing or not included in the manuals or records but which are well understood and practised are called implicit policies.

E) On the Basis of Functions

Policies which affect the functions of business are called as functional policies.

Functional policies can be classified as follows:

1. Marketing policies.
2. Production policies.
3. Finance policies.
4. Personnel policies.

1. Marketing Policies

Basically marketing policies relate to each of the “four Ps in marketing” namely.

(a) Product,

(b) Pricing,

(c) Promotion, and

(d) Physical distribution.

(a) Product Policies: In connection with product policies for example a policy decision might have to be taken as to whether to make or buy the product. Policy decisions might have to be laid down with regard to the nature and extent of diversification, for example whether diversification in the future will always be in terms of related products or whether new product ideas can be considered in connection with unrelated products.

The make or buy decision can also be a part of the product on policy but can be part of the marketing strategy which is concerned with the overall strategy of the business.

(b) Pricing Policies: Policy decisions have to be taken in the area of pricing. The market segment or segments aimed at determination of price range. The policy decisions on pricing are also affected by the type of trade channels and the discounts that might have to be offered.

(c) Promotion Policies: The promotional policy is also tied in with the pricing policies. The policy to concentrate on certain advertising media would be dictated in terms of product policies and the customer segment involved. Policy decisions would also help in arriving at theamountto bespenton promotional activities.

Certain organisations fix a policy of budgeting a certain percentage, say 5% of the rates for advertising expenditure. Some organizations adhere the policy of certain fixed return on investment for arriving at the advertising expenditure to be permitted.

(d) Physical Distribution Policies: Policy decisions have to be taken in the area of physical distribution of the product which involves considerations of channels of distribution and logistics. Difficult policy decisions are involved in arriving at the selection of an appropriate set of distribution channels for the products of the company. Some organizations prefer to give sole distribution ships. Some others advocate the policy of direct selling.

2. Production Policies:

Production policy decisions involves with the following:

(a) The size of the run,

(b) Automation,

(c) Production stabilisation,

(d) Extent of making or buying component, and

(e) Inventory levels.

(a) The Size of the Run Policy: This depend on the backlog or orders as well as the nature of automation introduced. It will also depend on the type of the market. The temptation is to increase the size of the run to take advantage of avoiding the setup costs. However, these have to be weighed against the cost of heavier inventories.

(b) Automation Policy: The automation involves consideration of technical problems apart from economic aspects. The policy of increasing automation or mechanisation may be merely with a view to avoid repetitive and un-interesting work or it may be to reduce costs. Policy decisions, however, have to be taken in this behalf at the top level.

(c) Production Stabilisation Policy: It is related to the size of the run and the extent of automation. Production has to be stabilized through proper timing as market demands cannot be overlooked.

(d) Make or Buy Policy: It is related to both the marketing policy as well as production policy. Policy decisions have to be taken as to the extent of the product that has to be manufactured within the organization itself and the extent, if any of purchases from outside.

(e) Inventory Levels Policy: This policy involves with the levels of inventory or stocks. These should be maintained in the exact extent. Higher inventories increase the costs and reduce the ultimate profits.

3. Financial Policies:

Financial policies related to the following:

(a) Sources of capital

(b) Working capital

(c) Profit distribution.

(d) Depreciation allowances.

(a) Sources of Capital: This policy involves the sources of capital, 'that is from which ways, an organization can accumulate in case of sole trader, he/she provide the capital form his/her own money or by loans from partnership, partners provide the basic capital. In companies, large capital is possible from large number of shareholders.

(b) Working Capital Policy: The difference between the current assets and current liabilities is the working capital.

Since the working capital determines how far the business organization or business unit can immediately meet its obligations, the policy decision will have to take in the area of working capital. These policies are also concerned with the extent of bank borrowings permissible and allowances of credit facilities that should be extended to the customers.

(c) **Profit Distribution Policy:** It involves with regard to how much profits should be distributed by way of dividends to the shareholders and how much should be kept back for future capital requirements. Some companies follow a policy of dividend equalization by setting aside profits in good years to be used for payment of dividend in lean years.

(d) **Depreciation Allowance Policy:** Policy decisions have to be taken on the extent of depreciation to be written off whilst keeping in mind the tax provision as well as its possible use as a source of funds for the enterprise.

4. Personnel Policies:

This policy decisions have to be taken in connection with personnel administration.

These relate to the following.

(a) Personnel selection.

(b) Training and promotion.

(c) Remuneration and benefits.

(d) Industrial relations.

(a) **Personnel Selection Policy:** It involves with the source of recruitment e.g., policy decisions may be taken with regard to the minimum educational or experience requirements.

(b) **Training and Promotion Policy:** Policy decisions have to be taken with regard to manpower planning and filling up higher vacancies by promotion from within. A policy of promotion from within presupposes the existence of adequate training policies to develop persons for each higher positions.

(c) **Remuneration and Benefit Policy:** These policies regard with the remuneration and other benefits of employees. Other benefits include sick leave, vacations, canteen facilities and working conditions. In case of sales force, some organizations prefer to rely merely on salaries, but some other companies wish to build in a commission component to provide the necessary incentive.

(d) **Industrial Relations Policies:** Proper policy decisions must be taken in connection with dealing with labour disputes and avoiding them in the future.

1.3 Strategic Planning

Q5. Define Strategic Planning. Explain the importance of Strategic Planning.

Ans : **(Imp.)**

Meaning

- Strategic planning is a process in which an organization's leaders define their vision for the future and identify their organization's goals and objectives.
- The process includes establishing the sequence in which those goals should be realized so that the organization can reach its stated vision.
- Strategic planning typically represents mid- to long-term goals with a life span of three to five years, though it can go longer.
- This is different than business planning, which typically focuses on short-term, tactical goals, such as how a budget is divided up. The time covered by a business plan can range from several months to several years.
- The product of strategic planning is a strategic plan. It is often reflected in a plan document or other media.
- These plans can be easily shared, understood and followed by various people including employees, customers, business partners and investors.
- Organizations conduct strategic planning periodically to consider the effect of changing business, industry, legal and regulatory conditions.
- A strategic plan may be updated and revised at that time to reflect any strategic changes.

Importance

1. **The mission**

   Strategic planning starts with a mission that offers a company a sense of purpose and direction. The organization's mission statement describes who it is, what it does and where it wants to go. Missions are typically broad but actionable. For example, a business in the education industry might seek to be a leader in online virtual educational tools and services.

2. **The goals**

   Strategic planning involves selecting goals. Most planning uses SMART goals -- specific, measurable, achievable, realistic and time-bound -- or other objectively measurable goals. Measurable goals are important because they enable business leaders to determine how well the business is performing against goals and the overall mission.

   Goal setting for the fictitious educational business might include releasing the first version of a virtual classroom platform within two years or increasing sales of an existing tool by 30% in the next year.

3. **Alignment with short-term goals**

   Strategic planning relates directly to short-term, tactical business planning and can help business leaders with everyday decision-making that better aligns with business strategy.

   For the fictitious educational business, leaders might choose to make strategic investments in communication and collaboration technologies, such as virtual classroom software and services but decline opportunities to establish physical classroom facilities.

4. **Evaluation and revision**

   Strategic planning helps business leaders periodically evaluate progress against the plan and make changes or adjustments in response to changing conditions.

   For example, a business may seek a global presence, but legal and regulatory restrictions could emerge that affect its ability to operate in certain geographic regions. As result, business leaders might have to revise the strategic plan to redefine objectives or change progress metrics.

1.3.1 Planning Process

Q6. Explain the process of strategic planning.

Ans :

Following are the steps involved in strategic planning process,

1. Corporate mission and major corporate goals must be selected.
2. External competitive environment of the organization must be analyzed in order to identify opportunities and threats.
3. Internal operating environment of the organization must be analyzed in order to identify' the strengths and weaknesses of the organization.
4. Based on organization's strengths strategies must be selected and modify its weaknesses in order to utilize external opportunities and identify external threats. The strategies which are selected must be consistent with mission and goals of the organization. Strategies should be congruent and build up a viable business model.
5. Implement the strategies.

1.4 Strategic Decision Making

Q7. Explain briefly about Strategic Decision Making.

Ans :

Meaning

- Strategic decision-making refers to when a business bases its shorter-term decisions on the longer-term vision for the direction of the organization. This method typically entails using small, quantifiable goals that contribute to its overall mission.

- Managers typically make strategic decisions regarding high-level factors that are crucial to the success of an organization, for instance, budget, structure and potential risk.
- Successful strategic decision-making is usually a collaborative process that involves a leadership team and even team members and company employees, depending on the context.

1. Predictability

By making a connection between your shorter-term decisions and the longer-term consequences, it may be easier to anticipate the outcomes of some business decisions. This can be very helpful when you're trying to forecast an organization's progress and growth.

2. Collaboration

Strategic decision-making is typically more effective when people work together. When a team collaborates to come to a decision, they may think of more innovative solutions and identify more nuances than one person working alone. The collaborative nature of strategic decision-making may also help to promote a culture of cooperation and innovation within the organization

3. Flexibility

The longer-term vision and mission of your organization may evolve and grow with time, and strategic decision-making can offer the necessary flexibility. You can use it to respond to evolving goals, by aligning your smaller, short-term goals and choices with the long-term company vision.

Q8. Explain the features of strategic decisions making.

Ans :

Following are the features of strategic decisions making.

(i) Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.

(ii) Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.

(iii) Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.

(iv) Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.

(v) Strategic decisions are complex in nature.

(vi) Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.

(vii) Strategic decisions are different from administrative and operational decisions.

1.5 STRATEGY

1.5.1 Definition

Q9. What is Strategy? Explain the need for strategy.

Ans :

Meaning

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.

Definitions

(i) 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 organization."

(ii) **According to Alired 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."

(iii) According to Arthur Sharplin, "a plan or course of action which is of vital pervasive, or continuing importance to the organization as a whole."

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

Analysis of Definitions of Strategy

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 organization.
- 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 organization.
- Identifies factors in the political and social environment that requires careful monitoring.
- Recognizes 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 analyzing 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

It is beyond doubt to state that every organization necessarily formulate strategies. To state specifically, strategy is necessary in view of the following reasons:

(i) To have rules to guide the search for new opportunities both inside and outside the firm.

(ii) To take high quality project decisions.

(iii) To develop measures to judge whether a particular opportunity is a rare one or whether much better ones are likely to develop in the future.

(iv) To have an assurance that the firm's overall resource allocation pattern is efficient.

(v) To have and develop internal ability to anticipate change.

(vi) To save time, money and executive talent.

(vii) To identify, develop and exploit potential opportunities.

(viii) To utilize the delay principle, that is, delay the commitment until an opportunity is on hand.

Q10. Explain the criteria for effective strategy.

Ans :

1. Clear, decisive objectives

All efforts should be directed towards clearly understood, decisive and attainable overall goals. All goals need not be written down or be chronologically precise but they must be understood and be decisive.

2. Maintaining the initiative

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

3. Concentration

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

4. Flexibility

The strategy must purposely have built in resources, buffers and dimensions for flexibility and maneuvers. Reserved capabilities, planned maneuverability and repositioning allows one to use minimum resource while keeping competitors at a relative disadvantage.

5. Coordinated and committed leadership

The strategy should provide responsible, committed leadership for each of its major goals. Care should be taken in selecting the leaders in such a way that their own interests and values match with the requirements of their roles. Commitment and not mere acceptance is the basic requirement.

6. Surprise

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

7. Security

The organization should secure or develop resources required, securely maintain all vital operating points for the enterprise, an effective intelligence system to prevent the effects of surprises by the competitors.

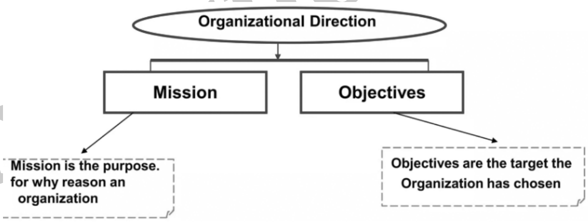
1.6 Establishing Corporate Direction

Q11. Explain briefly about Establishing Corporate Direction.

Ans : **(Imp.)**

Introduction

Establishing organizational direction is the second step of strategic management process, so there are two main indicators of the direction in which an organization is moving to:



Organizational Mission

- Organizational mission is the purpose for which or reason why, an organization exist, in general, a firm's organizational mission contains such information as what types for products or services the organization produces.
- To develop an appropriate organizational mission, management should thoroughly analyze and consider information generated during the environmental analysis process.

Important

- Establishing an organizational mission is an important part of management's job, because the existence of a formally expressed organizational mission generally makes it more likely that the organization will succeed.
- Having an established and documented organizational mission accomplishes several important things.

Information Appears in Mission Statement

- The kinds of information contained in mission statements very somewhat form organization to organization.
- Most mission statements seem to cover several major topics, these topics either within organization or contained materials that accompany it these may include:
  - Company product or service
  - Market
  - Technology
  - Public image
  - Company objectives

The Nature of Organizational Objectives

- This part outlines the role of organizational direction through the use of organizational objectives.
- Organizational objective is a target toward which the organization direct its efforts.
- The term objective should be used some suggest using either "objectives" or "goals", so this term is used to refer to target that the organization is attempting to reach.

The Importance of Organizational Objectives

- the importance of establishing appropriate objectives for an organization can not be overemphasized. Objectives provide the foundation for planning, organizing, motivating and controlling. Without objectives and their effective communication, behavior in organizations can stray in almost any direction.

Types of Objectives in Organizations

The organization have two different types of objectives, these are the following :

(i) Short run objectives: are targets that the organization is attempting to reach within one year or two years.

(ii) Long run objectives: are targets that the organization is trying to reach within three to five years.

1.6.1 Vision, Mission and Objectives

Q12. Define vision ? Explain the benefits of vision.

(OR)

Explain Strategic Vision with an examples.

Ans :

Meaning

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

Vision has been defined in several different ways.

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

(ii) According to 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.

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.

Example

Microsoft

The vision of Microsoft is to get computer on every desk in every home.

Benefits

- Good visions are inspiring and exhilarating.

- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
- Good visions help in the creation of a common identity and a shared sense of purpose.
- Good visions are competitive, original and unique. They make sense in the marketplace as they are practical.
- Good visions foster risk-taking and experimentation.
- Good visions foster long-term thinking.
- Good visions represent integrity; they are truly genuine and can be used for the benefit of people.

Q13. Explain the Characteristics of an Effectively Worded Vision Statement.

Ans : **(Imp.)**

The following are the Characteristics of an Effectively Worded Vision Statement are :

- **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 shareowners, 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").

Q14. Outline the Process of Developing a Vision.

Ans :

Seven-step process for developing a vision :

1. Understand the Organization

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 organization operates in, what the organization's position is within the framework, 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 scenarious 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.

Fig.: Developing Vision

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 scenarious, 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.

Q15. Define mission ? Explain the characteristics of a effective mission statement.

Ans :

Meaning

Mission is what an organization is and why it exists. Organizations relate their existence to satisfying a particular need of the society.

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

Definitions

(i) According to Thompson "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".

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

(iii) 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".

Characteristics

1. It should be feasible

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

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.

Q16. Explain the Components of Mission Statement.

Ans :

Mission statements may vary in length, content, format and specificity. But most agree that an effective mission statement must be comprehensive enough to include all the key components. Because a mission statement is often the most visible and public part of the strategic management process, it is important that it includes all the following essential components :

- **Basic product or service**

  What are the firm's major products or services?

- **Primary markets**

  Where does the firm compete?

- **Principal technology**

  Is the firm technologically current?

- **Customers**

  Who are the firm's customers?

- **Concern for survival, growth and profitability**

  Is the firm committed to growth and financial soundness?

- **Company philosophy**

  What are the basic beliefs, values, aspirations and ethical priorities of the firm?

- **Company self-concept**

  What is the firm's distinctive competence or major competitive advantage?

- **Concern for public image**

  Is the firm responsive to social, community and environmental concerns?

- **Concern for employees**

  Are employers considered a valuable asset of the firm?

- **Concern for quality**

  Is the firm committed to highest quality ?

Q17. 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.

Q18. Explain the Formulation / Developing 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 :

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.

Fig.: Mission Development

3. Organization's Mission

Key decision makers' philosophy and visionary long-term concept of the organization 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.

Q19. Compare and contrast vision and mission.

(OR)

What are the differences between vision and mission?

Ans :

S.No.	Nature	Vision	Mission
(i)	**Meaning**	The ultimate goal to be achieved	A statement indicating the activities to be pursued for accomplishing a goal
(ii)	**Main Purpose**	To inspire and hope to the people to contribute towards attaining the goal	To provide guidance or roadmap for achieving the goal
(iii)	**Benefit to employees**	Helps understand why they are doing a particular task	Help recognize what exactly are they doing
(iv)	**Benefit to organization**	The company understands what it wants to achieve in future	The company recognizes what it should do in the present

Q20. Identify the roles that objectives play in strategic management.

(OR)

What are objectives? Explain the role of objectives in strategic management.

Ans :

Meaning

Objective refers to an outcome which an organization aims at achieving in the long-run. Objective is a final outcome, end point or is something which a person aim at and make efforts to achieve. In other words, objective is an expected outcome/result, organizational efforts made towards the achievement of this outcome/ result. The probability of success in achieving objectives is more in situations where objectives are set and understood properly.

Objectives make individuals and organizations dedicated towards measurable attainments. Objectives states the scope of future outcomes. Objectives show direction depending upon which activities to be performed are decided. They state the activities to be undertaken today to achieve the future outcomes.

Role

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

(i) Objectives define the organization's relationship with its environment.

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

(ii) Objectives help an organization to pursue its vision and mission.

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

(iii) Objectives provide the basis for strategic decision-making.

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

(iv) Objectives provide the standards for performance appraisal.

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

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

Q21. Mention the characteristics of objectives.

Ans :

1. Objectives should be understandable

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

2. Objectives should be concrete and specific

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

3. Objectives should be related to a time frame

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

4. Objectives should be measurable and controllable

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

5. Objectives should be challenging

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

6. Different objectives should correlate with each other

Organizations set many objectives in different areas. If objectives are set in one area disregarding the other areas such an action is likely to lead to problems. A classic dilemma in organizations, and a source of inter-departmental conflicts, is setting sales and production objectives.

Marketing departments typically insist on a wider variety of products to cater to a variety of market segments while production departments generally prefer to have greater product uniformity in order to have economies of scale. Obviously, trade offs are required to be made so that different objectives correlate with each other, are mutually supportive, and result in synergistic advantages. This is specially true for organizations which are organized on a profit-centre basis.

7. Objectives should be set within constraints

There are many constraints internal as well as external which have to be considered in objective setting. For example, resource availability is an internal constraint which affects objective setting.

Different objectives compete for scarce resources and trade-offs are necessary for optimum resource utilization. Organizations face many external constraints like legal requirements, consumer activism and environmental protection. All these limit the organization's ability to set and achieve objectives.

Q22. How to develop an organizational objectives?

(OR)

How are objectives formulated?

Ans :

1. The forces, in the environment

These take into account all the interests some-times coinciding but often conflicting of the different stakeholders in an organization. Each group of stakeholders, whether they are company employees, customers, or the government, put forward a set of claims or have expectations that have to be considered in setting objectives.

It is important to note that the interests of various stakeholders may change from time to time, necessitating a corresponding shift in the importance attached to different objectives.

2. 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 organization and these have to be considered in order to set realistic objectives. Internal power relationships have an impact on objectives in different ways.

A dominant group of strategists, such as, the board of directors, or an individual strategist, such as, a chief executive, may wield considerable power to set objectives in consonance with their respective views.

3. The value system of the top executive

This has an impact on the corporate philosophy that organizations 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.

4. Awareness by management

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

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

1.7 Strategic Intent

Q23. What is 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 organization—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 organization while sustaining that obsession in the quest for global leadership.

"On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organization 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.

Hierarchy

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.

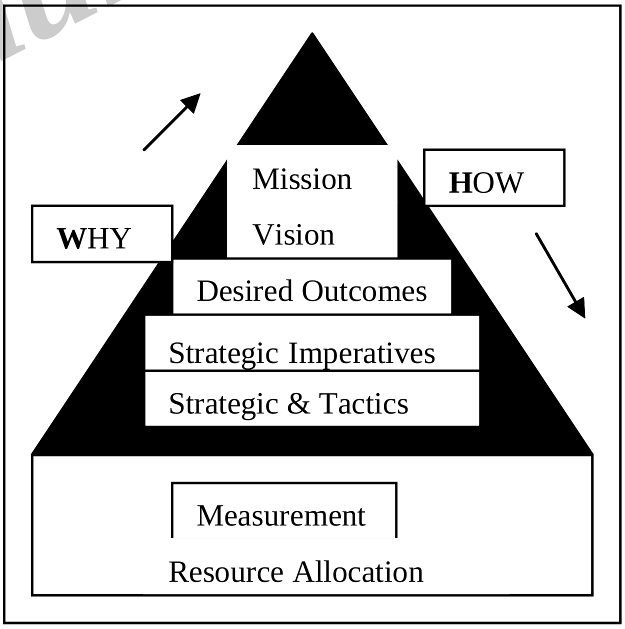


Table showing the hierarchy of Strategic Intent

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

1.8 Strategic Management

Q24. Define strategic management. Explain the historical development of strategic management.

Ans : **(July-21, Imp.)**

Meaning

Strategic management involves the analysis of internal capabilities and external environment of a firm in order to efficiently and effectively uses resources to meet organizational objectives. Strategic management is the process of systematically analyzing various opportunities and threats vis-a-vis organizational strengths and weaknesses, formulating, and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organization.

Definition

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 courses 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** "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** "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** "Strategic management consists of the analysis, decisions, and actions an organization undertakes in order to create and sustain competitive advantages."
7. **According to Lambin**

   "The role of strategic marketing is to lead the firm towards attractive economic opportunities, that is, opportunities that are adapted to its resources and know-how and offer a potential for growth and profitability".
8. **According to Baker**

   "The establishment of the goal or purpose of a strategic business unit and the means by which it is to be achieved through management of the marketing function".

Historical Development of Strategic Management

Almost all the disciplines passed through different stages in their evolutionary process and reached their present stage. Strategic management is not an exception to this. Though the formulation of a strategy seems to be simple, it is very difficult to accomplish it. Many organizations develop their strategic management process over periods of several years, adjusting and tailoring them to meet specific needs of the organization.

Different phases of development of strategic management are presented in Figure below.

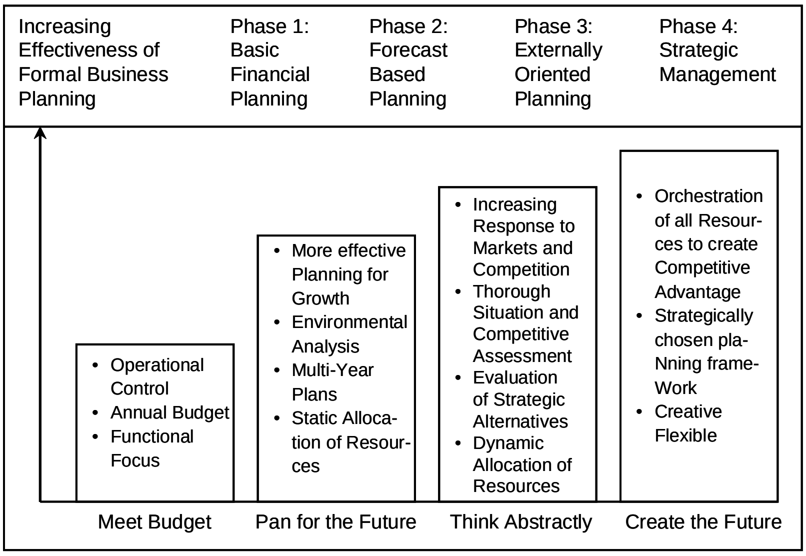


Fig.: Phases in the development of a strategic management system

Phase 1: Basic Financial Planning

The first phase of the strategic development is fairly a simple routine of basic financial planning. The main concern during this phase is simply meeting annual budget requirement, operational functions like production, marketing, finance and human resources and emphasizing on the operational control.

Phase 2: Forecast-based Planning

During this phase, the primary concern is mainly on effective plans, environmental scanning, plan for the future and allocation of resources.

Phase 3: Externally-oriented Planning

There is a remarkable shift during this phase. The notable developments include: increasing response to markets and competition, complete situational analysis and assessment of competitive strength, evaluation of strategic alternatives and allocation of resources based on changing needs from time to time.

Phase 4: Strategic Management

The focus shifts over time from meeting the budget to planning for the future, to thinking abstractly, to working to create desired future. To create future decision-makers, orchestrate and integrate all their organization's resources to gain a competitive advantage. They build flexibility into the organizational planning process, and foster a supportive, participative climate within the organization.

Thus, developing an effective and efficient strategic management process can be a long and difficult task. It requires sustained effort, enormous patience and sharp political skills. Strategic management requires efficient leadership.

Q25. Explain the Characteristics of Strategic Management.

(OR)

State the salient features of Strategic Management.

Ans : **(June-19)**

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 Organization

Strategic management is concerned with the scope of an organization's activities. It includes important decisions about product range or geographical coverage and is concerned with the organization's boundaries.

6. Major Impact on the Organization

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 organization are not only influenced by environmental forces and resource availability, but also by the values and expectations of the stakeholders of the organization.

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.

Q26. Discuss the Need any four importance of Strategic Management.

(OR)

Explain the need for Strategic Management.

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

Some managers argue that why should firms engage themselves in strategic management? They argue that firms can exist, develop and continue in business without strategic management. Some other managers argue that strategic management is essential in this competitive era.

1. Due to Change:

Everything, except change is not permanent. It does mean that only change is permanent. Change makes planning difficult. But, firms may pro-act to the change rather than just react to it. Strategic management encourages the top executives to forecast change and provides direction and control.

It will also allow the firm to take advantage of the opportunities provided by the changes in the environment and avoid the threats or reduce the risk as the future is anticipated. Thus, strategic management allows an enterprise to base its decisions on long-range forecasts.

2. To Provide Guidelines:

Strategic management provides guidelines to the employer about the organization's expectations from them. This would minimize conflict between job performance and job demands. Thus, it provides incentive for employer and helps the organization in achieving its objectives.

3. Developed Field of Study by Research:

Strategic management was just based on case studies or anecdotal evidence 30 years ago. But recently, there are methodological problem researches in this field of study. More systematic knowledge in this area is available at present. Therefore, today it is worthwhile to study strategic management.

4. Probability for Better Performance:

There is no clear research evidence that strategic management leads to higher performance. But the majority of studies suggest that there is a relationship between better performance and formal planning. It is also stated that businesses which plan strategically have a higher probability of success than those which do not have.

5. Systematize Business Decisions:

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

6. Improves Communication:

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

7. Improves Coordination:

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

8. Improves Allocation of Resources:

Strategic planning helps in deciding upon most feasible and viable projects and thereby improves the allocation of resources to the viable projects.

9. Helps the Managers to have a Holistic Approach:

Strategic management helps the managers to have complete understanding of the company and to have a holistic approach towards business problems and proportions.

Q27. Explain the Benefits of Strategic Management.

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

A structured approach to strategy' planning brings several benefits

1. It reduces uncertainty

Planning forces managers to look ahead, anticipate change and develop appropriate responses. It also encourages managers to consider the risks associated with alternative responses or options.

2. It provides a link between long and short terms

Planning establishes a means of coordination between strategic objectives and the operational activities that support the objectives.

3. It facilitates control

By setting out the organization's overall strategic objectives and ensuring that these are replicated at operational level, planning helps departments to move in the same direction towards the same set of goals.

4. It facilitates measurement

By setting out objectives and standards, planning provides a basis for measuring actual performance.

5. Financial Benefits

Research indicates that organizations that engage in strategic management are more profitable and successful than those that do not.

Businesses that followed strategic management concepts have shown significant improvements in sales, profitability and productivity compared to firms without systematic planning activities.

6. Nonfinancial benefits

Besides financial benefits, strategic management offers other intangible benefits to a firm. They are;

1. Enhanced awareness of external threats
2. Improved understanding of competitors' strategies
3. Reduced resistance to change
4. Clearer understanding of performance-reward relationship
5. Enhanced problem-prevention capabilities of organization
6. Increased interaction among managers at all divisional and functional levels
7. Increased order and discipline.

Q28. What are the Drawbacks of Strategic Management?

Ans :

Strategic Management suffers from certain pitfalls such as those given below :

1. Lack of Accuracy

The strategic management system is based on forecasting of future events which are uncertain and hazy. Plans are founded on various assumptions and parameters.

2. Danger to Rigidity

In many instances managers particularly lower-level managers regard budget estimates as the rigid dictates of policy and business operations are performed according to the original estimates.

3. Internal Resistance

Mere preparation of plans does not serve the purpose unless the management at all levels feels the responsibility for effectuating the targets set out in the plans.

4. Difficult Exercise

Strategic management process is a complex, cumbersome and complicated exercise which requires a high level of imagination, foresight, analytical ability, creativity and courage to identify alternatives and choose the most suitable strategy for direction and collection of resources.

5. Costly Exercise

A comprehensive strategic planning exercise calls for considerable time, money and effort for special research studies and information pertaining to the economic, social, political, technological and competitive aspects of the business environment and their likely effects on the future of the enterprise.

6. Ineffective to Overcome Current Crises

Strategic management system is not the answer to all individual or organizational problems. For instance, it is very helpful to a company in solving immediate crises.

7. Complex and Dynamic Environment

The strategic management is essential to overcome the problems posed by complex and dynamic environment. However, this becomes a serious limitation on effective strategic management.

For strategic management, we require knowledge of the trend in the environment. However, with increasing complexity and an accelerating rate of change, it becomes more and more difficult to predict the future outcome.

8. Inadequate Appreciation of Strategic Management

Problems in strategic management arise because, the managers are inadequately aware about its contribution to the success of the organization and the way in which strategic management can be undertaken.

9. Limitations in Implementation

There are various problems in implementing a strategy. Though this aspect will be a great length, here it is sufficient to say that many organizational problems cannot be solved by strategic management alone but require the user of other aspects of management.

1.8.1 Process

Q29. Outline the process Strategic Management.

(OR)

Explain the concept of Strategic Management Process.

(OR)

Explain the various elements of Strategic Management Process.

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

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 :

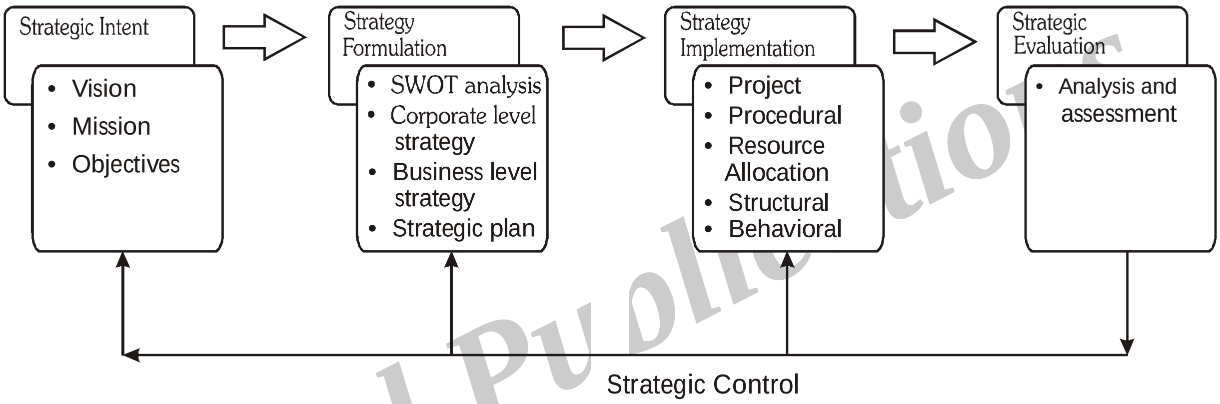


Fig. : Comprehensive Model of Strategic Management

1. **Strategic Intent**

➢ The hierarchy of strategic intent lays the foundation for the strategic management of any organization. In this hierarchy, the vision, mission, business definition, business model, and objectives are established. The strategic intent makes clear what the organization stands for.

➢ The element of vision in the hierarchy of strategic intent serves the purpose of stating what the organization wishes to achieve in the long-run. The mission relates the organization to the society.

➢ The business definition explains the businesses of the organization in terms of customer needs, customer groups, and alternative technologies. The business model clarifies how the organization creates revenue.

➢ The objectives of the organization state what is to be achieved in a given time period. These objectives then serve as yardsticks and benchmarks for measuring organizational performance.

2. **Strategy Formulation**

➢ Environmental and organizational appraisal deal with identifying the opportunities and threats operating in the environment and the strengths and weaknesses of the organization in order to create a match between them in such a manner that opportunities could be availed of and the impact of threats neutralized and to capitalise on the organizational strengths and minimize 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 organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance.
- Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational 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 organizational performance.
- The feedback from strategic evaluation is meant to exercise strategic control over the strategic management process. Strategies may be reformulated, if necessary.

1.9 A Model of Strategy and Elements used in Strategic Positioning

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

(OR)

Discuss the development of a strategic model and its positioning.

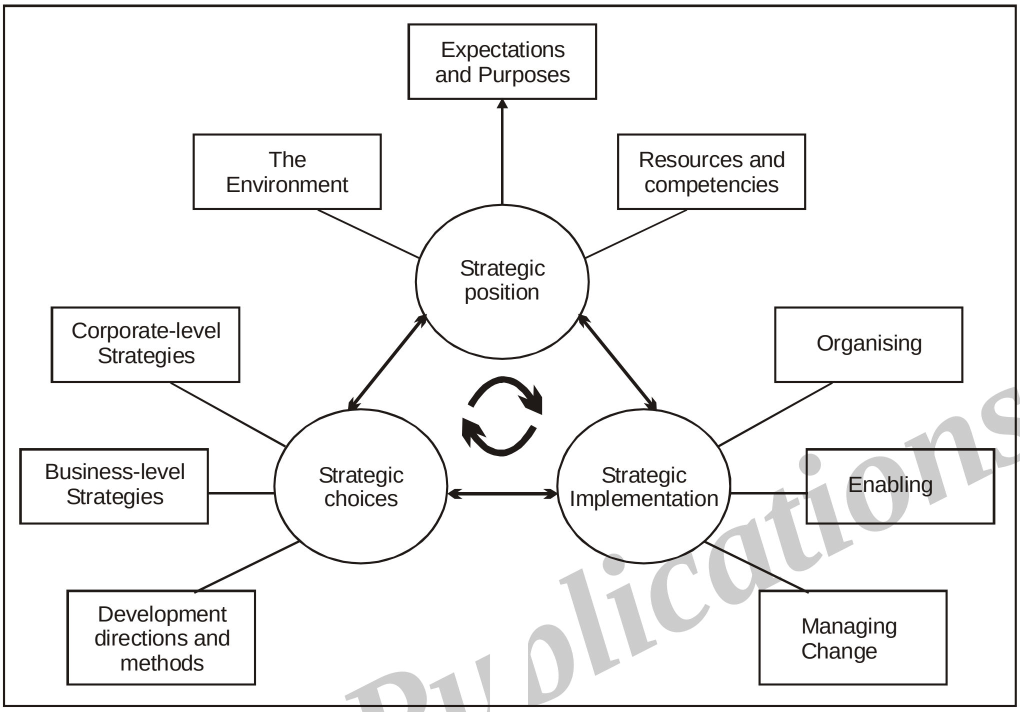
(OR)

Explain the model of strategy and its elements.

Ans : **(Sep.-22, July-21, June-18, Imp.)**

Strategic management deals with the complexities occurring from uncertain and non-routine conditions that arises all over the organization 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 conceptualization of the complex issues. Strategic management generally involves comprehending the strategic position of an organization, 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 organization. What changes are going on in the environment, and how will they affect the organization and its activities? What is the resource strength of the organization in the context of these changes? What is it that those people and groups associated with the organization -- 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 organization 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 organization 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 organization.

The organizations 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 recognize the SBUs in an organization. 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) Organization Structure and Design

c) Managing Strategic Change

1.10 Strategic Choice and Strategic Action

Q31. Describe briefly about Strategic Choice.

(OR)

Write about Strategic Choice.

Ans :

- Strategic choices give more importance to the decisions relating to the future of the organization 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.

Q32. What is Strategy into Action?

Ans :

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 organization? By when? And who is to be responsible for the change?

(b) Organization Structure and Design

It is also likely that changes in organizational 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 organization. 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 organizational redesign, but with changing day-to-day routines and cultural aspects of the organization, and overcoming political blockages to change.

Q33. Explain the issues in strategy into actions.

Ans : **(Imp.)**

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 organization to attain effective performance. Structuring generally involves three key issues i.e., organizational structures, processes and relationships.
- The managers presents their organizations by drawing an organization chart and mapping out its formal structures. These structural chart outlines the different levels and roles in an organization.
- The seven basic organizational structural types are functional, multi divisional, holding, matrix, transnational, team and project. However, within every structure the formal and informal organizational processes helps the organization 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 organizations 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 organization.
- 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 organizations in specific ways. A technological path recognizes 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 organization 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. State the salient features of Strategic Management.

Ans :

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 organi- zations should continually monitor internal and external events and trends, so that timely action can be taken as needed.

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Strategic management is concerned with the scope of an organization's activities. It includes important decisions about product range or geographical coverage and is concerned with the organization's boundaries.

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

2. Define strategic management.

Ans :

Meaning

Strategic management involves the analysis of internal capabilities and external environment of a firm in order to efficiently and effectively uses resources to meet organizational objectives. Strategic management is the process of systematically analyzing various opportunities and threats vis-a-vis organizational strengths and weaknesses, formulating, and arriving at strategic choices through critical evaluation of alternatives and implementing them to meet the set objectives of the organization.

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3. Define Vision.

Ans :

Meaning

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

Vision has been defined in several different ways.

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

(ii) According to 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.

4. Define Mission.

Ans :

Meaning

Mission is what an organization is and why it exists. Organizations relate their existence to satisfying a particular need of the society.

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

Definitions

(i) According to Thompson "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".

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

5. Define Business.

Ans :

Definitions

(i) **According to Stephenson defines business** as, "The regular production or purchase and sale of goods undertaken with the object of earning profit and acquiring wealth through the satisfaction of human wants".

(ii) **According to Prof. Haney**, "Business activities are all those human activities which are directed towards the production and processing of wealth".

6. Define business policy.

Ans :

Meaning

- The term "Business Policy" comprises of two words, Business and Policy. Business as we know means exchange of goods and services for increasing utilities.
- Policy may be defined as "the mode of thought and the principles underlying the activities of an organization or an institution."
- Policies are general statements of principles which guide the thinking, decision making and actions in an organization.
- Business policy is a set of principles and rules which directs the decisions of the subordinates. Policies are framed by the top level management to serve as a road map for operational decision making. It is helpful in stressing the rules, principles and values of the organization. Policies are designed, by taking opinions and general views of a number of people in the organization regarding any situation.

7. Define Strategic Planning.

Ans :

Meaning

- Strategic planning is a process in which an organization's leaders define their vision for the future and identify their organization's goals and objectives.
- The process includes establishing the sequence in which those goals should be realized so that the organization can reach its stated vision.
- Strategic planning typically represents mid- to long-term goals with a life span of three to five years, though it can go longer.
- This is different than business planning, which typically focuses on short-term, tactical goals, such as how a budget is divided up. The time covered by a business plan can range from several months to several years.

8. What is Strategy

Ans :

Meaning

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.

Definitions

(i) 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 organization."

(ii) **According to Alired 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."

9. 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.

10. What is Strategic Intent?

Ans :

According to Hamel and Prahalad coined the term 'strategic intent' which they believe is an obsession- with an organization—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 organization while sustaining that obsession in the quest for global leadership.

"On the one hand, strategic intent envisions a desired leadership position and establishes the criterion the organization will use to chart its progress. At the same time, strategic intent is more than simply unfettered ambition.

11. 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.

Choose the Correct Answers

1. Who is called the Father of Strategic Management? [b]
   (a) Chandler (b) Igor Ansoff
   (c) Michael Porter (d) John Nash
2. What is the starting point of Strategic Intent? [c]
   (a) Goal (b) Objective
   (c) Vision (d) Mission
3. SWOT stands for [c]
   (a) Services worldwide optimization and transport
   (b) Special weapons for operations for timeless
   (c) Strength weakness opportunities and threats
   (d) Strength worldwide overcome threats
4. Which of the following is not a major element of the strategic management process? [d]
   (a) Formulation strategy (b) Implementing strategy
   (c) Evaluating strategy (d) Assigning administrative tasks
5. Competitive advantage can be best described as [a]
   (a) Increased efficiency (b) What sets an organization apart
   (c) A strength and the organizations (d) Intangible resources
6. The primary focus of strategic management is [b]
   (a) Strategic analysis (b) The total organization
   (c) Strategy formulation (d) None
7. Strategic Management handles [a]
   (a) External issues (b) Administrational issues
   (c) Internal issues (d) Management issues
8. The following are considered grand strategies, except for [b]
   (a) A retrenchment strategy (b) Strategic business unit
   (c) A growth strategy (d) Related diversification

9. Strategic business units [c]

(a) Are found in one-business organizations

(b) Carry out strategies assigned by the CEO

(c) Implement the marketing function's strategic planning and management decisions

(d) Develop their own unique way of competing

10. Hierarchy of Strategic Intent: [a]

(a) Vision > Mission > Goals > Objectives > Plans

(b) Mission > Vision > Goals > Objectives > Plans

(c) Plans > Vision > Mission > Goals > Objectives

(d) Goals > Vision > Mission > Objectives > Plans

Fill in the blanks

1. _______ is a state of being busy.
2. The main objective of a business undertaking is to earn _______ .
3. _______ planning is a process in which an organization's leaders define their vision for the future and identify their organization's goals and objectives.
4. A _______ statement is sometimes called a picture of your company in the future.
5. _______ is what an organization is and why it exists.
6. _______ refers to an outcome which an organization aims at achieving in the long-run.
7. _______ is a process of formulating implementing and evaluating cross-functional decisions that enable an organization to achieve its objective.
8. _______ choices give more importance to the decisions relating to the future of the organization
9. The process of structuring helps the organization to attain effective _______ .
10. _______ is concerned with the translation of strategy into action.

ANSWERS

1. Business
2. Profits
3. Strategic
4. Vision
5. Mission
6. Objective
7. Strategic management
8. Strategic
9. Strategy implementation
10. Performance

One Mark Answers

1. Strategic Planning.

Ans :

Strategic planning typically represents mid- to long-term goals with a life span of three to five years, though it can go longer.

2. Strategy.

Ans :

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 organization."

3. Organizational Mission.

Ans :

Organizational mission is the purpose for which or reason why, an organization exist, in general, a firm's organizational mission contains such information as what types for products or services the organization produces.

4. Characteristics of an Effectively Worded Vision Statement.

Ans :

- **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.

5. Strategic Evaluation and Control

Ans :

The last phase of strategic evaluation appraises the implementation of strategies and measures organizational performance.

UNIT II	**Environmental Appraisal** Environmental scanning, Introduction, Demographic, Social and Cultural environment, technological environment, Economic Environment, Political Environment, Natural environment and Industry analysis, Portfolio Analysis, BCG, GE and Add Little Models for understanding Competitive position, SWOT Analysis, Porter's Competitive Advantage, Value chain Analysis- Core Competencies and Capability building Strategies.

2.1 Environmental Scanning

2.1.1 Introduction

Q1. What is the concept of environment in strategic management?

(OR)

Describe some of the characteristics of environment.

(OR)

Mention some of the important characteristics of the environment.

Ans : **(Imp.)**

Meaning

Environment 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

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 organizations. The growth and profitability of an organization depends critically on the environment in which it exists. Any environmental change has an impact on the organization in several different ways.

Q2. Define Environmental Scanning. Explain the features of environmental scanning.

(OR)

What is Environmental scanning? State the features of Environmental scanning.

Ans :

Meaning

Environmental scanning is the process by which corporate planners monitor the economic, governmental, supplier, technological and market settings to determine the opportunities for and threats to their enterprise. In other words, environmental scanning consists of identifying and analyzing environmental influences individually and collectively to determine their potential effects on an organization and the consequent problems and opportunities.

Features

Following are the features of environmental analysis which are identified:

1. Holistic Exercise

Environmental analysis is a holistic exercise in which total view of environment is taken rather than viewing trends piecemeal. Though for environmental analysis, the environment is divided into different components to find out their nature, function, and relationship for searching opportunities and threats and determining where they come from, ultimately the analysis of these components is aggregated to have a total view of the environment.

2. Heuristic or Exploratory Process

Environmental analysis is a heuristic or exploratory process. While the monitoring aspect of the environment is concerned with present developments, a large, part of the process seeks to explore the unknown terrain, the dimensions of possible futures. Since futures are unknown, the analysis emphasises on 'what could happen and not necessarily what will happen.' The emphasis must be on alternative futures, seeking clarification of the assumptions about the future.

3. Continuous Process

Environmental analysis must be a continuous process rather than being an intermittent scanning system. In this process, there is continuous scanning of the environment to pick up the new signals or triggers in the overall pattern of developing trends.

Q3. Explain the Role of Environmental Scanning in Organizations.

Ans :

Properly used environmental scanning can help to ensure organizational success. The specific organizational roles or functions to ensure this success, however, can vary drastically from organization to organization. Three such roles are:

1. Function-Oriented Role

The main purpose of function-oriented environmental analysis is to improve organizational performance by providing environmental information concerning effective performance of specific organizational functions.

This type of environmental analysis is normally undertaken to enhance the performance of a particular function or major organizational activity at either the corporate or the divisional level.

2. Integrated Strategic Planning Role

The main purpose of this kind of environmental analysis is to improve organizational performance by making top managers and divisional managers aware of issues that arise in the firm's environment, by having a direct impact on planning and by linking corporate and divisional planning.

3. Policy-Oriented Role

The main purpose of a policy-oriented environmental analysis is to improve organizational performance by simply keeping top management informed about major trends emerging in the environment.

The policy-oriented role is broadest in scope and is most loosely related to formal organizational planning. On the other hand, the function-oriented role seems to be most specifically targeted at particular organizational issues.

More than the other two roles, the integrated strategic planning role seems to emphasis a close relationship between environmental analysis and formal organizational planning.

Q4. What are the Factors Affecting Environmental Scanning.

Ans :

1. Strategist-Related Factors

There are many factors related to strategist, which affect the process of environment appraisal. Since strategist plays central role in the formulation of strategies, their characteristics such as age, education, experience, motivation level, cognitive styles, ability to withstand the time pressure and strain, etc. have an impact on the extent to which they are able to appraise their organizations environment and how well they are able to do it. Apart from these factors, related to strategists as individuals, group characteristics too have an impact on how environmental appraisal is done.

Such group characteristics could be the interpersonal relations between the different strategists involved in appraisal, team spirit, and the power equations operating between them.

2. Age of the Organization

The age of the organization may also determine the type of information that can be sought by it. The organizational growth over the period of time requires different type of interaction with its environment.

Generally older is the age of the organization with the more experienced managers, the narrower will be the focus on the environment information because with the experience, managers may be able to distinguish what is relevant or irrelevant for the organization.

The necessary information may be sought and unnecessary will be screened out. Since the information can be tested to determine the organizational effectiveness by the managers, they can easily know the relevance of a particular piece of information.

3. Size and Power of Organization

Large organizations have to interact regularly with various environmental forces and its environmental search will have to be more intensive. Because of greater risk exposure and frequency of taking on new ventures, or diversifying its activities, these organizations have to provide high weightage to trends in economic and competitive environments.

They also have to respond to various laws, which apply particularly to large organizations. In our country various laws as Industries (Development and Regulation) Act and MRTP Act are applicable to large organizations. The management of small enterprises need not be affected by these laws.

4. Geographic Dimension of the Organization

The geographic dimension of the organization affects the type of interaction, which the organization has with its environment. Generally greater is the area of organization's operation, more will be its informational requirement because the environmental factors may differ from place to place. If an organization is localized, it may require information about various aspects of the environment only as relevant to this area.

However, when the area operation increases, it may require information for those areas also. For example, the information requirement of multinationals, or organizations involved in international business is much more than that of local organizations.

5. Type of Business

The type of business the organization is in or intends to be in determines the nature of information sought. Moreover, how an organization defines its business also becomes an important factor determining the information requirements. If the organization has defined its business narrowly, it will focus on the narrow aspect on the environment.

Thus a highly diversified company may require diverse types of information. Similarly, if an organization is conglomerate, its area of information search may be much broader.

6. Influence of Business Organization

The more power an organization has in relation to environmental forces, the lower will be its need for appraisal of such forces.

For example, a monopolistic organization such as BHEL or ONGC, need not analyses the competitive environment. Similarly, organizations not dependent on fiscal and financial facilities of Government and financial institutions will lay less emphasis on political environment than those who depend heavily on them.

In the same way, the management of organizations, which have alternative sources of supply of factors of production, considers the supplier aspect of external environment less important. The less dependent the enterprise is on one or a few customers, the less it will focus on the customer sector of the environment.

7. Volatility of Environment

Emphasis on environmental study and type of information needed by an organization are also dependent upon the nature of the environment. If the business environment is highly volatile and turbulent, the management must be greatly concerned with the external environment and they would attempt to gather as much information as possible. This will be further reinforced the environmental forces are not homogenous.

However, where the environment shows less fluctuation, central manages show less concern towards the economic and technological components of the environment and focus their environmental analysis on competitors. This is more so when environmental analysis on competitors. This is more so when environmental forces are relatively more homogenous and clustered.

8. Managerial Calibre

Organizations employing highly qualified executives show greater concern for environmental scanning than those devoid of such expertise. One of the factors contributing to the comprehensive and systematic environmental study by large and multinational organizations is that they are rich in managerial skills and technical knowledge.

Q5. Explain the steps involved in Environmental Scanning.

Ans :

The steps involved in the procedure of environmental scanning are shown in figure :

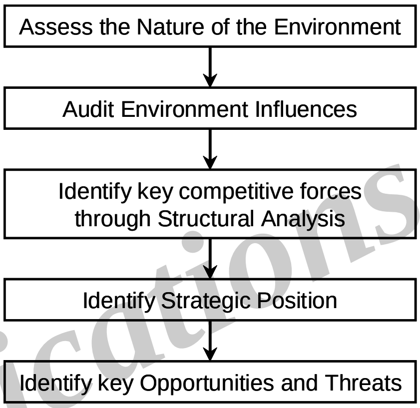

Figure: Process of Environment Scanning

1. Assess the Nature of the Environment

It is useful to take a view of the nature of the organization's environment in terms of how uncertain it is. Is it relatively static or does it show signs of change, and in what ways; and is it simple or complex to comprehend? This helps in deciding what focus of the rest of the analysis is to take.

2. Audit Environmental Influences

The aim is to identify which of the many different environmental influences have affected the organization's development or performance in the past. It may also be helpful to construct pictures - or scenario - of possible futures to consider the extent to which strategies might need to change.

3. Identify key Competitive Forces through Structural Analysis

It aims to identify the key forces at work in the immediate or competitive environment and why they are significant.

4. **Identify Strategic Position**

It means to analyses the organization's strategic position, i.e., how it stands in relation to those other organizations competing for the same resources, or customers, as itself. This may be done in number of ways:

i) Competitor analysis;

ii) Strategic group analysis, in terms of similarities and dissimilarities of the strategies they follow;

iii) The analysis of market segments and market power;

iv) Building on growth/share analysis, and

v) Attractiveness analysis.

5. **Identify key Opportunities and Threats**

Develop and understanding of opportunities which can be built upon the threats which have to be overcome or circumvented. An understanding which needs to be considered in terms of the resource base of the organization and which will contribute to strategy choice is very important.

Q6. Explain the Techniques of Environmental Scanning.

Ans :

1. **Expert opinion**

Knowledgeable people are selected and asked to assign importance an probability ratings to various possible future developments. The most refined version, their Delphi method, puts experts through several rounds of event assessment, where they key refining their assumptions and judgements.

2. **Trend extrapolation**

Researchers fit curves (linear, quadratic, or S-shaped growth curves) through past time series to serve as a basis for extrapolation. This method can be very unreliable if new developments alter the expected direction of movement.

3. **Trend correlation**

Researchers correlate various time series in the hope of identifying leading and lagging relationships that can support forecasts.

4. **Dynamic modelling**

Researchers build sets of equations to try to describe the underlying system. The coefficients in the equations are fitted through statistical means. Econometric models of more than 300 equations, for example, are used to forecast changes in the U.S. economy.

5. **Cross-impact analysis**

Researchers identify a set of key trends (those high in importance and/or probability) and ask, "If event A occurs, what will be the impact on all other trends?" The results are then used to build sets of "domino chains," with one event triggering others.

6. **Multiple scenarios**

Researchers build pictures of alternative futures, each internally consistent and with a certain probability of happening. The major purpose of the scenarios is to stimulate contingency planning.

7. **Demand/hazard forecasting**

Researchers identify major events that would greatly affect the firm. Each event is rated for its convergence with several major trends taking place in society and for its appeal to each major public group in the society. A higher convergence and appeal increases the probability that the event will occur. The highest-scoring events are then researched further.

8. **Environmental Threat and Opportunity Profile (ETOP)**

ETOP Analysis of environmental information, data and factors, and determining opportunities and threats require a systematic technique. Lawrence R. Jauch and William F. Glueck suggest the technique of Environmental Threat and Opportunity Profile (ETOP).

This technique conveniently summa rises the diagnoses of all the various factors of the environment which is important to the strategic gaps facing the firm. The ETOP presents the impact of each environmental factor like economic, political and social on the organization.

Q7. Explain the various approaches to environmental scanning.

Ans :

1. Systematic approach

Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, the changes in legislation and regulations which have a direct impact on an organization's activities, government policy statements pertaining to an organization's business and industry, and so on, could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

2. Ad hoc approach

Using this approach, an organization may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance, when an organization has to undertake special projects, evaluate existing strategies, or devise new strategies. Changes and unforeseen developments may also be investigated with regard to their impact on the organization.

3. Processed-form approach

To adopt this approach, an organization uses information in a processed form, available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institutions, it uses secondary sources of data and the information is available in a processed form.

2.1.2 Demographic, Social and Cultural Environment, Technological Environment, Economic Environment, Political Environment, Natural Environment

Q8. Write about demographic environment and social and cultural environment.

Ans :

i) Demographic Environment

Demographic factors constitute the important factors having significant implications for business. Some of these factors include, population growth, size of the population, composition of age, family size, nature of the family, income levels, etc.

One of the key determinant of demand for any product is the size of the population. As per the world development report 1996, there were 58 countries that are having population less than one million and India is a country where different multi-million cities exist.

Countries with less-income or poor countries with less number of population are not attracted for business eventhough, there exist ample of growth opportunities for them. Countries that are densely populated serves as the attractive markets for the large companies. Further, a big deal related to international trade and foreign investments are carried-out/ performed among these countries and competition is also at greater level due to many possibilities available in such markets.

ii) Social and Cultural Environment/Socio-Cultural Environment

The socio-cultural environment include those factors which are related to human relationships within the society, development, forms and functions of such relationship, learned and shared behaviour of groups of people which have impact on business of an organization

Q9. Define economic environment. State the factors influencing economic environment.

Ans :

Meaning

Economic environment comprises of macro-level factors which are related to the means of production and distribution of wealth which affects the business of an organization.

Factors or Influences Operating in Economic Environment

Following are the factors or influences which are operating economic environment,

1. Economic stage in which country exists at a particular time like agrarian, industrial or post-industrial economy.
2. Economic planning like annual budgets, five year plans etc.
3. Economic policies like monetary, industrial and fiscal policies.
4. Economic structure like socialistic, capitalistic or mixed economy.
5. Economic indices like national income, per capita income, GNP etc.

Q10. Define political environment. State the factors influencing political environment.

Ans :

Meaning

Political environment includes those factors which are related to management of public affairs by the state along with its legislation, institutions and their affect on business of an organization.

Factors or Influences Operating in the Political Environment

Following are the factors or influences which are operating in the political environment,

1. Political structure, its goals and stability.
2. Political system and its features such as nature of political system, political parties, ideological forces and centres of power.
3. Political processes such as elections, party system, formation of governments etc.
4. Political philosophy, role of government, its policies and interventions.

Q11. What is Technological Environment. State its factors.

Ans :

Technological environment include those factors which are related to applied knowledge, material and machines used in production of goods and services which effects the business of an organization.

Factors or Influences Operating in the Technological Environment

Following are the factors or influences operating in the technological environment,

1. Sources of technology such as company sources, external sources and foreign sources.
2. Development of technology, stages of development, change rate of change of technology, research and development. .
3. Communication and infrastructural technology in management.

Q12. List the environmentals factors that can affect an organization's strategy.

Ans : **(May-19)**

The different environmental factors that affect the business can be broadly categorized as internal and has its own external factors.

I) Internal Factors

Internal factors are those factors which exist within the premises of an organization and directly affects the different operations carried out in a business. These internal factors are :

(a) Value System

It implies the culture and norms of the business. In other words, it means the regulatory framework of a business and every member of the organization has to act within the limits of this framework.

(b) Missions and Objectives

Different priorities, policies and philosophies of a business is guided by the mission and objectives of a business.

(c) Financial Factors

Financial factors like financial policies, financial position and capital structure also affects a business performance and its strategies.

(d) Internal Relationship

Factors like the amount of support the top management enjoys from its shareholders, employees and the board of directors also affects the smooth functioning of a business.

II) External Factors

The External Factors include all those factors which exists outside the firm and are often regarded as uncontrollable. These external forces can further be categorized as Micro Environment and Macro Environment.

Micro Environment includes the following factors.

1. Suppliers

Suppliers are those people who are responsible for supplying necessary inputs to the organization and ensure the smooth flow of production.

2. Competitors

Competitors can be called the close rivals and in order to survive the competition one has to keep a close look in the market and formulate its policies and strategies as such to face the competition.

3. Marketing Intermediaries

Marketing intermediaries aid the company in promoting, selling and distribution of the goods and services to its final users. Therefore, marketing intermediaries are vital link between the business and the consumers.

Macro Environment includes the following factors.

1. Economic Factors

Economic factors includes economic conditions and economic policies that together constitutes the economic environment. These includes growth rate, inflation, restrictive trade practices etc. Which have a considerable impact on the business.

2. Social Factors

Social factors includes the society as a whole alongside its preferences and priorities like the buying and consumption pattern, beliefs of people their purchasing power, educational background etc.

3. Political Factors

The political factors are related to the management of public affairs And their impact on the business. It is important to have a political stability to maintain stability in the trade.

4. Technological Factors

Latest technologies helps in improving the marketability of the product plus makes it more consumer friendly. Therefore, it is important for a business to keep a pace with the changing technologies in order to survive in the long run.

2.2 Industry Analysis

Q13. Define Industry Analysis. Explain the components of Industry Analysis.

Ans :

Introduction

- A number of environmental factors influence the organizations. It is up to managers to ensure that this influence is harnessed in a positive way, leading to organizational success.
- For the firm to make profit, it must create value for customers or buyers.
- Hence, the firm needs to understand its customers. While creating value, the firm has to obtain goods and services from suppliers.
- So, it must value its suppliers and form enduring business relationships with them. While creating value for its buyers, the firm must closely look at the rivals who are there in the arena competing for the same 'space'.
- Hence, the firm must understand competition. Thus, buyers, suppliers and competitors form the substance of a firm's industry environment.

Meaning

- The industry (or competitive) environment is typically characterized by a group to firms producing the same or related products or services.
- Forces from the industry environment directly affect the firm, and the amount of influence the firm has over its industry is dependent on the dominance of its competitive position.
- Most strategic management books utilize Michael Porter's Five Forces Model as a framework for analyzing the competitive forces within the industry.
- Like so many other models used to make strategic decisions today, the implicit assumption of this model is that the industry is operating within an economy closed to the greater society and ecosystem.
- From the view of the Five Forces Model, industry analysis is traditionally portrayed in strategic management books from the rather static perspective of "what is" within the industry.
- This model suggests that strategic managers scan the product market segments in which they compete for opportunities and threats without much regard for context.
- Their primary focus is on increasing market share within defined industry boundaries, and the competition is defined as those competitors who directly compete with them in individual product or service categories.
- Cooperative relationships are typically limited to those with direct suppliers and buyers. Capabilities to create value are viewed as residing in a single firm, and organizational performance is measured primarily in terms of how well the individual firm is managed with respect to its economic sustainability.
- Thus, within this traditional paradigm of industry analysis, strategic managers engage in adaptive learning within well-defined industry segments.

Components

1. Scanning

Identifying early signals of environmental changes and trends. It entails the study of all segments in the general environment. Through scanning, firms identify early signals of potential changes in the general environment and detect changes that are already underway.

Scanning often reveals ambiguous, incomplete, or unconnected data and information. Thus, environmental scanning is challenging but critically important for firms competing in highly volatile environments.

2. Monitoring

Detecting meaning through ongoing observations of environmental changes and trends. Critical to successful monitoring is the firm's ability to detect meaning in different environmental events and trends.

Effective monitoring requires the firm to identify important stakeholders. Because the importance of different stakeholders can vary over a firm's life cycle, careful attention must be given to the firm's needs and its stake holder groups across time. Scanning and monitoring are particularly important when a firm competes in an industry with high technological uncertainty.

3. Forecasting

Developing projections of anticipated outcomes based on monitored changes and trends. Scanning and monitoring are concerned with events and trends in the general environment at a point in time. When forecasting, analysts develop feasible projections of what might happen, and how quickly, as a result of the changes and trends detected through scanning and monitoring.

4. Assessing

Determining the timing and importance of environmental changes and trends for firms' strategies and their management. The objective of assessing is to determine the timing and significance of the effects of environmental changes and trends on the strategic management of the firm. Through scanning, monitoring, and forecasting, analysts are able to understand the general environment.

Going a step further, the intent of assessment is to specify the implications of that understanding for the organization. Without assessment, the firm is left with data that may be interesting but are of unknown competitive relevance.

Q14. Explain the factors determining 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.

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.

Q15. What are the Methods of Industry Analysis.

Ans :

1. External Factor Evaluation (EFE) Matrix

An External Factor Evaluation (EFE) Matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information.

2. Competitive Profile Matrix (CPM)

The Competitive Profile Matrix (CPM) identifies a firm's major competitors and its particular strengths and weaknesses in relation to a sample firm's strategic position. The weights and total weighted scores in both a CPM and EFE have the same meaning.

Q16. Explain the Advantages of Industry Analysis.

Ans :

The basic purpose of industry analysis is to assess the relative strengths and weaknesses of an organization relative to the players in the industry.

It tries to highlight the structural realities of a particular industry and the extent of competition within that industry. Through industry analysis, an organization can find whether the chosen field is attractive or not and assess its own position within the industry. Industry analysis helps firms in the following ways:

1. **Industry Attractiveness**

   Industry analysis helps to find out :

   i) The growth potential of the industry

   ii) The profitability of the industry

   iii) The relative abilities of players in that industry.

   Where the growth prospects are good and profit potential is great, the firm can safely conclude that the field is attractive and offers enough room for others to enter and exploit the field.

2. **Competitive Position**

   Where does the firm stand in comparison to others in a particular industry. Finding answers to such a question is important for various reasons:

   i) It helps the firm to find its own advantageous/disadvantageous place.

   ii) It enables the firm to know whether it is able to deliver value for money when compared to others in the industry.

   iii) It can think of effecting improvements in its product and service offerings in an attempt to defend and improve its standing in the market place.

3. **Only with Industry Analysis, Environmental Survey becomes Complete**

   With industry analysis, the firm actually gets into the study of its proximate environment Industry structure and the relative abilities of the players of the industry concerned, are of special significance to the firm in developing strategy.

4. **Industry Analysis serves as a Prelude to Strategy Formulation**

   Industry analysis is a prelude to strategy formulation. It helps the firm assess industry attractiveness. It also helps to assess its own strengths relative to the other players in the industry; in other words, it brings to the fore the firm's competitive position within the industry.

5. **Industry Analysis Reveals Industry Attractiveness and Firm's Competitive Position within the Industry**

   Industry attractiveness and the firm's competitive position within the industry, are two central concepts in forging strategy. For knowing the position regarding both these factors, we need to analyze the industry in depth.

   The analysis will provide details such as number of players in the industry. It is also an indicator of the strength of the competitive forces in the industry and hence industry profitability/attractiveness. Similarly, only by analyzing industry and competition in detail, can the firm know its own competitive position within the industry.

6. **Analyzing Industry and Competition Helps the Firm Identify and Build its Competitive Advantage :**

   A firm can size-up its competitive advantage, only by analyzing the industry structure and competition. It is essential for the firm to know its position relative to competition. It has to compare and contrast its own strength and weaknesses with those of its competitors.

2.3 Portfolio Analysis

Q17. What is Portfolio Analysis. Explain the reasons for Portfolio Analysis.

Ans : **(Imp.)**

Meaning

- Portfolio analysis in strategic management involves analyzing every aspect of product mix to identify and evaluate all products or service groups offered by the company on the market, to prepare the detailed strategies for each part of the product mix to improve the growth rate.

- It can also be used to make a strategic decision about strategic business units. Portfolio analysis in strategic management has, as its major objective, the optimal gathering of the resources among the business activities comprising a diversified business portfolio.
- Portfolio analysis aims to identify the components that need to be enhanced to remove barriers from making the working process recognize better methods to allocate resources to improve the return on investment (ROI).

Reasons

A different purpose for conducting a business portfolio analysis in strategic management. The three main reasons why management focuses on business portfolio analysis in strategic management, which are:

1. **Analysis**

   The organization's first reason to conduct a portfolio analysis in strategic management is to determine every product mix's current position and determine which SBUs (strategic business unit) need more or less investment. Management needs to create the organization's entire portfolio to analyze the present opportunities and threats to the market and the product.

2. **Formulate Growth Strategy**

   Another aspect that management wants to formulate from the portfolio analysis in strategic management is the growth strategy. According to other products and markets, they develop a different strategy according to their potential threats and opportunities. Portfolio analysis in strategic management helps in laying down the strategy of expansion as well

3. **To Take Decisions Regarding Product Retention**

   Another reason for corporate portfolio analysis in strategic management is to determine the life of the product i.e., to determine which product should be retained longer and which product should be removed from the product line.

2.3.1 BCG

Q18. How do you evaluate the strategic alternatives using the BCG Matrix.

(OR)

Explain strategic implications of BCG Matrix Model.

(OR)

Describe the vital aspects in BCG Model.

Ans : **(July-21, June-19)**

Meaning

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.

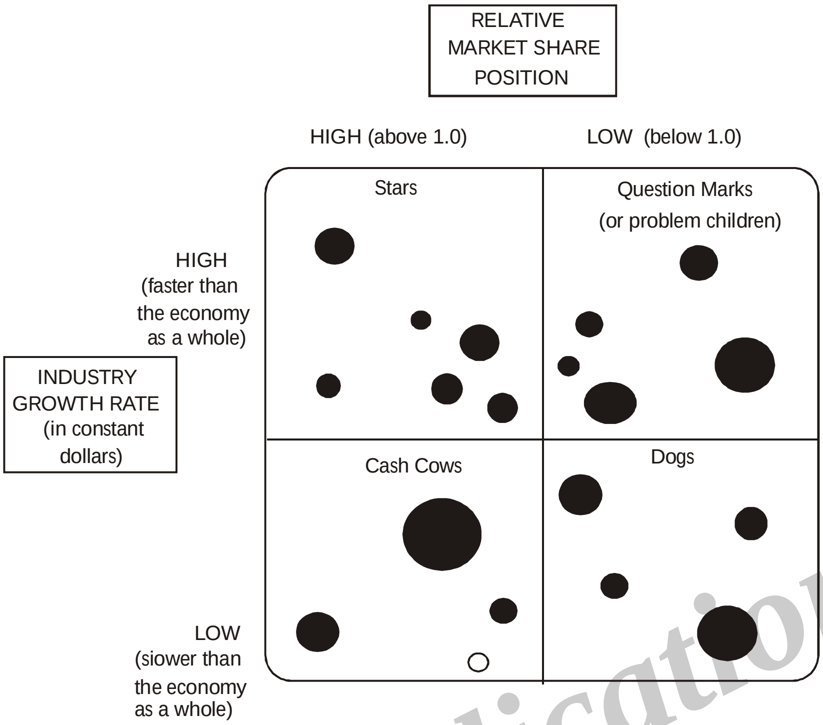

Fig.: BCG matrix

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 dogs' 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 harvested, divested or liquidated depending upon the ability of the strategy to yield more cash.

Q19. Explain the strength and weaknesses of BCG Matrix.

Ans :

Strengths

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 maximizing 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 rationalization for both invest, expand and divest strategies.

Weaknesses

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.

2.3.2 GE Matrix

Q20. How to you evaluate the strategic alternatives using the GE Nine Cell Matrix.

(OR)

Describe the vital aspects in GE Matrix.

Ans : **(June-19)**

Meaning

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 analyze 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,

(viii) 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.

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 approach followed for the calculation of long term industry attractiveness, is followed for the calculation of business strength/competitive position. The analytical issue is whether to rate each business unit on die same generic factors or on each unit's strength on the factors most pertinent to its own industry.

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.

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.

2.3.3 Add Little Models for understanding Competitive position

Q21. 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.

2.3.4 SWOT Analysis

Q22. Explain briefly about SWOT Analysis.

(OR)

Describe the concept of SWOT Analysis.

(OR)

Discuss the essential elements in SWOT Analysis.

(OR)

Discuss the methods of identifying the opportunities and threads of a business in this pandemic situations.

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

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

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection. The following diagram shows how a SWOT analysis fits into an environmental scan:

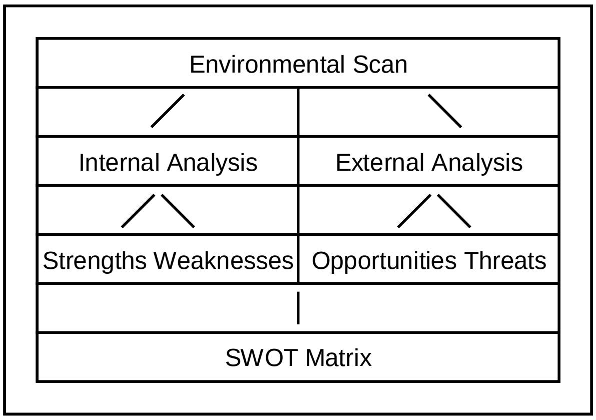

Fig.: SWOT Analysis Framework

1. **Strengths**

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include:

- Patents
- Strong brand names
- Good reputation among customers
- Cost advantages from proprietary know-how
- Exclusive access to high grade natural resources
- Favorable access to distribution networks

2. **Weaknesses**

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

- Lack of patent protection
- A weak brand name
- Poor reputation among customers
- High cost structure
- Lack of access to the best natural resources
- Lack of access to key distribution channels

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

3. Opportunities

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

- An unfulfilled customer need
- Arrival of new technologies
- loosening of regulations
- removal of international trade barriers

4. Threats

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

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

Q23. Explain the Advantages of SWOT Analysis.

Ans :

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.

SWOT Analysis - What to Look for in Sizing up a Company's Strenghts, Weaknesses, Opportunities, and Threats

Potential Internal Strenghts

- Core competencies is key areas
- Adequate financial resources
- Well though of by buyers
- Am acknowledged market leader
- Well-conceived functional area strategies
- Access to economies of scale
- Insulated (at least somewhat) from strong competitive pressures
- 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
- 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
- Complacency among rival firms
- 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 powder of customers or suppliers
- Adverse demographic changes
- Others

2.3.5 Porter's Competitive Advantage

Q24. Explain in detail about Porter's Competitive Advantage Model.

Ans :

Porter's diamond model states that there are some fundamental reasons behind why few nations are highly competitive than other nation? and why few industries within nations are highly competitive than other industries. Porter further suggests that the national home base of an organisation plays a key role in building competitive advantage globally.

This home base offers the following factors which the organisation builds and expands for providing competitive advantages. Porter's diamond model is also known as Porter's competitive advantage model.

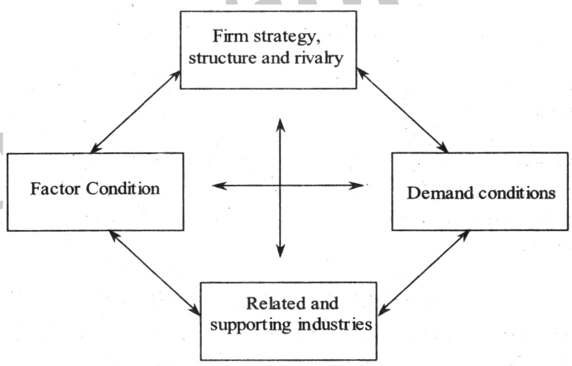

Fig. : Porters's Diamond

1. Factor Conditions

There are certain factor conditions which assists the firm in specifying the basis of benefits on a national level. These conditions offers initial benefits that are developed for producing highly advanced factors of competition.

2. Demand Conditions

The different characteristics of the advantages of an organisation are build based on the home demand conditions.

3. Related and Supporting Industries

A successful industry may inturn provide benefits to related and supporting industries.

4. Firm's Strategy, Structure and Rivalry

The various characteristics of the firm's strategy, industry structure and rivalry in various nations assists in determining the bases of advantages. The figure given below depicts the Porters's diamond,

Q25. Describe the elements in competitive analysis and its advantages.

Ans : **(June-19)**

Competitive analysis basically includes four components as follows,

1. Future Goals

Future goals helps the firm to determine the competitor's goals. These goals would help in forecasting whether the competitors are satisfied or not with their current position and financial returns.

Analysing competitor's goals also helps in forecasting their responses with respect to strategic changes and also helps in understanding their sincere efforts against the competitors actions.

Ascertainment of the competitors goals usually, involves the qualitative factors like targets with respect to market leadership, technological position, social performance and so on.

2. Assumptions

Recognizing competitors assumptions is the second most important component in the competitors analysis and these assumptions are classified into two types. They are,

(a) Assumptions of the competitor regarding itself

(b) Assumptions of the competitor regarding industry and the other companies in it.

Each and every firm functions on the basis of its own set of assumptions and these assumptions directs the way in which the (firm) behaves and also its reactions towards the various events.

The competitors who functions on the basis of assumptions regarding its industry and competitors would identify the biases or blind spots.

The blind spots are the areas which the competitor will not recognize the significance of events or may view them as wrong or may consider them as very slow. Abolishing such blind spots would help the firm to recognize the moves with lower chances of immediate reaction.

3. Current Strategy

Current strategy is the third most crucial component of competitor analysis and it involves creation of statements of the current strategy of each competitor.

The competitor's current strategy is used as an important business operating policy in each functional area where it (firm) interrelates the competitor's strategy with its strategy. This strategy may be explicit or implicit and may exist in different forms.

4. Capabilities

The last diagnostic step in competitor analysing is analysis of competitor's capabilities by the firm.

The firm's strengths and weaknesses helps in ascertaining its capability to start or to react to the strategic moves and also to tackle with the environmental or industry events which may take place,

2.4 Value Chain Analysis

Q26. What is value chain analysis ? State the various elements of Value Chain Analysis.

(OR)

Elaborate value chain analysis.

(OR)

Discuss the essential elements in value chain analysis.

Ans : **(Sep.-22, June-18)**

Meaning

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 organization'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.

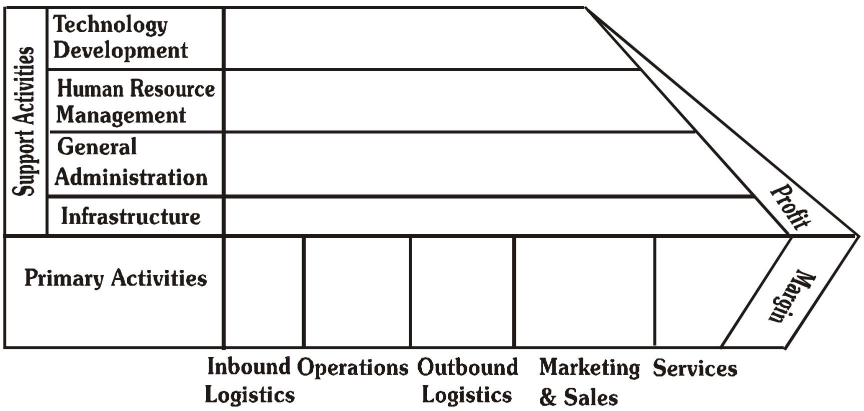

Fig. The Value Chain analysis

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 Niugini 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:

- Technology development
- Human resource management
- General administration
- 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, containerization 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, decentralization, empowerment of employees in decision-making, strategy formulation and imple- mentation, 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.

Q27. What are steps involved in conducting a value chain analysis ?

Ans :

Step 1: Identify the Product for Value Analysis

The value analysis process begins with identifying the product for which value analysis has to be conducted. The product identified for value analysis must increase the sales revenue after it is redesigned and must not become outdated in future. Value analysis can be conducted either for the entire product or few elements of the product.

Step 2: Gather the Information Related to the Product

The next step is to gather significant information about the product. This information is related with the,

(a) Manufacturing processes, layout of machine and instruction sheets.

(b) Total cost information and marketing information

(c) Technical specifications with the help of diagram

(d) Plant capacity and time consumption details

(e) Recent developments in the product substitutes.

Step 3: Determine the Various Functions of the Product

In this step, the various functions to be performed by the product such as, primary functions, secondary functions and tertiary functions are determined and the significance. The each function is defined. The functions involving high cost are also identified in this step.

Step 4: Develop Various Alternatives to Increase Product Utility

After gathering significant product information and determining the functions of each element of the product. The next step is to develop various alternatives for increasing the product utility. The team performing value analysis can conduct brainstorming sessions for gathering ideas from different people and motivating them to share their valuable opinions and suggestions.

Step 5: Evaluation of Alternatives

The various ideas or alternatives recorded in the step 4 are evaluated and assessed for determining the extent to which each alternative can meet the financial and technical requirements of the firm. After evaluating all the alternatives the alternatives or ideas which are technically effective and involves less cost are selected for further examination.

Step6: Develop a Plan for the Best Alternative

In this step, a comprehensive plan is developed for the selected ideas while examining them. Development plans involves. Preparing diagrammatic representations, developing models and conducting meetings with concerned departments.

Step 7: Execute the Best Alternative

Finally, the best alternative or idea is transformed into a prototype and used in manufacturing activities. The performance and outcomes of this prototype is recorded. Functional analysis and product cost analysis are conducted for determining the net savings derived from value analysis.

2.5 Core Competencies

Q28. What are Core Competencies. How many Core Competencies are required for a company.

Ans :

Meaning

- 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.

Q29. How to build core competencies?

Ans :

Four criteria for determining core capabilities include:

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 competi-tive 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.

2.6 Capability Building Strategies

Q30. Define organizational capabilities with its types.

Ans : **(July-21, Imp.)**

Meaning

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-substitutable 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 utilization 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.

Q31. What are the methods of analysing and diagnosing the corporate capabilities?

Ans : **(Imp.)**

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. Capabilities Building

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

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(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.

2. Value chain analysis.

Ans :

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 organization'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.

3. Core Competencies.

Ans :

- 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.
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4. Define Environmental Scanning.

Ans :

Environmental scanning is the process by which corporate planners monitor the economic, governmental, supplier, technological and market settings to determine the opportunities for and threats to their enterprise. In other words, environmental scanning consists of identifying and analyzing environmental influences individually and collectively to determine their potential effects on an organization and the consequent problems and opportunities.

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5. Define economic environment.

Ans :

Economic environment comprises of macro-level factors which are related to the means of production and distribution of wealth which affects the business of an organization.

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6. Demographic Environment

Demographic factors constitute the important factors having significant implications for business. Some of these factors include, population growth, size of the population, composition of age, family size, nature of the family, income levels, etc.

One of the key determinant of demand for any product is the size of the population. As per the world development report 1996, there were 58 countries that are having population less than one million and India is a country where different multi-million cities exist.

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7. Define Industry Analysis.

Ans :

- The industry (or competitive) environment is typically characterized by a group to firms producing the same or related products or services.
- Forces from the industry environment directly affect the firm, and the amount of influence the firm has over its industry is dependent on the dominance of its competitive position.
- Most strategic management books utilize Michael Porter's Five Forces Model as a framework for analyzing the competitive forces within the industry.
- Like so many other models used to make strategic decisions today, the implicit assumption of this model is that the industry is operating within an economy closed to the greater society and ecosystem.
- From the view of the Five Forces Model, industry analysis is traditionally portrayed in strategic management books from the rather static perspective of "what is" within the industry.

8. Portfolio Analysis

Ans :

- Portfolio analysis in strategic management involves analyzing every aspect of product mix to identify and evaluate all products or service groups offered by the company on the market, to prepare the detailed strategies for each part of the product mix to improve the growth rate.
- It can also be used to make a strategic decision about strategic business units. Portfolio analysis in strategic management has, as its major objective, the optimal gathering of the resources among the business activities comprising a diversified business portfolio.
- Portfolio analysis aims to identify the components that need to be enhanced to remove barriers from making the working process recognize better methods to allocate resources to improve the return on investment(ROI).

9. Elements in competitive analysis and its advantages.

Ans :

1. Future Goals

Future goals helps the firm to determine the competitor's goals. These goals would help in forecasting whether the competitors are satisfied or not with their current position and financial returns.

Analysing competitor's goals also helps in forecasting their responses with respect to strategic changes and also helps in understanding their sincere efforts against the competitors actions.

Ascertainment of the competitors goals usually, involves the qualitative factors like targets with respect to market leadership, technological position, social performance and so on.

2. Assumptions

Recognizing competitors assumptions is the second most important component in the competitors analysis and these assumptions are classified into two types. They are,

(a) Assumptions of the competitor regarding itself

(b) Assumptions of the competitor regarding industry and the other companies in it.

Each and every firm functions on the basis of its own set of assumptions and these assumptions directs the way in which the (firm) behaves and also its reactions towards the various events.

The competitors who functions on the basis of assumptions regarding its industry and competitors would identify the biases or blind spots.

The blind spots are the areas which the competitor will not recognize the significance of events or may view them as wrong or may consider them as very slow. Abolishing such blind spots would help the firm to recognize the moves with lower chances of immediate reaction.

10. Outbound Logistics

Ans :

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.

Choose the Correct Answers

1. Horizontal integration is concerned with [a]

   (a) Production (b) Quality

   (c) Product planning (d) All of the above

2. It refers to formal and informal rules, regulations and procedures that complement the company structure. [b]

   (a) Strategy (b) Systems

   (c) Environment (d) All of the above

3. Micro environment is the ________ environment of a company. [d]

   (a) Working (b) Human

   (c) External (d) Internal

4. Techniques used in environmental appraisal are [d]

   (a) Single-variable extrapolation/multivariable interaction analysis

   (b) Structured/ unstructured expert/inexpert opinion

   (c) Dynamic modes and mapping

   (d) All of the above

5. Financial environment is concerned with [c]

   (a) Demand & supply of money (b) Capital markets

   (c) Both 'A' and 'B' (d) None of the above

6. A major part of strategy implementation is [c]

   (a) Planning (b) Communication

   (c) Resource allocation (d) Monitoring

7. Strategic management is concerned with [a]

   (a) Short range planning (b) Long range planning

   (c) Both 'A' and 'B' (d) None of the above

8. The acronym SWOT stands for [d]

   (a) Special Weapons for Operations Timeliness

   (b) Services, Worldwide Optimization, and Transport

   (c) Strengths Worldwide Overcome Threats

   (d) Strengths, Weaknesses, Opportunities, and Threats

9. Which of the following is not a characteristic of strategic management that makes it differentfrom other types of management? [d]

   (a) It is interdisciplinary. (b) It has an external focus.

   (c) It has an internal focus. (d) It concerns the present direction of the organization.

10. Which of the following is an issue considered in developing corporate strategies? [c]

 (a) What business(es) are we in?

 (b) What direction are we going?

 (c) What resources do we have to implement our strategies?

 (d) What businesses are we in and what to do with those businesses?

11. Competitive advantage can best be described as: [a]

 (a) Increased efficiency.

 (b) What sets an organization apart.

 (c) A strength of the organization.

 (d) Intangible resources.

12. The various organizational routines and processes that determine how efficiently and effectively the organization transforms its inputs into outputs are called: [b]

 (a) Strengths (b) core competencies

 (c) capabilities (d) customer value

13. When defining strategic management the most important thing to remember is that it is: [c]

 (a) Not as easy as you think (b) Mainly the province of senior managers

 (c) A living evolving process (d) More conceptual than practical

Fill in the blanks

1. __________ literally means the surroundings, external objects, influences or circumstances under which someone or something exists.
2. ETOP stands for __________
3. __________ business units generate substantial cash surpluses than what it needs for reinvestment and expansion.
4. A firm's __________ are its resources and capabilities that can be used as a basis for developing a competitive advantage.
5. The absence of certain strengths may be viewed as a __________ .
6. Changes in the external environmental also may present __________ to the firm.
7. __________ Analysis is instrumental in strategy formulation and selection.
8. __________ helps the firm to determine the competitor's goals.
9. __________ strategy is the third most crucial component of competitor analysis.
10. The last diagnostic step in competitor analysing is analysis of __________ by the firm.

ANSWERS

1. Environment
2. Environmental Threat and Opportunitiy Profile
3. Cash cow
4. Strengths
5. Weakness
6. Threats
7. SWOT
8. Future goals
9. Current
10. Competitor's capabilities

One Mark Answers

1. Technological Environment.

Ans :

Technological environment include those factors which are related to applied knowledge, material and machines used in production of goods and services which effects the business of an organization.

2. External Factor Evaluation (EFE) Matrix

Ans :

An External Factor Evaluation (EFE) Matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information.

3. Primary Activities

Ans :

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.

4. Core competencies

Ans :

Core competencies are a company's resources and capabilities that enable the firm to burte competitive advantage over the competitors.

5. Rare Capabilities

Ans :

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.

UNIT III	**Strategy Formulation:** Business Strategies: Business Level Strategy, Strategy formulation, Situation Analysis, Growth Strategies, Offensive strategies, Defensive strategies, Generic Strategies , Industry life Cycle Analysis, Emerging Industries, Maturing Industry, Fragmented Industry, Strategy for Leaders, Challengers, Followers and Niches-Managing Business Crisis.

3.1 Business Strategies

Q1. Discuss about Business Strategies.

Ans :

Meaning

Business strategy refers to a strategy which emphasizes on improving the competitive position of the products or services of a company in a specific industry or market segment.

Classification

Business strategies are classified into two- Porter's competitive strategies and cooperative strategies.

1. Porter's Competitive Strategies

Competitive strategies are adopted to gain competitive advantage over competitors. Michael Porter proposed two competitive strategies for battling against competitors and achieve competitive advantage. The two competitive strategies are,

(a) **Low Cost Strategy:** Low cost strategy is the company's ability to design, manufacture and market the product or service at low cost than compared to its competitors.

(b) **Differentiation Strategy:** It is an ability of a business unit to offer unique and superior value to the customers in terms of product features, quality and after-sale services.

2. Cooperative Strategies

Cooperative strategies are used to achieve competitive advantage over other competitors by working in coordination with other firms in an industry. Cooperative strategies are of two types - collusion and strategic alliances.

(a) **Collusion:** Collusion refers to active cooperation of different firms in an industry to minimize output and increase prices to ensure normal economic law of demand and supply. Collusion may be explicit or tacit. In case of explicit collusion, firms cooperate via direct communication and negotiation. In case of tacit collusion, there is no direct communication among competing firms or companies.

(b) **Strategic Alliances:** When a company decides to cooperate with two or more companies for performing business operations by making their contributions either in the form of resources, skills or capabilities for attaining a common goal or for mutual benefit is termed as strategic alliance.)

Strategic alliance refers to a cooperation between two or more companies. Alliance partners have common goal and shared control and make contributions to attain mutual benefits/advantages.

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.

3.3 Strategy Formulation

Q3. Define Strategy Formulation. Explain the process of Strategy Formulation.

(OR)

Explain the process involved in Strategy Formulation.

(OR)

What is strategy formulation? Explain the process of strategy formulation.

Ans : **(June-19, June-18, Imp.)**

Meaning

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a frame work for the actions that will lead to the anticipated results. Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose.

Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur. A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).

Process

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, the steps are as follows :

Fig.: Process of Strategy Formulation

1. Setting Organization's 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.

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 are 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.

Q4. Explain the formulation of Strategy at corporate Levels.

Ans :

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses.

Corporate Level Strategy is concerned with:

- Reach Defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.
- Competitive Contact Defining where in the corporation competition is to be localized. Take the case of insurance: In the mid-1990, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products.

  The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level, through its subsidiary, Paul Revere.
- Managing Activities and Business Interrelation ships Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.
- Management Practices Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.
- Corporations are responsible for creating value through their business. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

Q5. Discuss the relevance of long term objectives in strategy formulation.

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

The following points highlight the relevance of long term objectives in strategy formulation,

1. Long term objectives are required at corporate and functional level in an organization as they are critical measures of managerial performance.
2. Long term objectives help an organization in making the best use of its strengths and utilizing the opportunities which are available in the environment.
3. Long-term objectives provide a direction to the company and are crucial for the success of organization.
4. Long-term objectives play a key role in activities like planning, organizing motivating and controlling.
5. Long-term objectives are considered important because they cover major areas like productivity, employee relations, profitability, employee development, competitive position, technological leadership, public responsibility etc.
6. Profit maximization is not possible through short-term objectives. Therefore, long-term objectives are set which is the best approach to achieve profitability.
7. Long-term objectives help the strategic managers in creating synergy between all functional areas understanding the priorities and coordinating the work.

8. As strategy is formulated for future purpose, it requires objectives which cover long-term future requirements. Thus, long-term objectives have an important role to play in strategy formulation.

9. Setting long-term objectives is the key element of any strategy statement. Long-term objectives helps in allocating the resources effectively which intum increases productivity.

Q6. Explain the Formulation of Strategy at Business Levels.

Ans : **(Imp.)**

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm.

At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced.

At the business level, the strategy formulation phase deals with: positioning the business against rivals anticipating changes in demand and technologies and adjusting the strategy to accommodate them influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies (cost leadership, differentiation, and focus) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

Competitive Tactics

Although a choice of one of the generic competitive strategies provides the foundation for a business strategy, there are many variations and elaborations. Among these are various tactics that may be useful (in general, tactics are shorter in time horizon and narrower in scope than strategies).

Categories

Three categories of competitive tactics are those dealing with timing (when to enter a market), market location (where and how to enter and/or defined) and cooperative tactics.

1) Timing Tactics

When to make a strategic move is often as important as what move to make. There are three types of moves, first-movers (i.e., the first to provide a product or service), second-movers or rapid followers, and late movers. Each tactic can have advantages and disadvantages.

Being a first-mover can have major strategic advantages when :

i) Doing so builds an important image and reputation with buyers;

ii) Early adoption of new technologies, different components, exclusive distribution channels, etc. can produce cost and/or other advantages over rivals;

iii) First-time customers remain strongly loyal in marketing repeat purchases; and

iv) Moving first makes entry and limitation by competitors hard or unlikely.

However, being a second-or late-mover isn't necessarily a disadvantage. There are cases in which the first-mover's skills, technology, and strategies are easily or even surpassed by later-movers allowing them to catch or pass the first-mover in a relatively short period, while having the advantage of minimizing risks by waiting until a new market is established.

Sometimes, there are advantages to being a skillful follower rather than a first mover, e.g. when;

i) Being a first-mover is more costly than initiating and only most experience curve benefits accrue to the leader (followers can end up with lower costs than the first-mover under some conditions);

ii) The products of an innovator are somewhat primitive and do not live up to buyer expectations, thus allowing a clever follower to win buyers away from the leader with better performing products;

iii) Technology is advancing rapidly, giving fast followers the opening to leapfrog a first-mover's products with more attractive and full-featured second- and third-generation products; and

iv) The first-mover ignores makes segments that can be picked up easily.

2) Market Location Tactics

These fall conveniently into offensive and defensive strategy. Offensive strategy to make market share from a competitor, while defensive strategy attempt to keep a competitor from taking away some of our present market share, under onslaught strategy by the competitor.

Cooperative Strategies

Another group of "competitive" tactics involve cooperation among companies. These could be grouped under the heading of various types of strategic alliances.

These involve an agreement or alliance between two or more businesses formed to achieve strategically significant objectives that are mutually beneficial. Some are very short-term; others and longer-term and may be the first stage of an eventual merger between the companies.

3.4 Situation Analysis

Q7. Define Situation Analysis.

Ans :

Situational analysis refers to the process of identifying strategic fit between internal strengths and external opportunities and at the same time working on internal weaknesses and external threats. Analysis of current situation of an organization is done using SWOT analysis.

SWOT Analysis

For answer refer to Unit-II, Q.No. 22

3.5 Growth Strategies

Q8. Discuss in detail about Ansoff product-market matrix.

Ans : **(Imp.)**

In the year 1957, Ansoff proposed three types of growth strategies to take up diversification. These strategies are demonstrated in the form of "product-market matrix" as follows.

Market Penetration

Under market penetration, more number of existing products are sold to the present market. The firm emphasizes mainly on existing markets with its current products by using a market penetration type of concentration.

The basic objectives of market penetration include,

(a) To maintain or increase the market share of existing products.

(b) To become dominant in growth markets

(c) To increase the usage of products by existing customers etc.

2. Market Development

Under market development, present products are sold to new markets. It involves attracting new customers for existing products. Here, it should be taken into account that new markets are not necessarily in the geographical sense. It can be demographic.

Product / Market	Present	New
Present	Market Penetration	Product Development
New	Market Development	Diversification

Fig. : Ansoff Product-Market Matrix

3. Product Development

Under product development, new products are sold to the present markets. By focussing on product development, new products are introduced in the same markets.

4. Diversification

Diversification is a much-used and much-talked about set of strategies. These strategies involve all the dimensions of strategic alternatives. Diversification may involve internal or external, related or unrelated, horizontal or vertical and active or passive dimensions either singly or collectively. Diversification strategies aim at selling new products to new markets.

3.6 Offensive Strategies, Defensive Strategies

Q9. What is an Offensive Strategy? Explain various types of Offensive Strategies.

Ans : **(July-21, Imp.)**

Meaning

Offensive strategy refers to a strategy in which a company directly targets competitors in order to capture market share. It is used as a key driver of competitive advantage.

Types

There are six basic types of an offensive strategy. They are as follows,

1. Initiative to Match or Exceed Competitors Strengths

There are two instances where a firm can take the initiative to overcome or neutralize its competitors strengths and weaknesses.

(a) When there is no other choice but to try and reduce the strong rival's competitive advantage.

(b) Despite the strengths or weakness that the rivals have, there is a chance for the firm to gain profitable market share at the expense of its rivals.

Attacking a rival's strength may be necessary. when the rival has a superior product to offer or superior organizational resources and capabilities.

2. Capitalizing on Competitors Loopholes

Taking the initiative to exploit the rival's weakness can provide a better chance for success than challenging the strengths of the rivals. The competitor could be benefitted as the rival wouldn't be ready with any kind of defense mechanism.

3. Multi-Dimensional Offensive Initiatives

A company can take up multiple initiatives and launch them more or less at the same time across a wide geographic region. Such offensive strategies can be more successful when the challenge has a new attractive product or service to introduce or has good brand awareness and distribution channels for attracting buyers.

4. End-run Offensive

The main idea of an end-run offensive is to move around competitors, capture unoccupied or less occupied markets, change the rules of the competitive game in favour of the attacker.

5. Guerilla Offensive

Small challengers who lack resources and market visibility use guerilla offensive strategy to their competitors. The guerilla offensive is based on the hit and run principle, here the competitor tries to capture sales and market share whenever and wherever it gets the chance.

It involves making a sudden and random attack on the leader's customers by using tactics like occasional reduction in price or surprising the rivals through intensive promotional activity, conducting special campaigns to attract buyers away from those rivals who have problems with strikes or meeting the delivery on time.

Q10. What is an Defensive Strategy? Explain various types of Defensive Strategies.

Ans : **(July-21, Imp.)**

Meaning

Defensive strategy refers to the strategy where a firm retains valuable customers who are taken away by competitors. In other words, this strategy is used to stop or defend the competitive advantage strategies adopted by competitors.

Types

There are six types of defense strategies which are used by the organization for defending its market share. They are as follows,

1. Position Defense

Position defense deals with the development of superior brand power strategy.

2. Flank Defense

Flank defense helps in protecting the weak areas of the firms and acts as an invasion base for counter attacks by the competitors.

3. Preemptive Defense

Preemptive defense can be done in a number of ways, such as carrying out guerilla action in the market, attacking the competitors in all the areas and attaining a grand market envelopment.

4. Counter Offensive Defense

When the firms are attacked by competitors, they can respond with a counter attack.

5. Mobile Defense

In this type of defense strategy, the leader extends its area over new territories, which act as future centres for defense and offence. This is done through market broadening and diversification. Market broadening deals with shifting the emphasis from current product to primary/genuine needs.

The firm makes use of research and development and a range of technologies related to that need. Market diversification deals with transforming into unrelated industries.

Q11. Explain how Offensive and Defensive Strategies create value.

Ans : **(July-21, Imp.)**

Offensive Strategies

Following are the benefits of offensive strategies which create value for the firm,

1. Competitive position of the firm can be improved through successful offensive strategy.
2. It helps in acquiring market share.
3. It helps in increasing profits.
4. It helps the firm to hit the market and create its presence.

Defensive Strategies

Following are the benefits of defensive strategies which create value for the firm,

1. Effective defensive strategy attracts both old and new customers through increasing marketing and advertising.
2. Defensive strategy does not involve much risk, owner can take necessary steps without feeling threatened.
3. Defensive strategy is used to enhance the value of products or services.
4. It is an effective long-term strategy which facilitates in acquiring niche market for products and services.
5. It helps in devaluing the value of competitors and by emphasizing on benefits of the owner brand.

3.7 Generic Strategies

Q12. 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.

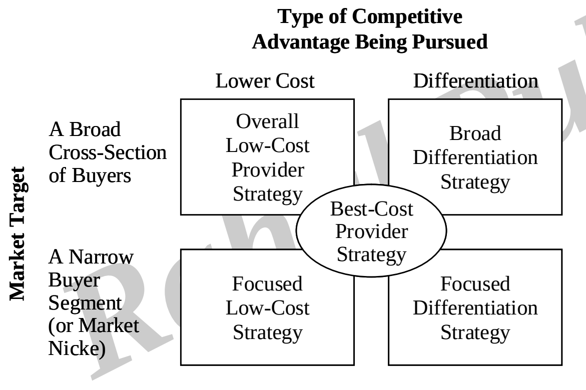

Fig. : The Five Generic Competitive Strategy

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.

Q13. Explain briefly about Cost Leadership Strategy.

Ans :

Meaning

- 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 generalized 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 realize cost-based competitiveness.

Q14. 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.

Q15. Define Differentiation Strategies. Explain different types of Differen-tiation Strategies

Ans :

Meaning

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

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.

Q16. What are the benefits and risk associated with differentiation Strategies.

Ans : **(Imp.)**

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, differentiation 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.

Q17. Explain briefly about Focussed Strategy.

Ans :

- Firms having a less competitive scope must adopt plus 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 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.

Q18. What are the benefits and risk associated with Focussed Strategy?

Ans : **(Imp.)**

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 competencies to serve those markets. The development of such distinctive competencies may be a long-drawn and difficult process.
2. Being focussed means commitment to a narrow market segment. Once committed, 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 volume 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 products 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.

Q19. 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

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

- 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.

3.8 Industry Life Cycle Analysis

Q20. Explain the various stages of industry life cycle.

(OR)

Discuss different stages of industry life cycle.

(OR)

Explain the features and strategies in the course of industry life cycle.

Ans : **(July-21, June-19, Imp.)**

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.

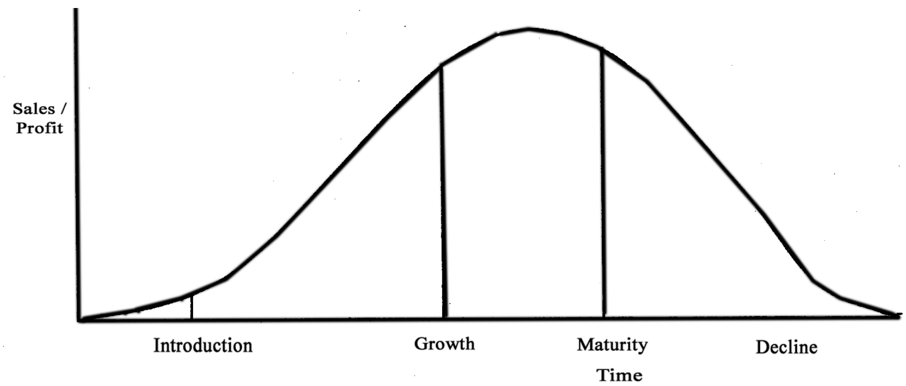

Fig . Stages of Industry Life Cycle

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.

Q21. Compare different stages of industry life cycle.

Ans :

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.

3.9 Strategies for Emerging Industries

Q22. What is an emerging industry ? Explain the different challenges faced by emerging industries.

Ans : **(Imp.)**

Meaning

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 communi-cations 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, perfor-mance 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.

3.10 Strategies for Maturing Industry

Q23. Explain Strategies for Competing in Maturing Industries?

Ans : **(Imp.)**

Meaning

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.

3.11 Strategies for Fragmented Industries

Q24. 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 diseconomics 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.

3.12 Strategy for Leaders, Challengers, Followers

Q25. What are the Strategies for Industry Leaders?

(OR)

Describe a suitable strategy for business leaders and followers.

(OR)

Explain the strategies adopted by business leaders.

Ans : **(July-21, 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.

3.13 Strategy for Niches

Q26. Discuss the Strategies for Market Niches.

Ans :

Market nichers are the firms who serve the nicheffiat is not covered by other firms in the industry.

Strategies for Market Nichers

Some of the strategies which may be adopted by market nichers are,

1. **Expanding Niches**

   Market nichers adopting 'expanding niches' strategy try to increase the coverage of present niche market by including new niches or similar market niches.

2. **Protecting Niches**

   This strategy involves protecting the niches from the attacks of other firms in the industry.

3. **Creating Niches**

   This strategy involves finding out ways to create niches in an industry.

3.14 Managing Business Crisis

Q27. Discuss how strategy can be tailored for weak and crisis ridden business.

(OR)

What are the strategies to manage business crisis? Discuss.

Ans : **(Sep.-22)**

In order to manage business crisis, a firm can follow any of the following turnaround strategies,

1. **Selling Off Assets**

   This strategy is used by firms when cash flow is an important aspect and when the practical ways to create cash are,

   (a) Through selling of some of the assets of the company.

   (b) Through retrenchment.

   (c) Sometimes the assets are not sold by a crisis-ridden firm for unloading the losing operations but for raising funds and to save and strengthen the remaining activities of the business.

2. **Strategy Revision**

   If a bad strategy has resulted in weak performance, refreshing of the strategy can be done by,

   (a) Shifting to a new approach in order to rebuild the market position.

   (b) Refresh internal operations and functional-area strategies in order to support the same overall business strategy.

   (c) Merging with another firm in the industry and prepare a new strategy of the new firm based on the strengths.

   (d) Reducing the core products and customers and closely match them with the strengths of the firm.

3. **Boosting Revenue**

   Boosting revenue means increasing revenue by increasing sales. There are many ways to boost revenue like price cuts, increasing promotion, bigger sales force, better customer services and quick improvements in products. If buyers are not price sensitive because of the variable features of the product then the fastest way to increase short-term revenue is to increase price rather than price cuts.

4. **Cutting Costs**

   This can be done by laying emphasis on reducing administrative overheads, remove unimportant and low-value-added activities in the firm's value chain, get high productivity by modernizing the existing plant and equipment, delaying the unimportant expenditure of capital, and restructuring debts in order to reduce costs and extend repayments.

Short Question and Answers

1. Discuss different stages of industry life cycle.

Ans :

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.

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2. Define Strategy Formulation.

Ans :

Meaning

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization's success, because it provides a frame work for the actions that will lead to the anticipated results. Strategic plans should be communicated to all employees so that they are aware of the organization's objectives, mission, and purpose.

Strategy formulation forces an organization to carefully look at the changing environment and to be prepared for the possible changes that may occur. A strategic plan also enables an organization to evaluate its resources, allocate budgets, and determine the most effective plan for maximizing ROI (return on investment).

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3. Business Strategies.

Ans :

Meaning

Business strategy refers to a strategy which emphasizes on improving the competitive position of the products or services of a company in a specific industry or market segment.

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4. 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.

5. Offensive Strategy.

Ans :

Meaning

Offensive strategy refers to a strategy in which a company directly targets competitors in order to capture market share. It is used as a key driver of competitive advantage.

6. Defensive Strategy.

Ans :

Meaning

Defensive strategy refers to the strategy where a firm retains valuable customers who are taken away by competitors. In other words, this strategy is used to stop or defend the competitive advantage strategies adopted by competitors.

7. 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.

8. 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.

9. What is an emerging industry.

Ans :

Meaning

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.

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10. Strategies for Market Niches.

Ans :

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2. **Protecting Niches**

   This strategy involves protecting the niches from the attacks of other firms in the industry.

3. **Creating Niches**

   This strategy involves finding out ways to create niches in an industry.

Choose the Correct Answers

1. Strategy is developed by the visionary chief executive in ______ mode of strategic management [d]
   (a) Planning mode (b) Adaptive mode
   (c) Strategic mode (d) Entrepreneurial mode
2. Stability strategy is a ______ strategy [a]
   (a) Corporate level (b) Business level
   (c) Functional level (d) Strategic level
3. What are the means by which long term objectives will be achieved? [a]
   (a) Strategies (b) Policies
   (c) Strength (d) Opportunities
4. Marketing strategy is a ______ type of strategy [d]
   (a) Business level (b) Growth strategy
   (c) Corporate strategy (d) Functional strategy
5. When an industry relies heavily on government contracts, which forecasts can be the most important part of an external audit [c]
   (a) Economic (b) Competitive
   (c) Political (d) Multinational
6. What is the starting point of strategic intent? [d]
   (a) Objectives (b) Goals
   (c) Mission (d) Vision
7. Corporate level strategy deals with: [c]
   (a) Objectives of specific functions
   (b) Objective of Single strategic Business Unit
   (c) Objectives of the corporate
   (d) Objectives of specific operations
8. From the following activity which does not comes under the primary activities of value Chain analysis: [b]
   (a) Operations (b) Technology development
   (c) Marketing and sales (d) Services
9. Which of the following can be identified as a best statement that represents a firms big picture statements, describing a desired end state, general in scope and not restrictive? [c]
   (a) Corporate philosophy statement (b) Company creed
   (c) Vision statement (d) Mission statement
10. One of the top level manager of a large manufacturing plant uses to spend her day trying to ensure that the material waste is not more than 10% , she spends her day performing the management process of: [d]
   (a) Planning (b) Organizing
   (c) Leading (d) Controlling

Fill in the blanks

1. _______ refers to active cooperation of different firms in an industry to minimize output and increase prices to ensure normal economic law of demand and supply.

2. _______ formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals.

3. _______ objectives are required at corporate and functional level in an organization as they are critical measures of managerial performance.

4. _______ strategy refers to a strategy in which a company directly targets competitors in order to capture market share.

5. _______ strategy refers to the strategy where a firm retains valuable customers who are taken away by competitors.

6. _______ Strategy is the strategy through which the What differentiates its offerings from other firms of an industry.

7. The _______ which aims to provide more value for customer's money.

8. A _______ 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.

9. _______ revenue means increasing revenue by increasing sales.

10. The key component of any strategy statement is to set the _______ objectives of the organization.

ANSWERS

1. Collusion
2. Strategy
3. Long term
4. Offensive
5. Defensive
6. Differentiation
7. Strategy
8. Maturing
9. Boosting
10. Long-term

One Mark Answers

1. Cooperative Strategies

Ans :

Cooperative strategies are used to achieve competitive advantage over other competitors by working in coordination with other firms in an industry.

2. Situation Analysis.

Ans :

Situational analysis refers to the process of identifying strategic fit between internal strengths and external opportunities and at the same time working on internal weaknesses and external threats.

3. Offensive Strategies

Ans :

1. Competitive position of the firm can be improved through successful offensive strategy.
2. It helps in acquiring market share.
3. It helps in increasing profits.

4. Defensive Strategies

Ans :

1. Effective defensive strategy attracts both old and new customers through increasing marketing and advertising.
2. Defensive strategy does not involve much risk, owner can take necessary steps without feeling threatened.
3. Defensive strategy is used to enhance the value of products or services.

5. Strategies for Competing in Maturing Industries.

Ans :

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.

UNIT IV	**Alternative Strategies:** Strategy analysis and Choices, Strategy Alternatives, Corporate level international strategy, Creating Value through Intensive Growth strategies, Integration Strategies, Diversification Strategies, Mergers & Acquisitions- Strategic Alliances - Outsourcing Strategies, Types of Outsourcing, Benefits, Growth and Drivers of Outsourcing, Managing Strategic Change, Approaches to Organizational Structure, Matching Structure and Strategy with the Use of 7s Structure.

4.1 Strategy Analysis and Choices

Q1. Define Strategy Analysis. State its importance.

Ans :

Meaning

Strategic analysis refers to a process that conducts research on the business environment within which an organization operates. It involves exploring the objective factors that are taken into account during the process of making strategic choice.

Importance

The following are the importance of strategic analysis,

1. **Long Term Planning**

   Strategic analysis facilitates the organization to plan for long term business. This is essential to survive and succeed for a long period of time.

2. **Financing**

   It shows the organization's capability for growth and development. It also increases an organization's credibility. Therefore, there are more chances of successful funding applications.

3. **Effective Decisions**

   It helps the organizations in making effective decisions.

4. **External Approach**

   It is important for the organization to identify and respond external factors such as opportunities and threats.

5. **Efficiency**

   It helps the organization in achieving its objectives in an efficient way.

Q2. Define strategic choice. What are the different types of strategic choices?

Ans : **(Imp.)**

Definition

According to W.F. Glueck and R. Jauch, strategic choice is defined as, "the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise's objectives".

Types

Following are the different types of strategic choices,

1. **International Strategy**

   This strategy is adopted by the international easiness firms for transferring the useful skills and products that are developed in the home country to the foreign country in which these skills and products ire unavailable.

2. **Multidomestic Strategy**

   International business firms which uses this strategy will modify the products and marketing strategies as per the requirements and environment of the host country. These international business firms will set up their production, marketing, finance and R & D facilities in different host countries.

3. **Global Strategy**

   International business firms which uses this strategy makes efforts to earn profits through cost minimization, these cost reduction strategies helps the firm to attain low cost leadership in industry. The firms produces standard products by setting up manufacturing units and other facilities in the areas where the cost of production/operation is low.

4. Transnational Strategy

Transnational strategy help international business firms meet global competition by adopting low cost leadership combined with local responsive or customization strategy. The firms can attain this strategy by utilizing experience and location-based economics.

4.1.1 Strategy Alternatives

Q3. Explain the various alternative strategies in the international environment.

Ans : **(Imp.)**

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.

Q4. 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 International Strategy

Q5. What is Corporate Level Strategy? Explain different types of Corporate Level Strategy.

Ans : **(Imp.)**

Meaning

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

Types

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.

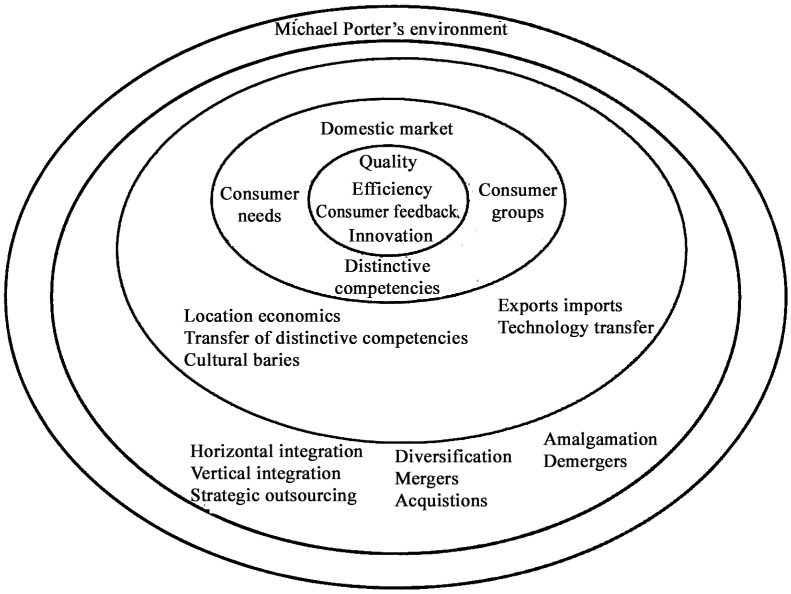

Fig. : Corporate-level strategy

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.

Q6. Explain the causative factors for developing corporate level international strategy.

Ans : **(June-18)**

The corporate level international strategies emphasize on operations of the firm through product and geographic diversification. There are two main factors which influence the development of international corporate level strategies. They are global integration and local responsive.

The causative factors for developing corporate level international strategies are as follows,

1. Global strategy is influenced by high level global integration and low level of local responsiveness. The other causative factors influencing development of global strategy are standardization of products, opportunity to use innovation etc.

2. Transnational strategy is influenced by both high level of global integration and local responsiveness. The other causative factors influencing development of transnational strategy are flexible value chain, coordination mechanisms etc.

4.2.1 Creating Value through Intensive Growth Strategies

Q7. Discuss about Ansoffs matrix.

(OR)

How do you create value through intensive growth strategies?

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

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

Product / Market	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

Q8. Define the term integration with an example.

Ans :

Meaning

- 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.

Q9. What are the different types of integration strategies?

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.

Q10. Discuss how integration strategies create value to the organizations.

Ans : **(Sep.-22)**

Integration strategies are of two types i.e., vertical and horizontal integration. Both create value to the organization. Vertical integration allow an organization to create value by manufacturing its own inputs or by distributing its own products. Following points explain how vertical integration creates value.

Horizontal integration allow organization to create value by seeking ownership or increase control over its competitors. Following points highlight how horizontal integration creates value.

4.2.3 Diversification Strategies

Q11. What is diversification strategy?

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

Meaning

- 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 :

Markets	Products: Present	Products: New
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.

Q12. Explain the various Reasons for Diversification.

Ans : **(June-18)**

Companies diversify their activities due to various reasons. Now, we discuss these reasons.

1. Fast Organizational 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.

Q13. What are the Different types of Diversification Strategies?

(OR)

Explain the classification of Diversification Strategies.

(OR)

Explain the different types of Diversification Strategies.

(OR)

List out types of diversification strategy.

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.

Q14. Compare and contrast related and unrelated diversification strategy with suitable examples.

Ans :

(i) Related diversification occurs within the same industry. New businesses are related to the core business of the company. Unrelated diversification occurs in different industries. It involves diversifying into totally new businesses that have no relationship with the core business of the company.

(ii) Resource-sharing and skills-transfer between different businesses are the focus of the related diversification approach. The main focus of the unrelated diversification approach is to create shareholder value by acquiring new market segments.

(iii) Related diversification is conspicuous by the value-chain commonalities among the businesses. However, we find the absence of commonalities in the value-chains of different businesses in an unrelated diversified company.

(iv) Related diversification can create value in more ways than unrelated diversification.

(v) Since management has prior knowledge about managing a similar type of enterprise, they are better capable of managing related businesses Therefore, related diversification involves fewer risks than unrelated diversification.

(vi) Higher bureaucratic costs arise from coordination among business units in a related diversification company. In the unrelated diversified companies, there is no question of cross-units coordination. As a result, their bureaucratic costs are much less than the related ones.

4.2.4 Mergers & Acquisitions

Q15. Define Mergers. Explain different types of mergers.

(OR)

Explain mergers as a strategy. Explain the types of mergers.

Ans :

Meaning

Merger refers to a friendly joining together of two organizations as in a corporate marriage, usually with the sanction of both firm's top strategic decision makers. Mergers are usually based on the core competencies of firms.

For example, two companies with similar core competencies (e.g., in marketing) in marketing may merge to strengthen their overall competitive position.

Alternative, two firms may merge to combine complementary core competencies.

For example, a firm possesses a competency in its marketing may merge with a firm that has good brand name.

Types

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).

Q16. Discuss the steps involved in Merger Process.

Ans : **(Imp.)**

In order to avoid above pitfalls, and to make the merger activity successful, firms should follow a systematic action plan for their M&A activities. The merger process consists of the following stages.

Defining the Corporate Strategy
↓
Implementing the Corporate Strategy
↓
Target Identification
↓
Valuation of the Merger
↓
Merger Implementation
↓
Post-Merger Integration

Fig.: Process of Merges

1. Defining the Corporate Strategy

A firm needs to first clearly define its corporate strategy–what business the firm is currently in? What business it intends to be in? How does it wish to grow, and be known as?

2. Implementing the Corporate Strategy

Next, the firm should define a route or road map to implement its corporate strategy – whether it intends to user mergers or joint ventures/strategic alliances, or internal development as a strategy for its growth/ diversification plans.

This stage clearly entails a detailed evaluation of the various alternatives available with the firm in terms of M&A vis-a-vis internal development.

3. Target Identification

If the firm it attractive to pursue the M and A route, sufficient effort should be devoted to identification of the right kind of a target firm to merge/acquire.

The parameters for identification should include the financial considerations, business strengths and weaknesses, the specific resources, competencies and capabilities the target firm will bring it to the merger, market power the merger would bring about, as well as the effort required in integrating the two firms - their structures, strategies, culture, and processes.

4. Valuation of the Merger

Then, a financial valuation of the merger should begin. The specific cost and the premium that the firm would like to pay for acquiring shares/management control of the target firm would again depend on the projected synergies that the merger is likely to bring about.

5. Merger Implementation

The tax, regulatory and market issues dominate the next stage of the merger process - the merger implementation. In this stage, when the merger is being implemented, depending on the local laws, conditions, and shareholder preferences, the merger could happen through a stock swap, a tender offer, cash offer, or any other method. Issues like registration of the merger, obtaining board and shareholder approvals, announcement to the public, and notifying the stock exchanges are activities that from part of this stage of the merger activity.

6. Post-Merger Integration

The final stage called the post-merger integration includes activities like asset stripping (selling off those assets in the target company that are not likely to add value to the merged/acquired firm); efforts at improving the operating efficiency and setting up managerial systems at the acquired firm; efforts at streamlining the operations of the combined firm to ensure that the projected synergies are repeat; and initiatives in establishing the right kind of corporate culture, providing the right management direction/leadership, and ensuring the competitiveness of the combined firms.

Q17. What are the advantages and disadvantages of mergers?

(OR)

Discuss the benefits of merger strategies.

Ans : **(July-21, June-18)**

Advantages

1. **Increases market share**

   When companies merge, the new company gains a larger market share and gets ahead in the competition.

2. **Reduces the cost of operations**

   Companies can achieve economies of scale, such as bulk buying of raw materials, which can result in cost reductions. The investments on assets are now spread out over a larger output, which leads to technical economies.

3. **Avoids replication**

   Some companies producing similar products may merge to avoid duplication and eliminate competition. It also results in reduced prices for the customers.

4. **Expands business into new geographic areas**

   A company seeking to expand its business in a certain geographical area may merge with another similar company operating in the same area to get the business started.

5. **Prevents closure of an unprofitable business**

   Mergers can save a company from going bankrupt and also save many jobs.

Disadvantages

1. **Raises prices of products or services**

   A merger results in reduced competition and a larger market share. Thus, the new company can gain a monopoly and increase the prices of its products or services.

2. **Creates gaps in communication**

   The companies that have agreed to merge may have different cultures. It may result in a gap in communication and affect the performance of the employees.

3. **Creates unemployment**

   In an aggressive merger, a company may opt to eliminate the underperforming assets of the other company. It may result in employees losing their jobs.

4. **Prevents economies of scale**

   In cases where there is little in common between the companies, it may be difficult to gain synergies. Also, a bigger company may be unable to motivate employees and achieve the same degree of control. Thus, the new company may not be able to achieve economies of scale.

Q18. Define the term acquisition. What are the features of acquisiton.

Ans :

Meaning

Acquisition is an activity in which one company controls the other company. The company which controls is known as acquiring company and the other company which is under control is target company. In acquisitions, business is purchased through cash, stock or combination of both.

Features

Following are the features of acquisition,

1. Responsible for documents of the company.
2. Becoming owner of the assets like plant, division or entire company by purchasing.
3. Taking the authority/power of company by purchasing voting shares in large quantity i.e., 51 percent or more.

Q19. What are the Advantages and Dis-advantages of Acquisition?

Ans : **(July-21, June-18, Imp.)**

Advantages

The following are the advantages of acquisition,

1. A firm can get an easy access to the market and technology through acquisition.
2. It become easy to gain access to patent rights and technology through acquisition.
3. With the help of acquisition, the firm can get the firms ownership and control immediately on the factories, technology, employees and distribution networks, of the acquired firm.

4. In acquisition, 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.

Limitations

The following are the limitations of acquisition,

1. Many companies have landed themselves into financial and other problems due to indiscriminate acquisition.
2. If the evaluations are not done properly, then the decision of acquisition can be wrong or ineffective.
3. If an enterprise in taken over, its problems are also usually taken over by the firms.
4. Certain units which have been acquired may have problems like obsolete technology, old plant, surplus labour etc.
5. In some situations, restrictions are levied by the host countries on the acquisition of domestic firms by the foreign firms.

Q20. What are the differences between mergers and acquisitions?

Ans :

S.No.	Characteristics	Merger	Acquisition
1.	**Meaning**	A merger is the fusion of two or more companies that voluntarily come together to form a new entity or company	An acquisition is the process whereby a company or business entity purchases or acquires another one but no new company is formed
2.	**Purpose**	A merger happens to decrease competition as well as to increase operational efficiency	To consolidate aninstantaneous growth
3.	**Size of Company**	The size of the merging companies is more or less the same	The acquiring company is larger or bigger than the acquired one
4.	**Terms**	A merger is considered as friendly and planned for	An acquisition is considered as either voluntary or involuntary and can be hostile
5.	**Example**	The birth of SmithKline Beecham happened as a result of the merger between Glaxo Wellcome and Smith Kline Beecham	Toto Motors acquiring Jaguar Rand Rover

4.2.5 Strategic Alliances

Q21. Define Strategic Alliance. Explain the objectives of Strategic Alliance.

Ans :

Meaning

- Strategic alliances are long term relationships between the companies designed to achieve an objective faster and more effectively than if either of the firms does so on its own.

- Strategic alliances are like teams that contribute to synergy. Strategic alliances are teaming and allying with other companies either of the same industry or another industry, with a view to help to perform all kinds of business/service activities necessary for a customer in the supply chain.
- For example, alliances among an automobile company, finance company, spare parts producing company and a service company enable them to meet a unified facility for buying and maintaining a car by a customer.
- Thus, alliance bridges gaps in providing a whole facility. Similarly, the alliance among road transport, Civil Aviation Authority, immigration authority and an airline company and security company enables them to provide a total facility of air travel to a foreign country.
- Strategic alliances enable for entering new markets, learning new technologies, developing new products, providing product/ service extensions and providing a total package of product and/or service.
- Strategic alliances produce both the advantages as well as risks to all partners as well as finel beneficiary. Alliance relationships sometime result in turbulent environment, hence, the partners have to coordinate the activities carefully and collaborate with each other efficiently.

Characteristics

Characteristics of strategic alliances include:

- Firms of an alliance remain independent, but join together to collaborate like a single firm, to provide the total but part by part, in the supply chain.
- Firms of an alliance coordinate with each other in addition to performing efficiently.
- Firms link with each other on a long term basis.
- Strategies are crafted in a unified manner with a win-win attitude.
- Partners share strengths, thus eliminating the weaknesses. In other words, the strengths of one partner wipes out the weaknesses of other partner. Thus, the relationship is reciprocal.
- Alliances are for mutual benefit by pooling technology, resources, investments and bearing risks mutually and jointly.
- All firms of an alliance fferform part by part, but provide all the parts of supply chain in a coordinated manner.

Objectives

- One partner is strong in production and weak in marketing and vice versa would be true in case of another partner. The alliance between these two partners would ultimately bring strengths both in production and marketing. Thus, an alliance brings benefits to the alliance firms that would not be possible individually either through internal development or external acquisition.
- Thus, the major objective of an alliance is to get the maximum benefit through collaboration which would be impossible either through internal growth or external growth.
- The second objective of a strategic alliance is to encourage the partners to develop new technologies, new markets, attract new group of customers and develop new products/ services rather than doing by oneself all activities in the supply chain.
- The third objective of an alliance is to learn from the alliance partners how to expand and diversify into new areas in the future. Thus, alliances enable the firm to have a transnational step before actually entering into new areas.
- The fourth objective is to create and develop new resources and thereby, new core competencies. These new core competencies enable the firms to minimise or avert possible future risks. Thus, alliances reduce potential risks when a firm pursues new strategies.
- The fifth objective of alliances is to reduce the cost of establishment and operation.Firms can reduce the cost of implementing a strategy by partnering with an experienced firm in the

core area of operation. For example, Air India formed an alliance with Singapore Airlines in Singapore-San Francisco route, wherein Singapore Airlines has the experience and knowledge in operations and Air India has competence in marketing in India.

- The sixth objective is to minimise or avoid risks. Firms invariably have to bear heav risks if they develop the entire supply chain. In contrast, they share the risks by forming into alliances. The sharing of risks would reduce the burden and the risk element of the alliances firms. Sometimes, risks can also be averted, if the partner firms have expertise in the market concerned. For example. Air Nuigini averts the risks of the Australian market through the alliance with Qantas.

Q22. Explain difference forms of Strategic Alliances.

Ans : **(Imp.)**

Strategic alliance can take several forms. The significant among them are:

(i) Licensing

Manufacturers leases the right to use its intellectual property, i.e., technology, work methods. patents, copyrights, etc., to another partner of the alliance. For example, Coca-Cola company of USA and Coca-Cola Amatil (PNG) Limited in Papua New Guinea.

(ii) Franchising

Franchising is a form of licensing. Under franchising, the franchisee a partner of the alliance operates the business under the name of another company called franchisor. Under franchising, the franchisee pays a fee to the franchisor and the franchisor in turn provides various facilities to the franchisee like trade marks, operating systems, product reputations and continuous support systems like advertising, employee training, and quality assurance programmes.

(iii) Co-marketing

The partners of a strategic alliance market the products jointly. For example, Air Nuigini and Qantas perform marketing on Port Moresby-Brisbane route.

(iv) Cross-marketing

Under cross-marketing arrangements, each partner helps another partner in marketing its products. For example, McDonald's helps to sell Walt Disney company's toys with happy meals. Soap manufacturers market the shampoos and toothpaste companies market tooth brushes.

(v) Co-production

Partners of the alliance produce jointly by using the manufacturing facilities of either of them. This arrangement is mostly used when the production capacities of one of the partner are underutilized while another partner's demand is more than its capacity.

Alternatively, this strategy is adopted when the size of the market is small for two or more than two producers to manufacture. For example, private electricity generating companies used to generate power for A.P. State Electricity Board. IBM used to get its production from Motorola and Toshiba.

(vi) Outsourcing

Outsourcing is the long term contracting out of non-core business processes to an outside provider to help achieve increased shareholder value. Availability of highly qualified skill pool and faster adaptation of well defined business processes leads to higher productivity gains without compromising on quality.

One partner of the strategic alliance outsources the non-core business processes from another partner of the alliance in order to enable its executives to concentrate on core business processes to improve the efficiency of the process and to increase organisational capabilities. Bata outsourced its manufacturing operations to small scale industries in Kanpur and Kharagpur. Nike outsourced its production activities to small scale industries in Vietnam.

Many US and European software companies, insurance companies, banks and hospitals outsourced their back end office operations to companies in India due to the availability of high quality human resources at lowest cost.

(vii) Knowledge Sharing

Companies form alliances in order to share and then create new knowled and thus create value to the activity. Companies from different industries are forming alliances forming into a larger knowledge-creating web.

For example, companies like Nokia, Motorola, Vodafor Deutsche Telecom, Microsoft and other companies formed alliance in order to develop the industry next generation of wireless telephone and data communication system.

(viii) Joint Ventures

Two or more firms form alliance to create a new business entity that legally separate and distinct from its parents. Joint ventures are established as corporations own by the funding partners in the predetermined proportions.

The American Motor Corporation enter into a joint venture with Beijing Automotive Works called Beijing Jeep to enter the Chinese marl by producing jeeps and other vehicles. Joint ventures involve shared ownership. Joint ventui provide required strengths in terms of required capital, latest technology, required human talent, e and enable the companies to share the risks in the markets.

(ix) Equity Participation

Strategic alliances also take through equity participation. For example Xerox of the USA and Fuji of Japan form alliance together through equity participation, in order explore new markets in Europe and Pacific Rim.

Having studied different types of strategic allianc now we shall study the advantages of strategic alliances.

Q23. Explain the advantages and dis-advantages of Strategic Alliances.

Ans : **(June-19)**

Advantages

- Win-win outcomes: Alliances and colla-borative arrangements normally result in win-with outcomes to the parties.
- Alliances help in racing against rivals for market leadership.
- Alliances help in acquiring new competencies, improve supply chain efficiently and gain economies of scale.
- Alliances help in entering critical markets and building a potent market presence.
- Alliances help in gaining knowledge about unfamiliar markets and cultures throup alliances with local markets.
- Alliances help in acquiring skills and competencies that are concentrated in certain geographical locations like software design in USA, and back-end facilities in India.
- Alliances help in acquiring new technologies, new expertise and competencies faster than that would be possible through internal efforts. Strategic alliances produce not only advantages, but also result in certain risks, costs and losses.

Disadvantages

(i) Increase in Incompatibility of Partners: Incompatibility between partners of the alliance takes place when the partners fail to honour commitments of each other. Similarly, when the goal of the alliance is accomplished, the continuation of alliance would be at risk.

Similarly, partners may not require the continuation of alliance, once they acquire the strengths from other partners. For example, Hewlett-Packard and Dell Computers formed an alliance to sell HP-branded printers. But Dell started producing and selling printers under its own brand in 2002.

(ii) Risk of Knowledge/Skill Drain

Firms of the alliance acquire the knowledge and skill from the partners and use such skills for the development of their business. For example, Sony acquired the knowledge and skills of distinctive consumer electronics and skill from Apple, while building the laptop computers for Apple. Sony used this knowledge to enter the personal computer industry.

(iii) Risk of Dependence

Alliances sometimes can often become dependent excessively on their partner. This in turn, result in loss of skills in that area of operation in the country, in addition to extension of dependency for other lines of products.

For example, the US automobile industry was extensively dependent on the Japanese automobile industry for the production of small cars. This dependency resulted in the development of skills and expertise of the Japanese while the skills of the employees of US automobile industry became redundant. The US outsourced the production of VCR and DVD to the Far

Eastern Companies and development software and back-end operations to companies in India. These situations contributed to the economic downturn and consequently led to the increase in unemployment in USA.

(iv) Cost of Coordination: The success of strategic alliance mostly depends on an effective coordination of operation of the partners. In fact, the partners have to coordinate all the activities meticulously.

Hence, coordination becomes a costly affair. In addition, the different cultures of the partners complicates the process of coordination. Management styles, methods, approaches and practices vary from one partner to the another partner of the alliance.

Similarly, the production technologies, production systems and practices also vary from one partner to the another. These varying systems and practices result in complication of coordination and thereby, enhances the cost of coordination.

(v) Cost of Learning

Partners should learn from each other with regard to management styles, -alture, operations and production. Most of the companies feel that they know everything and as much they fail to learn. Daewoo has a similar experience with Caterpillar and Samsung with US forklife maker Clark Equipment.

(vi) Cost of Inflexibility

A strategic alliance forms after a thorough analysis of the environment and capabilities of the partners as well as competitors. But, the environmental factors as well as the capabilities of the partners may vary owing to various reasons.

The partners are expected to be flexible and adaptable to the environmental shifts. Firms fail to be flexible and adaptable contributing to the failure of the alliance.

IBM and Apple the partners of an alliance of development of a new operating system and multimedia technologies failed to understand the changed competitive environment of Microsoft. Consequently, the alliance failed to produce the results.

(vii) Cooperation and Competition

The firms of an alliance start with an intention of co-operation. But, when the firms acquire the competencies of the other partner, they may tend to break the alliance and compete with the partner.

Thus, today's collaborator may turn into tomorrow's competitor. For example, Atlantic Coast decided to compete directly with its partner in alliance.

(viii) Shifting Loyalties of Staff

The executives and employers of the partner companies drawn for the alliance operations, may shift their loyalties from their parent companies to the alliance firm as hey work closely with the alliance firm.

4.3 Outsourcing Strategies

4.3.1 Benefits

Q24. Define Outsourcing. Explain advantages and disadvantages of outsourcing.

Ans : **(Sep.-22)**

Meaning

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, 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

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

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. 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.

4. 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.

Q25. 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).

4.3.2 Types of Outsourcing

Q26. Explain different types of Outsourcing.

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

The different types of outsourcing strategies are:

1. Onshore or Domestic Outsourcing

If the work is outsourced to a vendor who is within the some country, then it is called onshore outsourcing. This is mainly done by a firm if it does not have required skills, resources and assets for carrying out the work.

2. Offshore Outsourcing

If the work is outsourced to a vendor who is located in a different country, then it is called offshore outsourcing. The decision for off-shore outsourcing is mainly dependent on cost factor.

3. Nearshore Outsourcing

If the work is outsourced to a vendor in a nearby country, then it is called nearshore outsourcing. It requires less cost for travelling and attending face-to-face meeting when compared to offshore outsourcing.

4.3.3 Growth and Drivers of Outsourcing

Q27. Explain the growth and Drivers of Outsourcing.

Ans : **(Sep.-22, Oct.-20)**

Growth

- 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

The following are the important drivers of 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 Competitive-ness

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.

4.4 Managing Strategic Change

Q28. What are the various types of Strategic Change?

Ans :

The various types of strategic change

1. Adaptation Change

Adaptation change is the most common type of strategic change which is being followed by many organiza-tions. It is incremental in nature and can be easily adjusted in the present paradigm of the organization.

2. Reconstruction Change

It is a rapid type of a change which involves large scale adjustments and restructuring throughout the organization. However, it does not change the central paradigm of the firm. A good example of reconstruction change is a turnaround situation which requires substantial cost reduction and financial appraisals in order to improve the decreasing financial performance of the organisation.

3. Evolution Change

Evolution change requires a total paradigm over a period of time. The organization is considered as a "Learning system" which continuously keeps on adjusting and realigning their strategies in order to fit with the changes of its environment.

In fact, the concept of "Learning organization" has been derived from the evolution change in strategy. Such a change requires managers/leaders with explicit qualities, who are capable enough of ascertaining the changes that would take place in the future course of time.

4. Revolution Change

This change calls for an immediate and substantial change in both the strategy and paradigm of the firm. This change demand urgency as the firm fails to respond appropriately to the changing business environments over a period of time.

The management should handle such a change very carefully or very existence of the firm would be shaken up. A good example for this change is that this change is basically initiated when a firm faces the threat of a hostile takeover.

Thus, in today's hyper competitive market, an organization can make use of above mentioned strategic changes in order to transform itself into a healthy and profitable organization.

Q29. Write about different styles of managing strategic change.

Ans :

The different styles which the managers uses for managing the strategic change are as follows,

1. Education and Communication

This style deals with the elucidation of causes and means of strategic change. The change process can be effective if the individuals who are influenced by the change takes part in planning and developing the change.

The management style of educating and communicating change helps in bridging the gap between the employees and management. This style tends to overcome barriers of misunderstanding and mistrust and aims at developing an effective communication pattern at different levels in the organization.

2. Collaboration or Participation

This style deals with the participation of those individuals in the change process, who are directly affected by the change. The individuals having positive or optimistic attitude, overshadows the organizational constraints and are very dedicated and committed towards the change process. This style helps in developing willingness and ability to change among the individuals.

3. Intervention

This style is coordinated and controlled by a specified change agent. This change agent is responsible and has the authority for the delegation of the elements of the change process.

In this style of change, the organizational members not only coordinate in bringing about change but also involve themselves in the partial implementation of coordinated solutions. This style motivates the employees to be committed towards change and to personally involve in the change management and implementation.

4. Direction

Direction style of management is a top down approach in which the personal managerial authority is used for formulating a future strategy and the way in which the change will take place in the future. It is a type of style which is closely related with the development of strategic intent. It holds similarity with the organizations visionary factors like success factors and other priorities.

5. Coercion

The extreme end of the direction style is coercion style. This style involves the forceful imposition of change in the organization. It explicitly uses powers at the times of crisis for managing the implementation of strategic change in the organization.

4.5 Approaches to Organizational Structure

Q30. Define Organizational Structure.

Ans :

Meaning

Organisational structure is an established pattern of relationships among the component parts of an organization. Structure is made up of three component parts, *viz.,* complexity, formalisation and centralisation. Complexity refers to horizontal differentiation, vertical differentiation and locational differentiation.

Horizontal differentiation is horizontal separation between units based on occupations and specialisations. Vertical differentiation is the potential for communication distortion. Locational differentiation refers to the degree to which the location of an organisation's offices, plants and personnel are geographically spread.

Formalisation refers to the degree to which the jobs within the organisation are standardised. High standardisation of jobs results in less freedom and discretion. Centralisation refers to the degree to which decision-making is concentrated at a single point in an organisation.

Initially, firms adopt a structure. As it grows, in size, spread into new businesses, new geographical regions, it will change the structure and adopt new type of organisational structures. Many companies change their structures as and when there is a change in their strategies and/or size.

Efficient strategy implementation largely depends on appropriate organisational structure. Structuring an appropriate organisation should be a top priority for the strategist.

Q31. Explain various approaches to Organizational Structure.

Ans : **(Imp.)**

The following are various approaches to Organizational Structure :

1. Functional Organisation 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. Fig. illustrates a typical functional structure.

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.

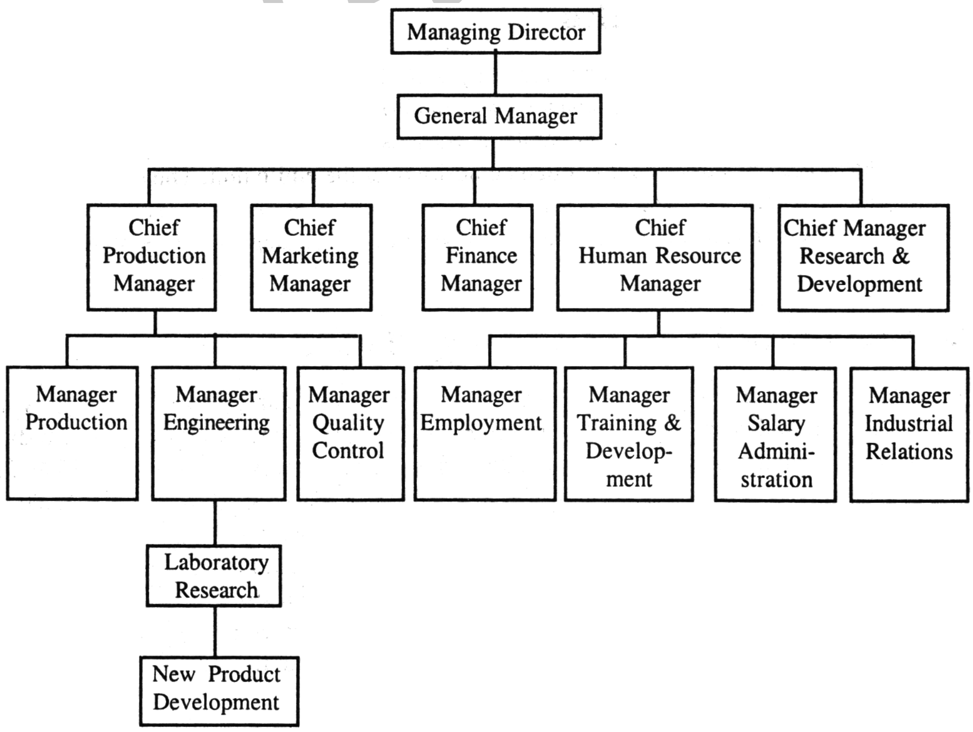

Fig. : A Functional Organisation Structure

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 coordination 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 environmental demands. These limitations of functional structure may make the firm to reassess the suitability of the structure to the strategy and decide accordingly Exhibit present strategic advantages and disadvantages of functional organisation structure.

2. Product Organisation Structure

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, productions, 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.

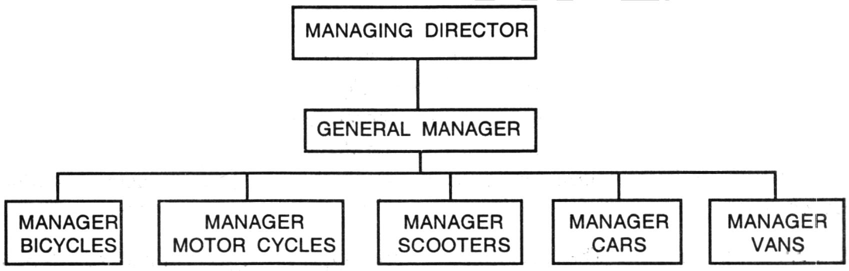

Fig. : Product Organisational Structure

Advantages

(i) The product organisation structure is more appropriate than the functional form of organisation for firms producing multiple products.

(ii) Coordination 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.

Disadvantages

Product organisational structure is also not free from limitations:

(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.

(iv) Interdepartmental conflicts arise regarding sharing of common resources, allocation of common and overhead expenses, etc.

3. Geographical Organisation Structure

The activities 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. Figure 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.

Advantages: The advantages of this type of organisational structure are:

(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.

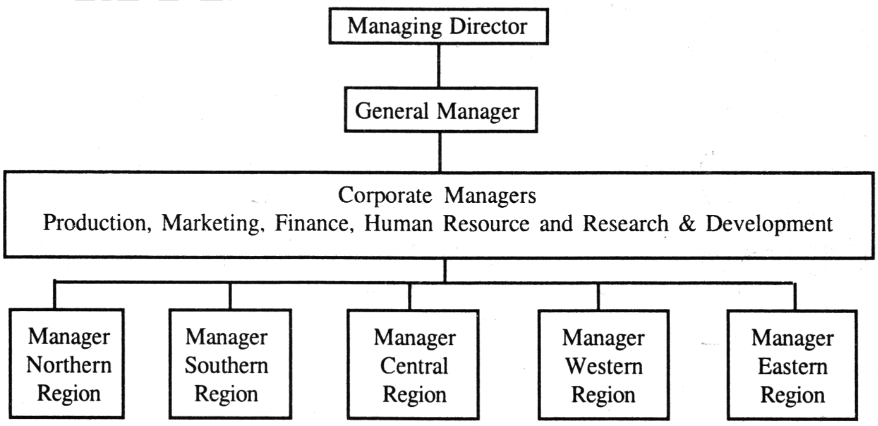

Fig. : Geographical Organisation Structure

Disadvantages: This organisational structure is also not free from limitations. Trdj limitations of this structure are similar to those of product structure.

(i) Often more functional personnel are required. The firm cannot appoint specialists unlike » functional structure due to duplication of personnel.

(ii) There would be duplication of equipment and facilities.

(iii) Coordination of company-wide activities would be difficult.

(iv) There would be a problem of imposing a degree of uniformity and diversity.

(v) It is difficult to maintain consistent company image or reputation.

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. Fig. presents decentralised line of business type of organisational structure.

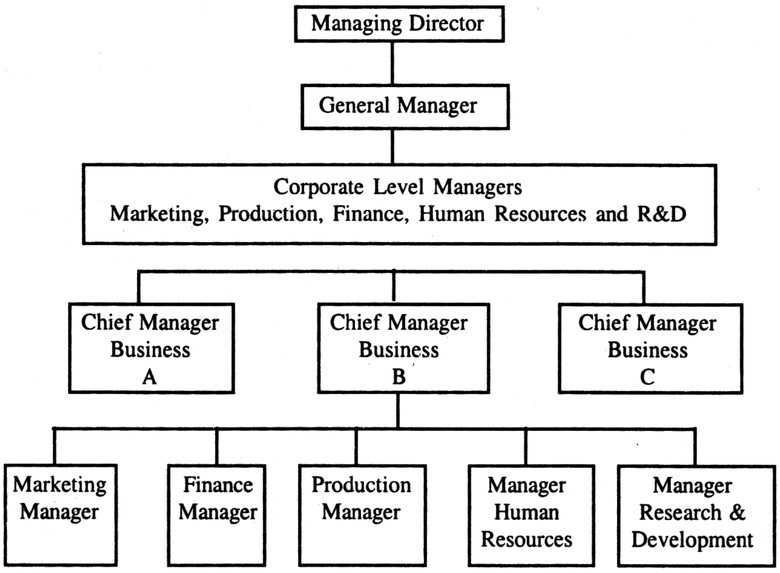

Fig. : Decentralised Line of Business Type of Organisation Structure

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.

Disadvantages: The strategic advantages and strategic disadvantages of a decentralised line-of-business type of organisation structure are presented in Exhibit. The disadvantages are:

(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. presents SBU type of organisation structure.

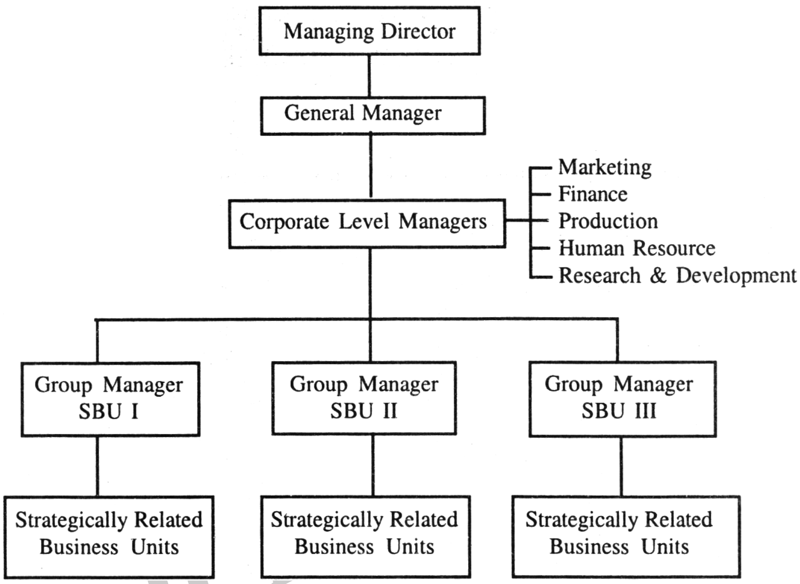

Fig. : Strategic Business Unit Type of Organisation Structure

Advantages: The strategic advantages and disadvantages of the strategic business unit structure are presented in Exhibit The advantages of this structure include:

(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 coordination 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.

Disadvantages: The strategic business unit structure also has certain 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 structures 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.

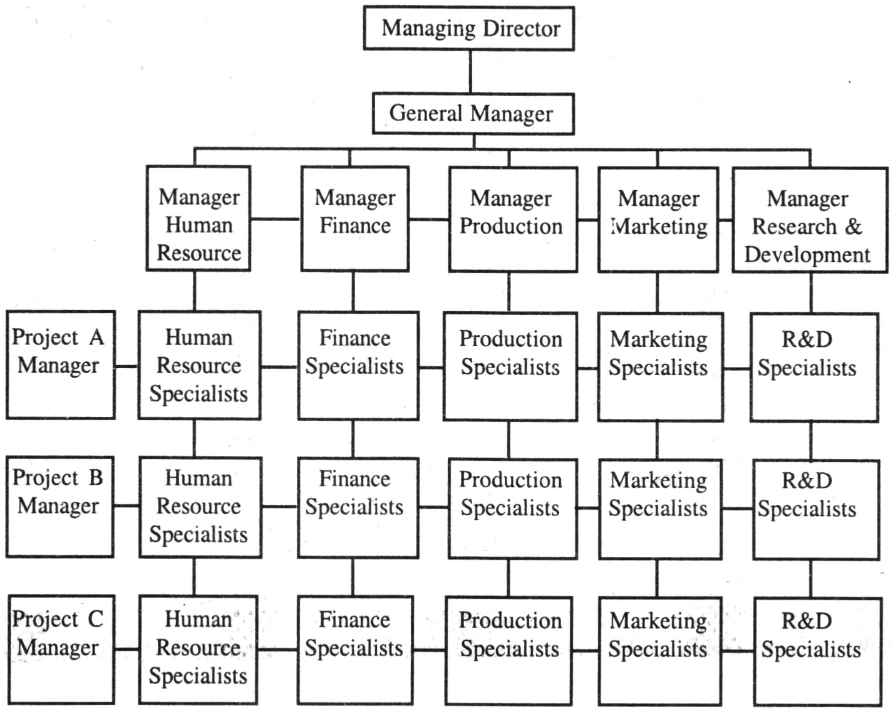

Fig. : Matrix Organisation Structure

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, interdependence among organisational units, complex products or technology).

(iv) Economies of scale require the sharing of human resource expertise to achieve high performance.

Advantages: The matrix structure is commonly used in the firms whose technological change is rapid. The advantages of matrix structure include:

(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.

Disadvantages: The significant strategic disadvantages of matrix organisational structure include:

(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.

4.6 Matching Structure and Strategy

Q32. How do you match Structure to the Strategy?

Ans :

Meaning

The suitability of structure to strategy is dependent on a number of situational factors. Absence of fit between strategy and structure leads to inefficient functioning of the company. The stages of organisation development is an important factor that influence the match between strategy and structure.

Stages of Organisation Development

Generally successful companies grow larger in size and diversify their activities. The growth of the company brings a number of changes. These changes include:

(i) Increase in financial resources (gross profits and investments)

(ii) Increase in resource needs (human resources, financial resources, material resources).

(iii) Increase in number of products and markets.

(iv) Increase in operating and managerial specialisation.

(v) Increase in size, complexity and risk of operating and managerial problems.

As organisations develop, the dominant strategic issues change with organisation's developmental changes. The three most frequently discussed stages of development models are those developed by Thain, Cannon and Greiner.

1. Cannon's Stages of Development Model

Cannon developed comprehensive stages of development model. His model consists of five stages of development. He argues that firms are found in one of these five stages of development. Though, Cannon does not contend that firms move through stages, strategic issues facing a firm move with each stage.

Stage I: The Entrepreneurial Stage: As discussed earlier, this stage represents the small business, generally operated by the owner-manager. The market of the firm in limited to a specific geographical area.

Stage II: When the company grows in size, the owner-manager cannot perform increased volume of managerial functions. Therefore, the owner-manager, hires an accountant, sales representatives and other agents.

The other functional managers will also be hired with the further increase in the organisational size. A functional form of organisation structure will be adopted. But the problems of functional structure will come to the surface with the further increase in the company's operations. These problems include: delay in getting approval for new products and other innovations. These problems may push the company to the next stage.

Stage III: Organisation will be restructured either based on product or geographic or customers Control may become difficult when each division develops its own view of product quality, pricing etc.

Stage IV: To regain control of the organisation, management may employ additional humam resources to assist top management.

Stage V: This stage involves increasing involvement of top management in strategic decisio' making. This move to recentralisation may be as part of a cutback and turnaround strategy.

Exhibit depicts Cannon's stages of development model.

2. Thain's Stages of Corporate Development Model

Thain proposed a different conceptualisation of organisational stages of development. Exhibit presents Thain's model, b identifies three stages of organisational development with different factors relevant to top management in each stage.

Stage I: Stage of Thain is similar to Cannon's entrepreneurial stage. The manager maintains absolute ownership and control. The company's strengths, weaknesses, and performance are shaped by the owner-manager's personality, ability and style. The increase in the size of the business forces the owner to appoint managers for different functions.

Stage II: In this stage, there is the existence of a management team built around one business and selling primarily to one market. The company in this stage specialises in one product and concentrates in one area. These characteristics, may threaten the survival of the firm consequent upon changes in consumer preferences or ability to buy. Companies try to overcome this danger by diversifying the activities.

Stage III: The firms in this stage are conglomerate diversified with multiple operating units controlled by corporate office. Companies in this stage can often operate independently of outside resources. But the organisation adopts a bureaucratic structure to manage and control a large size and diversified business.

3. Greiner's Phases of Organisational Growth

Greiner explains how growth affects management style. There are two stages in each phase of Greiner's model. Those stages are: evolution-steady organisational growth period and revolution periods upheaval or turmoil.

The accumulated problems in each phase will be solved only when a breaking point is reached. This breaking point causes revolutionary change in organisational structure. Managers should prepare revolutionary change by identifying the phase through which the organisation is passing.

Phase 1: In this phase, creativity centres around the development of products and markets. Management spends most of the time in solving operating problems, rather than in managing the company. Organisational structure is mostly informal and authority for decision-making is centralised.

The growth of the company in size makes the informal organisation ineffective and crisis in management and leadership. The revolution ends this phase by employing functional specialists.

Phase 2: Functional managers improve the organisational efficiency and performance. However decision-making is centralised among the functional managers. The absence of strategic decision making authority among the lower level managers results in revolution in autonomy.

Phase 3: This phase is concerned with delegation. Lower-level managers are delegated with strategic decision-making authority for particular products or markets. Top level management concentrates on business growth and diversification. Absence of coordination among business units relating to products or markets creates revolution.

Phase 4: Improvement and maintenance of coordination is the main concern in this phase Co-ordination systems are introduced. Decentralised units are combined into strategic business units The coordination efforts will result in formalised communication system, centralised decision-making formulation of rules, regulations and controls. These factors result in a bureaucratic organisation which causes a crisis and brings Phase 5.

Phase 5: This phase strives to enhance collaboration. Behavioural orientation, group working, project teams and matrix structures are adopted to improve problem solving.

4. **Leontiades Stages of Growth Model**

Leontiade's growth model is one of the recent model. Leontiades states that growth is best understood by examining single business and multi-business firms. Two sub-categories of strategic exist within each classification as presented in Exhibit.

Single Business Firms :–

- Small Business
- Dominant Business.

Multi-Business Firms :–

- Concentric Diversification
- Conglomerate Diversification.

Organisational structure appears to vary between single-business and multi-business firms. Single business firms follow a functional design and multi-business firms use a divisional structured.

Assessment of Organisational Structure

The crucial question is: how a company can implement its strategy by designing appropriate organisational structure. There are no hard-and-fast rules for evaluating the appropriateness of a company's organisation structure. However, the following questions will help in assessing the organisation structure.

1. **Is the structure compatible with the corporate profile and the corporate strategy?**

Companies may be in one business or several related businesses or several unrelated businesses. Functional structure may be viable for single business firms but not viable to the multi-business firms. For the multi-business firms, product or divisional and multi-divisional structure may be appropriate. Therefore, the company should adopt the suitable structure based on its corporate profile.

If the company wants to remain small, a functional structure may be suitable. Alternatively, trie multi-divisional structure is appropriate for the continuously growing companies. Therefore, the I company's structure should also be compatible with its corporate level strategy.

2. **At the corporate level, is the structure compatible with the firm's business units?**

The firms producing different technical products, should opt for the organisational structure based on product divisional structure. Each division produces the distinct products and markets them. However, the firm producing related products in terms of production and/or marketing, can go for geographic organisational structure. Thus, the structure should be compatible with the firm's business units.

3. **Are there too few or too many hierarchical levels at either the corporate or business unit level of analysis?**

Flat organisations with a few hierarchical levels and wider spans are suitable for dynamic and fast changing firms. Tall organisations with more hierarchical levels and narrow spans are suitable for the stable firms or stable and predictable environments. Different business units of the same company operate in different environments like dynamic and stable. Therefore, different business units of the same company can have different types of organisational structures.

4. Does the structure promote coordination among its parts?

Different divisions of the organisation need coordination at varying degrees. If the company has diversified and unrelated busiaesses, the minimum level coordination among these units is necessary. However, high degree of coordination is essential within each business unit.

Similarly, high degree of coordination is necessary, if the company's has related diversified business units. The co-ordination may become difficult in the complex business organisations. Special permanent co-ordinating units may be established in such organisations.

5. Does the structure allow for appropriate centralisation or decentralisation of authority'

The delegation of authority of decision-making depends upon a number of factors. One among them is organisation size. Authority is delegated downward in large organisations compared to the small organisations.

The second factor is the number and types of business units. If the compare has a number of unrelated business units, the authority is delegated downward compared to that cf the company with a number of related business units.

The third factor is the type of environment: Companies in relatively changing environments decentralise the authority compared to the companies in relatively stable environment. Therefore, depending upon the environment, the strategy should allow the centralisation or decentralisation.

6. Does the structure permit the appropriate grouping of activities?

Structure may be appropriately designed to group the activities appropriately. It facilitates the implementation of the strategy successfully.

4.7 Strategy with the Use of 7s Structure

Q33. Explain about McKinsey's 7s structure.

Ans : **(Imp.)**

One of the famous consultancy firm, namely McKinsey in the Unites States found an appropriate solution during 1970's. They found that strategy implementation is classified under two levers, where structure constitutes one of the lever controlled by the management and the other lever includes staff, systems, style, skills, superordinate goals of 7-S framework.

1. **Strategy:** A set of decisions and actions, which aims to gain consistent competitive advantage.
2. **Structure:** The organization chart presenting related information about who reports to whom and how tasks needs to be divided and integrated. Organization structure is required to determine the total number of levels present in an organizational hierarchy.
3. **Systems:** Sequential activities engaged in the daily operations of the business which are the resultants of core processes and its support systems. Systems are essential for designing organizational processes, procedures, reports and routines.

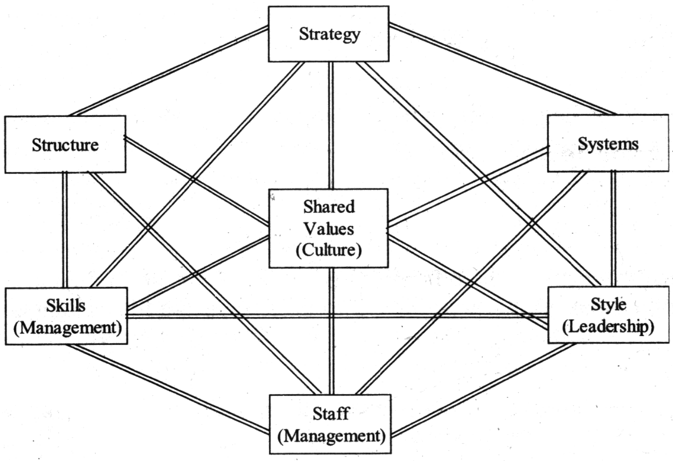

Fig. : Me Kinsey's 7-S Framework

4. **Style (Leadership):** It means the behavioural style of the managers as to how they collectively spend their time and attention and how they use their symbolic behaviour. Finally, how management behaves is more important when compared to the intentions and thoughts of the individuals operating at the managerial level.

5. **Staff (Management):** It is related to employees training and development with a view to shape fundamental values.

6. **Shared Values (Culture):** Shared values is subjected to commonly used beliefs, mindsets and assumptions which can shape how an organization behaves especially in its corporate culture.

7. **Skills (Management):** It is concerned with organization's dominant capabilities and competencies.

Short Question and Answers

1. Diversification strategy.

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.

2. Reasons for Diversification.

Ans :

(i) Fast Organizational 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.

(ii) 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.

(iii) 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.

3. Advantages of outsourcing.

Ans :

The companies usually opts outsourcing as it provides several benefits which are as follows,

(i) Cost Savings

The first and foremost reason behind opting for outsourcing is cost savings especially for 'labour'.

(ii) 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.

(iii) 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.

(iv) 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.

4. Drivers of outsourcing.

Ans :

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

5. Define Strategy Analysis.

Ans :

Meaning

Strategic analysis refers to a process that conducts research on the business environment within which an organization operates. It involves exploring the objective factors that are taken into account during the process of making strategic choice.

6. Define strategic choice.

Ans :

Definition

According to W.F. Glueck and R. Jauch, strategic choice is defined as, "the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise's objectives".

7. 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 develop-ment.
2. Integration strategies: forward, backward, and horizontal
3. Diversification strategies: concentric, horizontal, and conglomerate
4. Defensive strategies: retrenchment, divesture, and liquidation

8. Define Mergers.

Ans :

Meaning

Merger refers to a friendly joining together of two organizations as in a corporate marriage, usually with the sanction of both firm's top strategic decision makers. Mergers are usually based on the core competencies of firms.

For example, two companies with similar core competencies (e.g., in marketing) in marketing may merge to strengthen their overall competitive position.

Alternative, two firms may merge to combine complementary core competencies.

For example, a firm possesses a competency in its marketing may merge with a firm that has good brand name.

9. Define the term acquisition.

Ans :

Meaning

Acquisition is an activity in which one company controls the other company. The company which controls is known as acquiring company and the other company which is under control is target company. In acquisitions, business is purchased through cash, stock or combination of both.

Features

Following are the features of acquisition,

1. Responsible for documents of the company.
2. Becoming owner of the assets like plant, division or entire company by purchasing.

10. Define Strategic Alliance.

Ans :

Meaning

- Strategic alliances are long term relationships between the companies designed to achieve an objective faster and more effectively than if either of the firms does so on its own.

- Strategic alliances are like teams that contribute to synergy. Strategic alliances are teaming and allying with other companies either of the same industry or another industry, with a view to help to perform all kinds of business/service activities necessary for a customer in the supply chain.
- For example, alliances among an automobile company, finance company, spare parts producing company and a service company enable them to meet a unified facility for buying and maintaining a car by a customer.

11. Franchising.

Ans :

Franchising is a form of licensing. Under franchising, the franchisee a partner of the alliance operates the business under the name of another company called franchisor. Under franchising, the franchisee pays a fee to the franchisor and the franchisor in turn provides various facilities to the franchisee like trade marks, operating systems, product reputations and continuous support systems like advertising, employee training, and quality assurance programmes.

Choose the Correct Answer

1. Retrenchment is [a]
   (a) When a company experiences declining profits and makes cutbacks to improve efficiency.
   (b) When a company adopts a new strategic position for a product or service
   (c) The sale of the complete business, either as a single going concern or piecemeal to different buyers or sometimes by auctioning the assets
   (d) Implement the marketing function's strategic planning and management decisions
2. When does horizontal integration occur? [a]
   (a) When a firm acquires or merges with a major competitor
   (b) When a firm acquires or merges with a an unrelated business
   (c) When a firm acquires or merges with a distributor
   (d) When a firm acquires or merges with a supplier firm
3. Divestment is what kind of strategy? [a]
   (a) An asset-reduction strategy (b) A weakness-reduction strategy
   (c) A product-reduction strategy (d) A cost-reduction strategy
4. Sustained survival implies [a]
   (a) That a turnaround is achieved, but there is little further growth
   (b) That a turnaround is achieved, and there is potential for further growth
   (c) That a turnaround is achieved, and there is a clear opportunity to employ a new growth strategy
   (d) that a turnaround is achieved, and it is appropriate to diversify soon
5. In which of the following scenarios is a joint venture likely to be more attractive than acquisition? [a]
   (a) Horizontal integration (b) Vertical integration
   (c) New market entry (d) Larger resource pool
6 McDonalds is deciding whether to expand into manufacturing kitchen equipment in China. At what level is this decision likely to be made? [b]
   (a) Business (b) Corporate
   (c) Functional (d) International
7. The three organisational levels are [a]
   (a) Corporate level, business level, functional level
   (b) Corporate level, business unit level, functional level
   (c) Corporate strategy level, business unit level, functional level
   (d) None

8. Which of the following is the characteristic of human resource management? [b]

(a) Managers are responsible for the employees

(b) Teams tend to provide increased productivity

(c) Managers are responsible for deploying employees

(d) For dealing with employees, scientific management principles and systems

9. Selling all of a company's assets in parts of their tangible worth is called ______. [c]

(a) Divestiture (b) Liquidation

(c) Concentric diversification (d) Unrelated integration

10. One company buying another company means [b]

(a) Joint venture (b) Acquisition

(c) Amalgamation (d) Merger

11. Low cost, focus and differentiation are examples of ______. [c]

(a) Corporate strategies (b) Operational strategies

(c) Business strategies (d) Functional strategies

Fill in the blanks

1. _______ analysis refers to a process that conducts research on the business environment within which an organization operates.
2. _______ integration helps to develop a competitive edge, with increased size and scope for the growth of the same type of business operations.
3. _______ presented a matrix that focused on the firm's present and potential products and markets.
4. The term _______ means to club or combine.
5. _______ is a form of corporate strategy for a company.
6. _______ mergers take place when there is a combination of two or more organizations in the same business.
7. _______ mergers take place when there is a combination of two or more organizations, not necessarily in the same business
8. Reverse merger, also known as _______.
9. _______ help in racing against rivals for market leadership.
10. _______ structure is an established pattern of relationships among the component parts of an organization.

ANSWERS

1. Strategic
2. Horizontal
3. Igor Ansoff
4. Integration
5. Diversification
6. Horizontal
7. Vertical
8. Back door listing
9. Alliances
10. Organisational

One Mark Answers

1. Licensing.

Ans :

licensing, a company assigns the right to a patent or a trademark to another company for a fee or royalty.

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.

3. Advantages of acquisition.

Ans :

(i) A firm can get an easy access to the market and technology through acquisition.

(ii) It become easy to gain access to patent rights and technology through acquisition.

(iii) With the help of acquisition, the firm can get the firms ownership and control immediately on the factories, technology, employees and distribution networks, of the acquired firm.

4. Outsourcing.

Ans :

Outsourcing is the long term contracting out of non-core business processes to an outside provider to help achieve increased shareholder value.

5. Joint Ventures.

Ans :

Two or more firms form alliance to create a new business entity that legally separate and distinct from its parents.

UNIT V	**Strategy Implementation and Control:** Strategy Implementation: Strategies Evaluation and Control, Social responsibilities of Business, Business Ethics, Corporate Governance, Good Corporate Citizenship, Understanding Environmental Change and Instilling Corporate Culture for Promoting S M A R T approach, Re-Designing Organizational Structures and Controls - Corporate Failures, Mechanism for Strategy control and Evaluation, Types of Strategic Controls-Social and Ethical responsibilities of Corporate Organizations.

5.1 Strategy Implementation

Q1. Define Strategy Implementation. Describe the characteristics of strategy implementation.

Ans : **(Imp.)**

Meaning

- 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.
- 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.

Characteristic

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.

Q2. 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.

Q3. Discuss about the various steps involved in strategy implementation.

Ans : **(Imp.)**

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.

5.2 Strategies Evaluation and Control

Q4. Define the term Strategy Evaluation and Control. Write about its nature and importance.

Ans : **(Imp.)**

Meaning

- Strategic evaluation and control constitutes the final phase of strategic management.
- Strategic evaluation operates at two levels: strategic and operational. At the strategic level, we are concerned more with the consistency of strategy with the environment.
- At the operational level, the effort is directed at assessing how well the organization is pursuing a given strategy.
- The idea of strategic control is of a relatively recent origin and its techniques are still in an embryonic stage.
- Strategic controls contains premise, implementation, strategic surveillance, and special alert control.
- Operational control consists of setting standards, measuring performance, analyzing variances, and taking corrective action.

Nature

- The purpose of strategic evaluation is to evaluate the effectiveness of strategy in achieving organizational objectives.
- Thus, strategic evaluation and control could be defined as the process of determining the effectiveness of a given strategy in achieve-ing the organizational objectives and taking corrective action wherever required.
- From this definition, we can infer that the nature of the strategic evaluation and control process is to test the effectiveness of strategy. During the two preceding phases of the strategic management process, the strategists formulate the strategy to achieve a set of objectives and then implement the strategy.
- Now there has to be a way of finding out whether the strategy being implemented will guide the organisation towards its intended objectives. Strategic evaluation and control, therefore, performs the crucial task of keeping the organisation on the right track.
- In the absence of such a mechanism, there would be no means for strategists to find out whether or not the strategy is producing the desired effect.
- In this manner, through the process of strategic evaluation and control, the strategists attempt to answer two sets of questions, such as, the ones below.

i) Are the premises made during strategy formulation proving to be correct? Is the strategy guiding the organisation towards its intended objectives? Are the organisation and its managers doing things which ought to be done? Is there a need to change and reformulate the strategy?

ii) How is the organisation performing? Are the time schedules being adhered to? Are the resources being utilized properly? What needs to be done to ensure that resources are utilised properly and objectives met?

Importance

- The process of strategic management requires that strategists lay down the objectives of the organisation and then formulate strategies to achieve them.
- The process of strategy implementation starts with the identification of the key managerial tasks which form the basis for the creation of organisational structure and the design of systems.
- To the other tasks that managers elsewhere in the organisation are performing, makes it clear that the tasks have to be coordinated.
- The importance of strategic evaluation lies in its ability to coordinate the tasks performed by individual managers, and also groups, division or SBUs, through the control of performance. In the absence of coordinating and controlling mechanisms, individual managers may pursue goals which are inconsistent with the overall objectives of the department, division, SBU or the whole organisation.
- Strategic evaluation helps to keep a check on the validity of a strategic choice. An ongoing process of evaluation would, in fact, provide feedback on the continued relevance of the strategic choice made during the formulation phase.
- This is due to the efficacy of strategic evaluation to determine the effectiveness of strategy.
- During the course of strategy implementation managers are required to take scores of decisions. Strategic evaluation can help to assess whether the decisions match the intended strategy requirements.
- This is due to the inherent nature of any adminis-trative system which leaves some amount of discretion in the hands of managers.
- In the absence of such evaluation, managers would not know explicitly how to exercise such discretion.
- Strategic evaluation, through its process of control, feedback, rewards, and re-view, helps in a successful culmination of the strategic management process.

Q5. What are the barriers of strategic evaluation and control?

(OR)

What types of barriers are commonly faced in evaluation?

(OR)

State the vital issues in strategic evaluation and control?

Ans : **(June-18)**

The following are the barriers of strategic evaluation and control:

(i) Limits of Controls

By its very nature, any control mechanism presents the di-lemma 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 strategic evaluation process ineffective and redundant.

(ii) 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 techniques used for evaluation, lack of quantifiable objectives or performance standards, and the inability of the information system to provide timely and valid information.

The control system may be distorted and may not evaluate uniformly or may measure attributes which are not intended to be evaluated.

(iii) 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.

(iv) Short-termism

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 implications into account may be seen as too tedious.

(v) 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. In fact, sometimes performance that does not really contribute to the achievement of objectives may be rewarded if assessed on the basis of efficiency alone.

Q6. State the requirements for effective evaluation.

Ans :

The basic issue in all evaluation should be that control should be dictated by strategy. There needs to be a vertical fit between the strategy requirements, and the evaluation and control exercised over performance. The guidelines below are suggested in or-der to make controls effective.

- Control should involve only the minimum amount of information as too much information tends to clutter up the control system and creates confusion.
- Control should monitor only managerial activities and results even if the evaluation is difficult to perform.
- Controls should be timely so that corrective action can be taken quickly.
- Long-term and short-term controls should be used so that a balanced approach to evaluation can be adopted.
- Controls should aim at pinpointing exceptions as nitpicking does not result in effective evaluation. The 80:20 principle, where 20 per cent of the activities result in 80 per cent of achievement, needs to be emphasised. Getting bogged down with the activities that do not really count for achievement makes the evaluation ineffective.
- Rewards for meeting or exceeding standards should be emphasised so that managers are motivated to perform. Unnecessary emphasis on penalties tend to pressurise the managers to rely on efficiency rather than effectiveness.

Q7. What is Strategic Control? Explain different types of Strategic Control.

Ans : **(Imp.)**

Meaning

- 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.

  The four basic types of strategic controls are:

  1. Premise control
  2. Implementation control
  3. Strategic surveillance
  4. Special alert control

The following subsections address each of these four strategic controls.

1. Premise Control

- As mentioned above, 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 neces-sary to identify the key assumptions, and keep track of any change in them so as to assess their impact on strategy and its implemen-tation.
- 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 and 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, imple-mentation 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 pretesting, or checking the feasibility of a diversification pro-gramme 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.

Q8. Explain the process of strategic control.

(OR)

Outline the various steps involved in strategic control.

Ans : **(Imp.)**

The process of strategic control

Step 1: Key Areas to be Monitored

- **Macro-environment:** One of the key areas to be monitored is the macro-environment of the company. This area should be focussed first. Normally, individual companies cannot influence the environment significantly.

  But, the external environmental forces must be continuously monitored as the changes in the environment influence the strategic implementation process of the company. As discussed in the earlier chapters, continuous strategic fit between the company and its external environment is necessary. Therefore, strategic control is essential.

- **Strategic Monitoring and Control Includes:** Modifying any one or more of the areas like company's mission, objectives, goals, strategy formulation and strategy implementation. The modification depends upon the nature and degree of changes and shifts in the environment.
- **Industry Environment:** The strategist also monitors and control the industry related environment. The environmental forces may not be as they were planned. The changes in the environment may provide new opportunities or pose new threats.

  The strategy, therefore, should be modified according. Thus, the purpose is to modify the company's strategy, goals and operations in order to capitalise the new opportunities and defend against the new threats effectively. The industry environment of the future should be considered by the top management for the purpose of strategic evaluation and control.

➢ **Internal Operations:** The strategist has to evaluate the internal operations continuously in view of the changes in the macro-environment and industry environment. The strategist has to, introduce changes in internal operations when the changes in the environment affect the strategy.

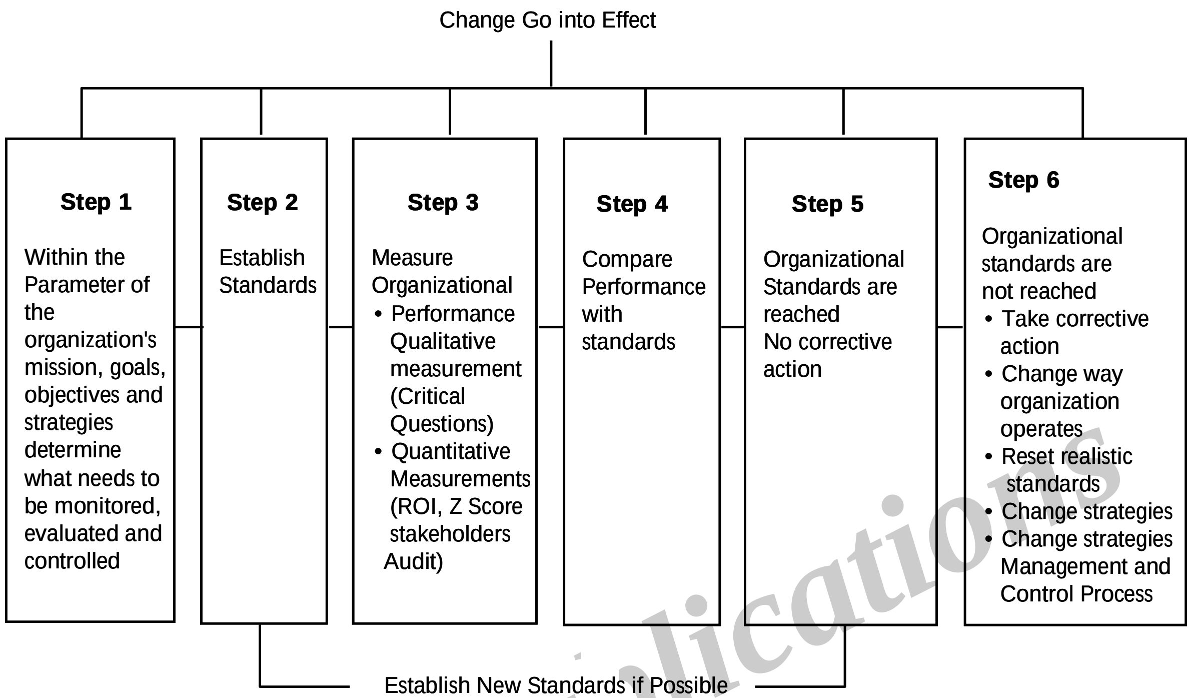

Fig.: Strategic control process

Step 2: Establishing Standards

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

Step 3: Measuring Performance

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

➢ **Strategic Audit:** A strategic audit is an execution and evaluation of organization's operations affected by the strategy implementation. Strategic audit may be very comprehensive, emphasising all facets of a strategic management process. It may also be narrowly focused, emphasising only on a single part of the process such as environmental process. Strategic audit may be quite formal adhering to organisational rules and procedures. It may be quite informal providing freedom and autonomy to me managers to take decisions.

The strategic audit must work to integrate related functions. Hence, the strategic audits are carried out by cross-functional teams of managers.

There are no universally accepted single method of strategic audit. Each organization can formulate its own method depending upon its need.

Step 4: Compare Performance with Standards

- Once the performance of the different aspects of the organization is measured, it should be compared with the predetermined standards. Standards are set to achieve the already formulated organisational goals and strategies.
- Organisational standards are yardsticks and benchmarks that : ace organisational performance in perspective. The strategists should set standards for all performance areas of the organization based on the organisational goals and strategies. Normally, the standards vary from one company to the other company.

  Further, they also vary from time to time in the same company. The standards developed by General Electric can be used as model standards. These standards include.

  i) **Profitability Standards:** These standards include how much gross profit, net profit, return - investment, earning per share, percentage of profit to sales the company should earn in a given me period.

  ii) **Market Position Standards:** These standards include total sales, sales-region-wise and product-wise, market share, marketing costs, customer service, customer satisfaction, price, customer loyalty shifts from other organizations' products etc.

  iii) **Productivity Standards:** These standards indicate the performance of the organization in terms of conversion of inputs into outputs. These standards include capital productivity, labour productivity, material productivity, etc.

  iv) **Product Leadership Standards:** These standards include the innovations and modifications products to increase the new uses of the existing product, developing new products with new uses, etc.

Step 5: Take No Action if Performance is in Harmony with Standards

If the performance of various organisational areas match with the standards, the strategist need not take any action. He should just allow the process to continue. However, he can try to improve the performance above the standards, if it would be possible, without having any negative impact on the existing process.

Step 6: Take Corrective Action, if necessary

Strategist should take necessary corrective action, if performance is not in harmony with standards.

The strategists compare the performance with standards. If they find any deviation between the standards and performance, they should take corrective action to bridge the gap between the standards and performance.

Corrective Action: Corrective action may be defined as change in a company's operations to ensure that it can more effectively and efficiently reach its goals and perform up to its established standards.

Strategies that do not achieve standards produce three possible responses, viz, (i) to revise strategies, (ii) to change standards and (iii) to take corrective action in the existing process without changing standards and strategies.

Strategy change may require a 'fine tuning' of the existing strategy or complete changes in strategies. If it is realised that the existing standards are unrealistic under the present conditions, the strategist should reset the standards taking the existing conditions into consideration.

Q9. What is Operational Control? Explain the evaluation techniques Operational Control.

Ans :

Meaning

Operational control is aimed at the allocation and use of organisational resources. Though an evaluation of the performance of organisational units, such as, divisions, SBUs, and so on, to assess their contribution to the achievement of organisational objectives. Operational control is concerned with action or performance, and this is probably the reason why it is used so extensively in organisations.

Techniques

The techniques used for evaluating operational control is divided into three categories. They are as follows,

1. Comparative analysis
2. Internal analysis and
3. Comprehensive analysis.

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 compara-tive 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 historicahanalysis.

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 organiza-tion 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 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 recogni-zable 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 organi-zed. 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

Compreheilsive 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.

Q10. Compare and contrast strategic control and operational control.

Ans :

S. No.	Attribute	Strategic control	Operational control
1.	Aim	Proactive, continuous questioning of the basic direction of strategy	Allocation and use of organisational resources
2.	Main concern	'Steering' the organisation's future direction	Action control
3.	Focus	External environment	Internal organisation
4.	Time horizon	Long-term	Short-term
5.	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
6.	Main techniques	Environmental scanning, information gathering, questioning and review	Budgets, schedules, and MBO

5.3 Social Responsibilities of Business

Q11. What is Social Responsibilities of Business?

(OR)

Write a note on crafting a social responsibility strategy.

Ans : **(Sep.-22)**

Traditional View of Social Responsibility

- In traditional societies, the prime purpose of business was profit maximisation.
- Even as late as 1970, Milton Friedman stated that 'the business of business is business'.
- In other words, the only objective of business is the making of profits.
- Friedman argues that the profit earned by business belongs exclusively to the shareholders of the business and these profits cannot be diverted to any other social purpose.

Modern View of Social Responsibility

- The establishment and development of business is dependent on the contributions made by society.
- Society has to bear the cost and consequences of the establishment and operation of business. It has to allot land, supply water and other materials, provide infrastructural facilities and develop and provide human resources.
- In addition to this, consumers who are members of society,, allow the business to continue its operations by creating effective demand for the goods and services produced/ rendered or distributed by the business.
- This declaration also emphasised certain main features of Social Responsibility of Business, viz.,
- In addition to making a fair and adequate return on capital, business must be just and humane, as well as efficient and dynamic.
- The social responsibilities of business can best be assumed in an atmosphere of freedom with the least possible restraint on healthy competition.
- Every business has an overriding responsibility to make the fullest possible use of its resources, both human and capital.
- It highlights the respective roles of the enterprises, the shareholders, the workers, the customers, the manage-ment and the community.
- It laid emphasis on the reciprocal duties between business and the community.

Q12. List out the responsibilities of business towards various stack holders.

Ans :

(i) Responsibilities Towards Consumers/ Customers

Consumer satisfaction is the ultimate aim of all economic activity. This includes:

- the goods must meet the needs of the consumers of different classes, tastes and the purchasing power;
- they must be reasonably priced, be of a dependable quality and of sufficient variety;
- the sale of such goods must be followed by after sales service to ensure advice, guidance and maintenance;
- there should be a fair and wide spread distribution of goods and services among all the sections of consumers and community, and
- there should be prevention of concentration of goods in the hands of a limited number of producers, purchasers or groups.

(ii) Responsibilities Towards Employees

- It is the basic responsibility of the enterprise to produce wealth and also to provide opportunities for meaningful work.

- The management should develop its administration in such a way so as to promote a spirit of cooperative endeavour between employers and employees.
- There should be a sense of participation between capital, on the one hand, and labour and skill, on the other, in their objective towards prosperity and progress.
- The cooperation of workers can be won by creating conditions in which workers are enabled to put forward their best efforts in the common task as free men. This means recognition:
  - of the workers' right to a fair wage;
  - of the right to participate in decisions affecting their working life;
  - to membership of the trade union;
  - to collective bargaining and
  - the right to strike.

(iii) Responsibilities Towards Owners/ Share-holders

Management's first duty is to see that enterprise is stable, enterprising and actively engaged in accomplishing its objectives. It would then be capable of providing those who commit their capital to it with such a fair and adequate reward for risk taken. It permits the company to attract the necessary capital from the market.

This capital is raised by the owners (proprietors, retailers, whole-salers, sole-traders) owning business, its property and looking after its management; the share of stockholders who contribute to the shares and debentures of the company or the partners (if there are any).

The expectations of these types of owners are:

- a fair and reasonable return on the capital invested by them;
- a part in profit, if the Memorandum so specifies, inthe shape of profit-sharing or bonus payment schemes;
- political and economic security for investment through a stable government, good law and order situation and stable tax policies and fiscal measures;
- knowledge about the working of the enterprise, its periodical progress report, so that they may be satisfied that their capital has been faithfully and usefully employed;
- a fair amount of dividend or retained earnings; and
- profiteering, black-marketing, cornering of supplies, unfair trade practices are curbed and legally prohibited

(iv) Responsibilities Towards Inter-Business

The social responsibilities of business include a healthy co-operative business relationship between different businesses.

Businessmen must resist unfair and unethical competition and avoid unfair interference in their rival's business such as price-rigging, undercutting, patronage, unfair canvassing, supply of substandard goods, application of undue financial, legal and political pressure; spreading false rumours/ statements about the rival's products, creating labour troubles for the competitors' industry or launching a boycott campaign of their products, employing unethical advertisements and controlling the supply, of particular goods/services produced by them only so that an artificial scarcity is created in the market, giving rise to monopolistic conditions, artificial high prices as per quality of goods, etc.

(v) Responsibilities Towards the State

The social responsibilities of business towards the state (government) demands that:

It will:

- be a law-abiding citizen;
- pay its dues and taxes to the state fully and honestly;
- not corrupt public servants and the democratic process for his selfish ends;
- not purchase political support by unfair means;

- strive fairly and honestly to stimulate economic growth even by making reasonable sacrifices on occasions of national need;
- participate in the public life of the country in helping to make policies, fair legislation and working on advisory bodies;
- sell his goods, commodities and services without adulteration at fair and reasonable prices; and
- maintain fair trade practices and refrain from activities like restraint of trade and will not take recourse to hoarding, cornering and profiteering and other such unfair practices.

(vi) Responsibilities Towards the Community

The business owes great responsibility to the community in various directions. Some of the major areas where business can and does contribute towards community welfare as part of its social responsibility are:

(a) In the field of Industry: Industry/ business can help rural areas by introducing 'self- help' and 'earn-while-you-leam' programmes. Initially, such programmes may be labour-intensive in areas like carpentry, pottery, spinning, weaving, agro-based industry, farming, dairy farming, poultry and pig rearing, storage, etc., so that increasing employment could be provided in rural areas.

For this purpose, identification of areas needing improvement, facilities, skill requirements and financial assistance may be surveyed by business experts.

(b) In the field of Agriculture: As a social responsibility, a large business house can play an important role in agricultural develop-ment, to provide full-time employment to the vast unemployed rural labour force.

For this purpose, the business should get the survey done by its experts in the field of climate, soil conditions, breeding of livestock facilities for irrigation, proper water supply and actual supply of fertilizers, seeds, pesticides, expertise, and finances. Non-agricultural activities seeking linkage with the agricultural sector and the industrialised sector can also be developed.

(c) Housing Facilities: The social responsibility of business in this sphere is great, specially because a major proportion of the rural population is doomed to illnesses, squalid existence in techniques ill-planned and filthy houses.

Business can, therefore, play its role in changing house-building, extending loans and financial-aid facilities, providing material and manpower support. In the urban areas, slum clearance schemes, one or two room tenements with facilities for sanitation should be provided in labour colonies.

(d) Transportation: Business and other agencies can help the government by undertaking studies and programmes of technical and financial assistance for the development of cheap public transport and distribution systems through improved journey planning and traffic regulation, increased operational efficiency and utilisation of road capacity, improved systems and procedures of granting licenses, more rational and scientific estimates for vehicle fleet size and man power for different modes of transport, improved maintenance and replacement policy for the spares and structural changes in urban and rural layouts.

5.4 Business Ethics

Q13. What is Business Ethics? Explain the features, Elements and Need of Business Ethics.

Ans :

Meaning

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..

Definitionss

Business ethics is the application of general ethical principles and standards to business behaviour.

(i) **According to 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.

(ii) **According to Rogene A. Buchholz,** "Business ethics refer to right or wrong behaviour in business decisions".

(iii) **According to Postm Fredrick, and Lawrence,** "Business ethics is the application of general ethical ideas to business".

(iv) **According to George A. Stenier,** "Business ethics is the study of good and evil, right and wrong, just and unjust actions of businessmen".

(v) **According to Velasquez,** "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".

Features

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

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

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.

Q14. What are the principles of business ethics ?

Ans :

The following are the principles of business ethics

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.

Q15. 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.

5.5 Corporate Governance

Q16. Define Corporate Governance. Explain the need for Corporate Governance.

(OR)

Discuss the necessity of corporate governance under changing business environment.

Ans : **(June-19)**

Meaning

According to Standard and Poor, corporate governance as "the way in which a company organizes and manages itself to ensure that all the financial stakeholders receive their fair share of a company's earnings and assets".

Need

(a) Wide Spread of Shareholders

Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganized and having an indifferent attitude towards corporate affairs.

The idea of shareholders' democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate governance.

(b) Changing Ownership Structure

The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors (foreign as well Indian) and mutual funds becoming largest shareholders in large corporate private sector.

These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

(c) Corporate Scams or Scandals

Corporate scams (or frauds) in the recent years of the past have shaken public confidence in corporate management. The event of Harshad Mehta scandal, which is perhaps, one biggest scandal, is in the heart and mind of all, connected with corporate shareholding or otherwise being educated and socially conscious.

(d) Greater Expectations of Society of the Corporate Sector

Society of today holds greater expectations of the corporate sector in terms of reasonable price, better quality, pollution control, best utilization of resources etc. To meet social expectations, there is a need for a code of corporate governance, for the best management of company in economic and social terms.

(e) Hostile Take-Overs

Hostile take-overs of corporations witnessed in several countries, put a question mark on the efficiency of managements of take-over companies. This factor also points out to the need for corporate governance, in the form of an efficient code of conduct for corporate managements.

(f) Huge Increase in Top Management Compensation

It has been observed in both developing and developed economies that there has been a great increase in the monetary payments (compensation) packages of top level corporate executives.

There is no justification for exorbitant payments to top ranking managers, out of corporate funds, which are a property of shareholders and society.

(g) Globalization

Desire of more and more Indian companies to get listed on international stock exchanges also focuses on a need for corporate governance. In fact, corporate governance has become a buzzword in the corporate sector.

There is no doubt that international capital market recognizes only companies well-managed according to standard codes of corporate governance.

Q17. Explain the objectives and elements of Corporate Governance.

Ans :

Objectives

The fundamental objective of corporate governance is to boost and maximize shareholder value and protect the interest of other stake holders. World Bank described Corporate Governance as blend of law, regulation and appropriate voluntary private sector practices which enables the firm to attract financial and human capital to perform efficiently, prepare it by generating long term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole.

Corporate governance has various objectives to strengthen investor's confidence and intern leads to fast growth and profits of companies. These are mentioned below:

(a) A properly structured Board proficient of taking independent and objective decisions is in place at the helm of affairs.

(b) The Board is balanced as regards the representation of suitable number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders.

(c) The Board accepts transparent procedures and practices and arrives at decisions on the strength of adequate information.

(d) The Board has an effective mechanism to understand the concerns of stakeholders. e) The Board keeps the shareholders informed of relevant developments impacting the company.

(f) The Board effectively and regularly monitors the functioning of the management team.

(g) The Board remains in effective control of the affairs of the company at all times.

Elements

It has been established in various management reports that aspects of good corporate governance comprise of transparency of corporate structures and operations, the accountability of managers and the boards to shareholders, and corporate responsibility towards stakeholders. While corporate governance basically lays down the framework for creating long-term confidence between companies and the external providers of capital.

There are numerous elements of corporate governance which are mentioned below:

(a) Transparency in Board's processes and independence in the functioning of Boards. The Board should provide effective leadership to the company and management to realize sustained prosperity for all stakeholders. It should provide independent judgment for achieving company's objectives.

(b) Accountability to stakeholders with a view to serve the stakeholders and account to them at regular intervals for actions taken, through strong and sustained communication processes.

(c) Impartiality to all stakeholders.

(d) Social, regulatory and environmental concerns.

(e) Clear and explicit legislation and regulations are fundamentals to effective corporate governance.

(f) Good management environment that includes setting up of clear objectives and suitable ethical framework, establishing due processes, clear enunciation of responsibility and accountability, sound business planning, establishing clear boundaries for acceptable behavior, establishing performance evaluation measures.

(g) Explicitly approved norms of ethical practices and code of conduct are communicated to all the stakeholders, which should be clearly understood and followed by each member of the organization.

(h) The objectives of the corporation must be clearly recognized in a long-term corporate strategy including an annual business plan along with achievable and measurable performance targets and milestones.

(i) A well composed Audit Committee to work as liaison with the management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the Board on the key issues.

(j) Risk is an important component of corporate functioning and governance, which should be clearly acknowledged, analyzed for taking appropriate corrective measures. In order to deal with such situation, Board should formulate a mechanism for periodic reviews of internal and external risks.

(k) A clear Whistle Blower Policy whereby the employees may without fear report to the management about unprincipled behavior, actual or suspected frauds or violation of company's code of conduct.

There should be some mechanism for adequate safeguard to personnel against victimization that serves as whistle-blowers.

Q18. Explain various issues of Corporate Governance.

Ans :

The various issues of Corporate Governance

(a) Value based corporate culture

For smooth operation of any firm, it is necessary to develop certain ethics, values. Long run business needs to have value based corporate culture. Value based corporate culture is good practice for corporate governance. It is a set of ethics, principles which are inviolable.

(b) Holistic view

This holistic view is religious outlook which helps for effective operation of organization.

It is not easier to adopt it, it needs special efforts and once adopted it leads to developing qualities of nobility, tolerance and empathy.

(c) Compliance with laws

Those companies which really need advancement, have high ethical values and need to run long run business they abide and comply with laws of Securities Exchange Board Of India (SEBI), Foreign Exchange Regulation Act, Competition Act 2002, Cyber Laws, Banking Laws.

(d) Disclosure, transparency, and accountability: Disclosure, transparency and accountability are important feature for good governance. Timely and accurate information should be disclosed on the matters like the financial position, performance.

Transparency is needed in order that government has faith in corporate bodies. Transparency is needed towards corporate bodies so that due to tremendous competition in the market place the customers having choices don't shift to other corporate bodies.

(e) Corporate Governance and Human Resource Management

In corporate culture, employees are vital for success of firms. Every individual should be treated with individual respect, his achievements should be recognized.

Each individual staff and employee should be given best opportunities to prove their worth and these can be done by Human Resource Department. Thus in Corporate Governance, Human Resource has a great role.

(f) Innovation

Every corporate body must involve in innovation practices i.e. innovation in products, in services and it plays a critical role in corporate governance.

(g) Necessity of Judicial Reform

There is requirement of judicial reform for a good economy and also in today's varying time of globalization and liberalization. Judicial system of India though having performed salutary role all these years, certainly are becoming obsolete and outdated over the years.

The delay in judiciary is due to several interests involved in it. But then with changing scenario and fast growing competition, the judiciary needs to bring improvements accordingly. It needs to promptly resolve disputes in cost effective manner.

(h) Globalization helping Indian Companies to become global giants based on good governance

In today's competitive environment and due to globalization, several Indian Corporate bodies are becoming global companies which are possible only due to good corporate governance.

(i) Lessons from Corporate Failure

Corporate bodies have certain policies which if goes as a failure they need to learn from it. Failure can be both internal as well as external whatever it may be, in good governance, corporate bodies need to learn from their failures and need to move to the path of success.

5.6 Good Corporate Citizenship

Q19. Discuss briefly about Good Corporate Citizenship.

Ans : **(Sep.-22, Imp.)**

Meaning

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.

5.7 Understanding Environmental Change and Instilling Corporate Culture for Promoting SMART Approach

Q20. Define organizational culture. Explain the characteristics of organizational culture.

Ans :

Organizational culture is quite complex. Every company has its unique personality, just like people do. The unique personality of an organization is referred to as its culture. In groups of people who work together, organizational culture is an invisible but powerful force that influences the behavior of the members of that group.

Definitions

(i) **According to Robbie Katanga,** "Organizational Culture is how organizations do things."

(ii) **According to Alec Haverstick,** "In large part, Organizational culture is a product of compensation."

(iii) According to Bruce Perron, "Organizational culture defines a jointly shared description of an organization from within."

(iv) According to Richard Perrin, "Organizational culture is the sum of values and rituals that serve as a glue to integrate the organization's members."

(v) According to Alan Adler, "Organizational culture is civilization in the workplace."

(vi) According to Elizabeth Skringar, "Organizational culture is shaped by the main culture of the society we live in, albeit with greater emphasis on particular parts of it."

(vii) According to Abdi Osman Jama, "An organization is a living culture that can adapt to the reality 4s fast as possible."

Characteristics

Following are the characteristics of organizational culture :

1. Innovation (Risk Orientation)

Companies with cultures that place a high value on innovation encourage their employees to take risks and innovate in the performance of their jobs.

Companies with cultures that place a low value on innovation expect their employees to do their jobs the same way they have been trained, without looking for ways to improve their performance.

2. Attention to Detail (Precision Orientation)

This characteristic of organizational culture dictates the degree to which employees are expected to be accurate in their work.

A culture that places a high value on attention to detail expects its employees to perform their work with precision, and a culture that places a low value on this characteristic does not.

3. Emphasis on Outcome (Achievement Orientation)

Companies that focus on results but not on how the results are achieved emphasize this value of organizational culture.

A company that instructs its sales force to do whatever it takes to get sales orders has a culture that places a high value on the emphasis on outcome characteristics.

4. Emphasis on People (Fairness Orientation)

Companies that place a high value on this characteristic of organizational culture place great importance on how their decisions will affect the people in their organizations.

5. Teamwork (Collaboration Orientation)

Companies that organize work activities around teams instead of individuals place a high value on this characteristic of the organizational culture.

People who work for these types of companies tend to have a positive relationship with their coworkers and managers.

Q21. State the dimensions of organizational culture.

Ans :

Following are the dimensions of organizational culture :

1. Power distance

The extent to which employees feel that power is unevenly distributed across various levels of the organization from the top to the bottom. Power distance tends to be less in knowledge intensive industries such as computer software. In such industries, individual expertise is as important as seniority and designation.

2. Uncertainty avoidance

The extent to which people feel threatened by uncertainty.

3. Individualism

The tendency of people to be self-centered as opposed to collectivism where people care for each other. Individualism is a typical cultural trait found in investment banks. Americans are considered to be more individualistic, compared to the Japanese.

4. Masculinity

It refers to a strong emphasis on success, money and material objects as opposed to femininity, which emphasizes caring for others and quality of life.

Q22. What do you mean by corporate culture? Explain different types of corporate culture.

Ans :

Meaning

- 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.
- **According to 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

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

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.

Q23. Define SMART Governance / E-Governance ? Explain its components.

Ans : **(Sep.-22)**

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

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.

Q24. What are the objectives of E-Governance?

Ans : **(Sep.-22)**

The following are the objectives of E-Governance

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.

Q25. Explain the policies of smart governance.

Ans : **(June-18)**

Good governance can be achieved through policW of SMART approach which includes the following key attributes,

1. Simplicity

Citizen expect a government that is user-friendly with simple laws, regulations and processes. To achieve this, the government is implementing a single window one-shop service delivery system through CSC as part of its e-governance framework.

2. Morality

SMART governance emphasizes the emergence of a new system of governance based on moral values. While the process of cleaning up corruption may be slow, it is essential for upholding the values of good governance. Measures such as systematic changes in electoral reforms, downsizing of government, enhancing literacy, increasing awareness and participation can take time to show results but are crucial for sustainable process.

3. Accountability

Accountability is the cornerstone of public administration and a fundamental principle of democratic government.

4. Responsiveness

A responsive administration is one that is attentive to the needs of the common man. The use of citizen's charter, such as those developed in the U.K in the 1990s, can help improve government responsiveness by outlining the quality of service and delivery time limits.

5. Transparency

Transparency is essential for bringing equality, a level playing field and the rule of law into public life. Key measures to promote transparency include, citizen's Right to Information (RTI) and fre right to know why certain decisions were taken.

5.8 Re-Designing Organizational Structures and Controls

Q26. What is organizational Re-Design? Explain its objectives.

Ans :

Meaning

Organizational re-design or re-structuring refers to the process of re-constructing organization internally or externally as per the changes made in technology and environment.

Organizations are forced to change their rigid structure to flexible structure because of increasing competition technological and environmental changes. Presently, every organization is changing its structure to become more innovative, economical, profitable, adoptive and updated.

Objectives

Following are the objectives based on which organizational structure will be re-designed or re-structured,

1. To monitor all the organizational activities.
2. To facilitate efficient and economic performance of the organisation.
3. To optimally utilise the available resources.
4. To coordinate different parts of the organization and relate their work to stated goals.
5. To be flexible enough to meet future demands and developments.
6. To adopt to environmental and technological influences.

Q27. Explain how re-designing organizational structure helps for better control.

Ans : **(July-21)**

Re-designing/re-structuring of organization is necessary when business progresses to make it more efficient.

Following are some of the implications of re-designing of organizational structure which leads to have better control.

1. **More Control**

   An organization can be restructured by creating departments to manage all tasks which were outsourced previously. For this, efficient people must be hired to carry out the task. Unlike contractors, owner of the business will be having more control on work of employees.

2. **Increased Administration**

   When organization is restructured, administrative work increases as number of employees increase. Owner can effectively control administrative activities like recruiting and training new members budget planning etc. Owner can review budgets of all departments before preparing master budget of company.

3. **Improved Efficiency**

   Restructuring improves efficiency of workforce and concentrates on underserved areas. It results in stronger employee job descriptions, more accountability and more emphasis on individual tasks which ultimately leads to better control on workforce.

4. **Cost Implication**

   Restructuring may increase or decrease costs based on type of restructuring. It may increase cost in initial period but in long run it will save money. Owner can have better control on all costs involved in organization after restructuring?

5.9 Corporate Failures

Q28. Define Corporate Failures. What are the causes of Corporate Failure.

Ans : **(Imp.)**

Meaning

Corporate failure refers to a situation where a company is no longer able to sustain its operations, generate enough revenue to cover its expenses and make a profit.

Causes of Corporate Failure

Following the factors that cause corporate failure,

1. **Managerial Inefficiency and Ineffectiveness**

   One of the primary causes of corporate failure is managerial inefficiency and ineffectiveness. This can manifest in various ways, such as the lack of well-defined corporate strategic plan.

   This intum can lead to a range of issues including over expansion, ineffective sales force, high production cost, poor financial management etc.

2. **Over Expansion**

   Over expansion can lead to corporate failure by immobilizing short-term funds, making it difficult for the company to meet its financial obligations.

3. **Ineffective Sales Force**

   When a company produces a product, the ultimate goal is to sell it. However, an ineffective sales force can hinder the company's ability to sell its product, particularly in a highly competitive market with differentiated products. This can result in cash flow problem, which can lead to solvency issues.

4. **High Production Costs**

   High production costs can make a product not compete favourably with other differentiated products in the market and could be due to over employment of human and material resources or technical inefficiency in the production process.

5. Poor Financial Management

Poor financial management lead to acute liquidity problems if the financial manager is unable to take effective financial management decisions, such as investment, financing and dividend policy.

6. Risk Assessment Strategy

It should be properly evaluated to avoid impairing corporate income from investments in assets, which is the most important source of corporate earnings.

5.10 Mechanism for Strategy Control and Evaluation

Q29. Write the mechanism for strategy control and evaluation.

Ans :

The administrative structure and style of an organization constitute the basic mechanism in controlling its activities. The evaluation process comprises four interconnected activities. They are as follows,

1. Establishing performance targets, standards and tolerance limits for objectives, strategies and implementation plans.
2. Measuring the actual position in relation to the targets at a given time and discreetly informing managers to take action if outcomes are outside the limits.
3. Analyzing deviations from acceptable tolerance limits.
4. Executing necessary and feasible modifications.

This process is critical for achieving various aspects of control which are as follows,

(i) **Management Control:** It is based on past performance, historical data and desired improvements.

(ii) **Real-Time Control:** It focuses on providing current technical information.

(iii) **Performance Management:** It ensures goal congruence and organizational effectiveness.

(iv) **Adaptive Control:** It determines the quickest and most effective way to respond to changes,

5.11 Social and Ethical Responsibilities of Corporate Organizations

Q30. Explain the social and ethical responsibilities of corporate organizations.

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

Social Responsibilities of Corporate Organizations

According to carrolls, there are four social responsibilities of corporate organizations,

1. Economic Responsibility

Every business enterprise has an economic responsibility towards the society. It should produce goods and services as per the requirement or the demand of the society and the general public.

In order to achieve this, the enterprise manager should take strategic decisions which are effective and efficient and mutually beneficial to the firm and the society at large.

2. Legal Responsibility

A business enterprise needs to operate and function within the legal framework of the society (i.e.,) it should follow "the law of the land" and abide all the federal and local laws.

These laws are like "codified ethics" and the business must take decisions, actions, and practices taking cognizance of the laws. For example, if a foreign company James Ltd., starts business in India, it is the legal responsibility of James Ltd., to follow all the business laws practiced in India.

Ethical Responsibilities of Corporate Organizations

The ethical responsibilities of corporate organizations are,

1. **Responsibilities Towards Employees**

   The organization should develop fair policies for all the employees. It should avoid discrimination and stop playing favourites.

2. **Responsibilities to Customers**

   It is the ethical responsibility of a business corporation to offer safe and quality products to customers. It should set a reasonable price for goods. If there is any problem with a product then such problem should be resolved immediately to protect the brand and also the customers.

3. **Responsibilities Towards Supply Chain**

   A business may have suppliers, distributor and retailers in its supply chain. It is the ethical responsibility of a business organization to carry out transactions honestly with supply chain members. It should offer them a fair price and avoid cheating.

Q31. Discuss the need and importance of social and ethical responsibilities of corporate organizations.

Ans : **(July-21, Imp.)**

Need

The need for social responsibility is as follows,

1. The success or failure of a business basically depends on the overall development of the society in which it operates as the goods/ services produced by an enterprise are finally consumed by the society.

2. Another need for social responsibility is that an enterprise totally depend on the society for its existence (i.e.,) the society that provides the land, labour and other resources to run the business.

3. For bringing qualitative societal improvements, it requires huge resources which the government alone cannot fund. Therefore, equal contribution by corporate enterprises are needed for making investments in research and development works.

Thus, it can be concluded that the business enterprise needs to be more socially responsive to survive and prosper.

Significance of Social Responsibility of Corporate Organization

Following points highlight the importance of corporate social responsibility.

1. Corporate social responsibility facilitates in strengthening the relationship that exist between stakeholders and companies.
2. Being socially responsible company, it attracts the best industry talent.
3. It offers additional motivation to employees.
4. It increases sales, productivity, quality and customer loyalty.
5. It minimizes corruption and operating cost.
6. It enhance transparency, reporting and financial performance.

Significance of Ethical Responsibility of Corporate Organization

The following points highlight the importance of ethical responsibility of corporate organization,

1. **Basic Human Needs**

   Ethics are the basic human needs. All human beings believe in being ethical not only in their personal lives, but also in their businesses.

   They prefer working for an organization as they feel that its purpose and activity contributes towards the growth and progress of the society. Every organization considers the ethical needs as their basic concern.

2. **Credibility Among the Public**

   Ethical responsibility helps in building business credibility among the people. Every business that follows ethics and respect the social values of the people will be honoured and respected by the public.

   Creating self-respect and acquiring the self-confidence of the society is very crucial for every business. In a democratic society, public plays an important role in the survival and growth of a business. Hence, a business can easily attain high standards by following an ethical behaviour.

3. Credibility with the Employees

Ethical responsibility helps in creating oneness among the business leadership and its workers.

When the workers consider the ethics as true or genuine, they are able to create common objectives, values and language. The ethics giVe the management credibility with both its employees and the public. It creates a healthy social environment among the employees.

4. Effective Decision-Making

Ethics facilitates better decision-making. The shareholders, stakeholders and employees of a company are mainly interested in the ethical decisions taken by the company as the ethics ensures the consideration of all the economic, social and ethical aspects.

Q32. Explain the applicability of social and ethical responsibilities of corporate entities.

Ans : **(June-19)**

Applicability of Social Responsibility of Corporate Entities

Companies Act, 2013 (Sub section 1 of section 135) deals with provisions relating to applicability of corporate social responsibility. As per this section, every company with a net worth of INR 500 crore or more; or Turnover of INR 1000 or more; or Net Profit of INR 5 crore or more in any financial year must form a CSR committee of the Board.

Each company possessing prescribed Net worth or Turnover or Net profit should be within the scope of CSR provisions. The term "Companies" is used in this section which indicates wide meaning and must include branch or project offices of foreign companies in India?

Applicability of Ethical Responsibility of Corporate Entities

Ethics are applicable to individuals and groups. It must be incorporated into routine activities and decisions specifically those activities which have an impact on persons and/or the environment. Ethics must be applied within groups at the time of interactions with another group or an individual.

Q33. Distinguish between social and ethical responsibilities.

Ans : **(June-18)**

S.No.	Basis	Social Responsibilities	Ethical Responsibilities
1.	Meaning	Social responsibility is concerned with anything that encourages social development and improve social welfare, such as establishment of schools, roads, buildings or any other social infrastructure.	Ethical responsibility gives a moral responsibility to a person to do certain thing.
2.	Objective	The primary objective of social responsibility is to help the society to enjoy some benefits. It involves the production of some public goods like roads, provision of drinking water etc.	The primary objective of ethical responsibility is to enhance the ethical standards of both gives and receivers.
3.	Expectation	Business organizations usually expect social responsibility.	Business organizations do not expect to have ethical responsibility.

Short Question and Answers

1. 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.

2. 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.

3. Define Strategy Implementation.

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.
- 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.

4. Define the term Strategy Evaluation and Control.

Ans :

- Strategic evaluation and control constitutes the final phase of strategic management.
- Strategic evaluation operates at two levels: strategic and operational. At the strategic level, we are concerned more with the consistency of strategy with the environment.
- At the operational level, the effort is directed at assessing how well the organization is pursuing a given strategy.
- The idea of strategic control is of a relatively recent origin and its techniques are still in an embryonic stage.
- Strategic controls contains premise, implementation, strategic surveillance, and special alert control.

5. 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.

6. What is Operational Control?

Ans :

Operational control is aimed at the allocation and use of organisational resources Though an evaluation of the performance of organisational units, such as, divisions, SBUs, and so on, to assess their contribution to the achievement of organisational objectives. Operational control is concerned with action or performance, and this is probably the reason why it is used so extensively in organisations.

7. What is Business Ethics?

Ans :

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..

Definitionss

Business ethics is the application of general ethical principles and standards to business behaviour.

(i) **According to 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.

(ii) **According to Rogene A. Buchholz,** "Business ethics refer to right or wrong behaviour in business decisions".

8. What are the principles of business ethics ?

Ans :

i) 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.

ii) 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.

iii) 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.

iv) Non cooperation in Evils

It clearly points out that a business should not co-operate with any one for doing any evil acts.

v) Co-operation with Others

This principles state that business should help others only in that condition when other deserves for help.

9. Define Corporate Governance.

Ans :

According to Standard and Poor, company organizes and manages itself to ensure that all the financial stakeholders receive their fair share of a company's earnings and assets".

10. Define organizational culture.

Ans :

Organizational culture is quite complex. Every company has its unique personality, just like people do. The unique personality of an organization is referred to as its culture. In groups of people who work together, organizational culture is an invisible but powerful force that influences the behavior of the members of that group.

Definitions

(i) According to Robbie Katanga, "Organi-zational Culture is how organizations do things."

(ii) According to Alec Haverstick, "In large part, Organizational culture is a product of compensation."

11. Distinguish between social and ethical responsibilities.

Ans :

S.No.	Basis	Social Responsibilities	Ethical Responsibilities
1.	Meaning	Social responsibility is concerned with anything that encourages social development and improve social welfare, such as establishment of schools, roads, buildings or any other social infrastructure.	Ethical responsibility gives a moral responsibility to a person to do certain thing.
2.	Objective	The primary objective of social responsibility is to help the society to enjoy some benefits. It involves the production of some public goods like roads, provision of drinking water etc.	The primary objective of ethical responsibility is to enhance the ethical standards of both gives and receivers.
3.	Expectation	Business organizations usually expect social responsibility.	Business organizations do not expect to have ethical responsibility.

Choose the Correct Answers

1. ________ refers to the process of conducting research on a company and its operating environment to formulate a strategy. [a]
   (a) SWOT analysis (b) Strategic implementation
   (c) Strategic analysis (d) Strategic turnaround
2. ________ vis a process through which a strategy is put into action. [b]
   (a) Strategic analysis (b) Strategy implementation
   (c) SWOT analysis (d) Strategic turnaround
3. Strategic implementation is ________ [a]
   (a) Concerned with translating a strategic decision into action.
   (b) Crafting a combination of strategies and picking out the best one.
   (c) Primarily an intellectual process.
   (d) Considered easier and less time consuming.
4. ________ focuses on whether the strategy is being implemented as planned and the results produced are those intended. [b]
   (a) Strategic analysis (b) Strategic control
   (c) Strategy formulation (d) Strategy implementation
5. ________ means crafting a combination of strategies and picking out the best one to achieve the organizational goals and objectives and thereby reaching the vision of the organization. [c]
   (a) Strategy implementation (b) Strategic analysis
   (c) Strategy formulation (d) Strategic management
6. The way the organization is structured and who reports to whom [b]
   (a) Strategy (b) Structure
   (c) Staff (d) System
7. Strategy implementation focuses on ________ [a]
   (a) Efficiency (b) Co-ordination
   (c) Crafting of strategies (d) Supporting factors
8. The plan devised to maintain and build competitive advantage over the competition ________ [a]
   (a) Strategy (b) Style
   (c) Skills (d) Systems
9. Which of the following is NOT included ‘g in McKinsey 7-S framework? [d]
   (a) Strategy (b) Structure
   (c) System (d) Safety
10. Strategy formulation is primarily – [b]
   (a) An operational process (b) An intellectual process
   (c) Profit making activity (d) Activity undertaken to fulfil needs

Fill in the blanks

1. _______ is subjected to managerial exercise to implement suitable strategy serving the purpose of a department for which it has to be designed.
2. _______ and control constitutes the final phase of strategic management.
3. The purpose of strategic evaluation is to evaluate the effectiveness of strategy in achieving _______.
4. _______ 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 implemen-tation.
5. The last of the strategic control systems is the _______.
6. _______ control is aimed at the allocation and use of organisational resources.
7. _______ involves the social responsibility of businesses and the extent to which they meet legal, ethical and economic responsi-bilities, as established by shareholders.
8. _______ ethics is an enquiry of ethics in the field of business.
9. The fundamental objective of corporate governance is to boost and maximize _______.
10. _______ is civilization in the workplace.

Answers

1. Strategy implementation
2. Strategic evaluation
3. Organizational objectives
4. Premise
5. Special alert control
6. Operational
7. Corporate citizenship
8. Business
9. Shareholder
10. Organizational culture

One Mark Answers

1. Corporate Failures.

Ans :

Corporate failure refers to a situation where a company is no longer able to sustain its operations, generate enough revenue to cover its expenses and make a profit.

2. Organizational Re-Design.

Ans :

Organizational re-design or re-structuring refers to the process of re-constructing organization internally or externally as per the changes made in technology and environment.

3. Business Ethics

Ans :

"Business ethics is the study of good and evil, right and wrong, just and unjust actions of businessmen".

4. Balanced Scorecard

Ans :

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.

5. Special Alert Control

Ans :

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.

FACULTY OF MANAGEMENT

M.B.A IV - Semester (CBCS) Examination

Model Paper - I

BUSINESS POLICY AND STRATEGY

Time : 3 Hours]	**[Max. Marks : 80**

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.

PART - A (5 × 4 = 20 Marks)

[Short Answer type]

ANSWERS

1.	Define business policy.	**(Unit - I, SQA-6)**
2.	Core Competencies.	**(Unit - II, SQA -3)**
3.	Business Strategies.	**(Unit - III, SQA - 3)**
4.	Define strategic choice.	**(Unit - IV, SQA -6)**
5.	Define Strategy Implementation.	**(Unit - V, SQA -3)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer type]

6.	(a)	Define Business. Explain the objectives of business.	**v(Unit - I, Q.No.1,2)**
		OR	
	(b)	What is Strategic Intent? Explain the Hierarchy of Strategic Intent.	**(Unit - I, Q.No.23)**
7.	(a)	What is Portfolio Analysis. Explain the reasons for Portfolio Analysis.	**(Unit - II, Q.No.17)**
		OR	
	(b)	What is value chain analysis ? State the various elements of Value Chain Analysis.	**(Unit - II, Q.No.26)**
8.	(a)	Define Strategy Formulation. Explain the process of Strategy Formulation.	**(Unit - III, Q.No.3)**
		OR	
	(b)	Describe a suitable strategy for business leaders and followers.	**(Unit - III, Q.No.25)**
9.	(a)	Define Mergers. Explain different types of mergers.	**(Unit - IV, Q.No.15)**
		OR	
	(b)	Explain the growth and Drivers of Outsourcing.	**(Unit - IV, Q.No.27)**
10.	(a)	Discuss about the various steps involved in strategy implementation.	**(Unit - V, Q.No.3)**
		OR	
	(b)	Explain the social and ethical responsibilities of corporate organizations.	**(Unit - V, Q.No.30)**

FACULTY OF MANAGEMENT

M.B.A IV - Semester (CBCS) Examination

Model Paper - II

BUSINESS POLICY AND STRATEGY

Time : 3 Hours] **[Max. Marks : 80**

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.

PART - A (5 × 4 = 20 Marks)

[Short Answer type]

ANSWERS

1. Explain the Need for Mission Statement. **(Unit - I, SQA -9)**
2. Demographic Environment **(Unit - II, SQA -6)**
3. Strategies for Market Niches. **(Unit - III, SQA -10)**
4. Reasons for Diversification. **(Unit - IV, SQA 2)**
5. Good Corporate Citizenship. **(Unit - V, SQA -1)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer type]

6. (a) Define strategic management. Explain the historical development of strategic management. **(Unit - I, Q.No.24)**

OR

(b) Define Strategic Planning. Explain the importance of Strategic Planning. **(Unit - I, Q.No.5)**

7. (a) How do you evaluate the strategic alternatives using the BCG Matrix. **(Unit - II, Q.No.18)**

OR

(b) What are Core Competencies. How many Core Competencies are required for a company. **(Unit - II, Q.No.28)**

8. (a) Explain the features and strategies in the course of industry life cycle. **(Unit - III, Q.No.20)**

OR

(b) Explain how Offensive and Defensive Strategies create value. **(Unit - III, Q.No.11)**

9. (a) Explain various approaches to Organizational Structure. **(Unit - IV, Q.No.31)**

OR

(b) Explain the various alternative strategies in the international environment. **(Unit - IV, Q.No.3)**

10. (a) Define Corporate Governance. Explain the need for Corporate Governance. **(Unit - V, Q.No.16)**

OR

(b) What are the barriers of strategic evaluation and control? **(Unit - V, Q.No.5)**

FACULTY OF MANAGEMENT

M.B.A IV - Semester (CBCS) Examination

Model Paper - III

BUSINESS POLICY AND STRATEGY

Time : 3 Hours] **[Max. Marks : 80**

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.

PART - A (5 × 4 = 20 Marks)

[Short Answer type]

ANSWERS

1. What are the objectives of strategic management? **(Unit - I, SQA -11)**
2. Elements in competitive analysis and its advantages. **(Unit - II, SQA -9)**
3. Discuss different stages of industry life cycle. **(Unit - III, SQA -1)**
4. Drivers of outsourcing. **(Unit - IV, SQA -4)**
5. Define Corporate Governance. **(Unit - V, SQA -9)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer type]

6. (a) Define business policy. Explain the features of business policy. **(Unit - I, Q.No.3)**

OR

(b) Explain in detail about the Model of Elements of Strategic Management. **(Unit - I, Q.No.30)**

7. (a) Discuss the essential elements in SWOT Analysis. **(Unit - II, Q.No.22)**

OR

(b) What are the methods of analysing and diagnosing the corporate capabilities? **(Unit - II, Q.No.31)**

8. (a) What is an emerging industry ? Explain the different challenges faced by emerging industries. **(Unit - III, Q.No.22)**

OR

(b) Explain the Formulation of Strategy at Business Levels. **(Unit - III, Q.No.6)**

9. (a) What are the Different types of Diversi-fication Strategies? **(Unit - IV, Q.No.13)**

OR

(b) Explain about McKinsey's 7s structure. **(Unit - IV, Q.No.33)**

10. (a) Define SMART Governance / E-Governance ? Explain its components. **(Unit - V, Q.No.23)**

OR

(b) What is Social Responsibilities of Business? **(Unit - V, Q.No.11)**

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]

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. What are the objectives of strategic management ? **(Unit - I, SQA.11)**
2. State the key drivers for a change. **(Out of Syllabus)**
3. State the stages in industry life cycle. **(Unit - III, SQA.1)**
4. What are the benefits from outsourcing strategies ? **(Unit - IV, SQA.3)**
5. Distinguish between social and ethical responsibilities. **(Unit - V, SQA.11)**

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.29, Out of Syllabus)**

(OR)

(b) Explain the pre-requisites for developing a strategic model and its implementation. **(Unit - I, Q.No.30)**

7. (a) Describe the external and internal environmental analysis for the creation of a good strategy. **(Out of Syllabus)**

(OR)

(b) Discuss the essential elements in SWOT analysis and value chain analysis. **(Unit - II, Q.No.22)**

8. (a) Explain the basic steps in strategy formulation. **(Unit - III, Q.No.3)**

(OR)

(b) Describe a suitable strategy for business leaders and followers. **(Unit - III, Q.No.25)**

9. (a) Explain the reasons for development of alternative strategies in a competitive business environment. **(Unit - IV, Q.No.4)**

(OR)

(b) Discuss the advantages and limitations in mergers and acquisitions. **(Unit - IV, Q.No.17,19)**

10. (a) State the vital issues in strategies evaluation and controls. **(Unit - V, Q.No.5)**

(OR)

(b) Explain the policies for SMART governance. **(Unit - V, Q.No.25)**

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, SQA.1)**
2. What is meant by core competencies ? **(Unit - II, SQA.3)**
3. State the indications for weak and crisis business. **(Out of Syllabus)**
4. State the reasons for market diversification. **(Unit - IV, SQA.2)**
5. What is SMART Governance ? **(Unit - V, SQA.2)**

PART - B (5 × 12 = 60 Marks)

[Essay Answer type]

6\. (a) Describe the basic elements in strategy formulation. **(Unit - III, Q.No.3)**

(OR)

(b) Explain the system of crafting and executing a strategy for business entity. **(Out of Syllabus)**

7\. (a) Discuss the advantages in the process of environmental analysis relating to a strategic decision. **(Out of Syllabus)**

(OR)

(b) Describe the vital aspects in BGG and GE models. **(Unit - II, Q.No.18, 20)**

8\. (a) Explain the causative factors for developing corporate level international strategy. **(Unit - IV, Q.No.6)**

(OR)

(b) Discuss the merits and demerits in strategic alliances. **(Unit - IV, Q.No.23)**

9\. (a) Explain the features and strategies in the courses of industry life cycle. **(Unit - III, Q.No.20)**

(OR)

(b) Describe the elements in competitive analysis and its advantage. **(Unit - III, Q.No.25)**

10\. (a) Discuss the necessity of corporate governance under changing business environment. **(Unit - V, Q.No.16)**

(OR)

(b) Explain the significance and applicability of social and ethical responsibilities of corporate entities. **(Unit - V, Q.No.31, 32)**

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, SQA.2)**
2.	Value Chain Analysis	**(Unit - II, SQA.2)**
3.	Strategy Formulation	**(Unit - III, SQA.2)**
4.	Diversification Strategy	**(Unit - IV, SQA.1)**
5.	SMART Governance	**(Unit - V, SQA.2)**

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.26)**
7.	Explain the various elements of strategic management process.	**(Unit - I, Q.No.29)**
8.	What are the various environmental factors that affect a business? Explain them in detail.	**(Out of Syllabus)**
9.	Discuss the methods of identifying the opportunities and thetas of a business in this pandemic situation.	**(Unit - II, Q.No.23)**
10.	Discuss the relevance of long term objectives in strategy formulation.	**(Unit - III, Q.No.5)**
11.	Discuss the strategies suitable for runner-up firms.	**(Out of Syllabus)**
12.	Discuss various methods creating value through intense growth strategies.	**(Unit - IV, Q.No.7)**
13.	List out different outsourcing strategies and also explain the drivers of outsourcing.	**(Unit - IV, Q.No.26, 27)**
14.	Discuss different types and techniques used for strategic control.	**(Unit - V, Q.No.7)**
15.	Explain the social and ethical responsibilities of corporate organizations.	**(Unit - V, Q.No.30)**

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.

ANSWERS

1. State the strategic Vision and Mission. **(Unit - I, SQA.3,4)**
2. Write about Capability Building. **(Unit - II, SQA.1)**
3. Explain the strategies of Runner-up firms. **(Out of Syllabus)**
4. What are the Drivers of Outsourcing? **(Unit - IV, SQA.4)**
5. What is Strategic Entrepreneurship? **(Out of Syllabus)**

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. **(Unit - I, Q.No.24, Out of Syllabus)**
7. Discuss the development of a strategic model and its positioning. **(Unit - I, Q.No.30)**
8. Explain a Specific Industry Analysis with the help of BCG Model. **(Unit - II, Q.No.18)**
9. Discuss the use of SWOT Analysis. **(Unit - II, Q.No.23)**
10. Discuss different stages of Industry Life Cycle. **(Unit - III, Q.No.20)**
11. Explain the Strategies adopted by Business Leaders. **(Unit - III, Q.No.25)**
12. Explain how Offensive and Defensive Strategies Create Value. **(Unit - III, Q.No.11)**
13. Discuss the benefits of Merger and Acquisition Strategies. **(Unit - IV, Q.No.17,19)**
14. Discuss the need and significance of Social and Ethical Responsibilities of Corporate Organizations. **(Unit - V, Q.No.31)**
15. Explain how Re-designing Organizational Structure helps for better control. **(Unit - V, Q.No.27)**

FACULTY OF MANAGEMENT

M.B.A IV - Semester Examination, August / September - 2022

STRATEGIC MANAGEMENT

Time : 3 Hours] **[Max. Marks : 80**

PART- A (5 × 4 = 20 Marks)

Note : Answer all the questions.

ANSWERS

1.	Explain the factors that shape strategy.	**(Out of Syllabus)**
2.	Write about the Key Drivers for a change.	**(Out of Syllabus)**
3.	Explain the Industry Life Cycle Stages.	**(Unit - III, SQA.1)**
4.	Write about Defensive Strategies.	**(Unit - III, SQA.6)**
5.	What is Good Corporate Citizenship?	**(Unit - V, SQA.1)**

PART-B (5 × 12 = 60 Marks)

Note: Answer all the questions.

6.	(a)	Explain the stages in Crafting and execution of strategy.	**(Out of Syllabus)**
		(OR)	
	(b)	Explain the model of Strategy and its elements.	**(Unit - I, Q.No.30)**
7.	(a)	Discuss how Environmental Analysis helps in Creating Strategy.	**(Out of Syllabus)**
		(OR)	
	(b)	Elaborate Value Chain Analysis.	**(Unit - II, Q.No.26)**
8.	(a)	Discuss how strategy can be tailored for weak and crisis ridden business.	**(Unit - III, Q.No.27)**
		(OR)	
	(b)	Explain how competitive advantages are created and sustained.	**(Out of Syllabus)**
9.	(a)	Discuss how Integration Strategies create value to the organization.	**(Unit - IV, Q.No.10)**
		(OR)	
	(b)	Discuss the benefits, growth and drivers of outsourcing strategies.	**(Unit - IV, Q.No.24,27)**
10.	(a)	Explain how corporate culture helps in promoting SMART Governance.	**(Unit - V, Q.No.23,24)**
		(OR)	
	(b)	Write a note on crafting a social responsibility strategy.	**(Unit - V, Q.No.11)**