Assignment Set -1 Questions

Q.No 1. What are the major environmental factors a business strategist should reckon with?

Major environmental factors a business strategist should reckon with

Companies have internal competences or capabilities that enable them to face, among others, the external environment for formulating and implementing corporate strategies. The external environment does not refer only to the macroeconomic environment or broad macro-parameters like socio-economic factors, government policy and legislations; it also includes technology, competitors, intermediaries and suppliers; in short, all those factors or forces which together constitute the market environment within which a company operates.

Analysis of the external environment consists of identification of opportunities and threats, and exploiting opportunities and meeting threats based on organizational strengths and weaknesses. Companies that do this effectively on a regular basis become successful.

The major environmental factors a business strategist should reckon with are:

**Political Factors**

Political factors or political conditions can have significant impact on industry, business and the corporates. Political stability improves business environment and encourages economic and business activities. Political instability produces the opposite effects. Political factors do not refer to only national political conditions or relations, but also to international relations. Improved political relations between the US and China in the mid-70s resulted in trade agreement between the two countries. The trade agreement provided opportunities to US electronics manufacturers to commence operations in China. There are many instances where deteriorating political relations between countries (India and Pakistan), have affected business conditions.

Given below one contrasting Indian examples of the impact of political environment on business -

The Ayodhya-Babri Masjid episode became a political issue and provoked violence in different parts of the country, and caused serious law and order problems during December,1992 and January 1993. Apart from the apprehensions of political instability, the events disrupted transport, slowed down industrial production and growth of exports, and, also reduced government revenue.

**Economic Factors**

Economic environment is an amalgam; it comprises all aspects or areas of economic activity—national income (GDP or GNP), the manufacturing sector, the services sector, capital or financial sector, investment, savings, etc. All these areas or sectors together influence the structure and trends of the economy and determine the economic environment.

The major economic factors, which influence any market system, are:

(a) GDP or GNP

(b) Income distribution or income levels

(c) Business cycles or different phases of the cycle like boom, recession, depression and recovery

(d) Price levels of goods and services, i.e., whether the trend is inflationary or deflationary

(e) Rate of interest on market borrowing

For example, inflationary trends can generally pose a serious threat to a company’s competitiveness in terms of input costs and selling prices.

**Sociological Factors**

Sociological factors include demographic factors or population profiles, value system in society and lifestyles of individuals.

Demographic factors or population profiles reflect age and sex composition of the population, occupational patterns, literacy levels, etc. Demographic parameters are a very intimate component of the market environment because they directly affect consumer behaviour. For example, today there is a lot of focus on the youth and many products and brands are promoted for the young generation. Apart from Pepsi (which has been specially positioned on the age factor), mobikes Hero Honda, TVS Suzuki and Kawasaki Bajaj—all are focusing on this segment. Readymade garment companies are invading the children’s sector. Many FMCG brands are targeted at women of particular age groups. Occupational patterns and literacy levels are also influencing consumption patterns of males and females.

The international exposure of Indian consumers is increasing and changing lifestyles are getting reflected in preferences for international brands of ready-made garments (Peter England Pizza Hut, Baskin Robbins, etc). These are important environmental developments for the strategists in the FMCG and services sector.

**Government Policies and Controls**

Government policies have a more direct impact on business decision and marketing strategies than macroeconomic indicators like GDP or GNP. Government regulations and controls have even more immediate impact than government policies. Policies and controls can be of three types namely –Monetary Policy, Fiscal Policy,Physical Policy

At any point of time, the corporate tax structure, various lending rates of banks and financial institutions, monetary controls like the bank rate, price controls, etc., offer a particular economic or business climate. An extension of the regulatory controls is to be found in economic or business legislation. Two good examples of this are the Foreign Exchange Regulation Act (FERA) and Monopolies and Restrictive Trade Practices (MRTP) Act. Given these policies and controls, the corporate management has to match these through appropriate strategies for cost control and effectiveness, pricing strategy, marketing efficiency, etc.

**Technology**

Technology, as an environmental factor, influences strategic planning and management in a number of ways.

Technological changes lead to the shortening of product life cycles and create new sets of consumer expectations. Electronic products are a good example. This sector is experiencing the most rapid changes today. One can clearly see the technological revolution in the colour TV market. Sometimes, advance signals on technological developments are available through research and development and industry/trade journals and magazines. Companies in the pharmaceutical industry, for example, are continuously aware of developments in new formulations and drugs in the world through medical

journals and periodicals. Developments in information technology are greatly affecting the competitive position of companies.

In a different way, technological developments affect a company’s raw material, packaging, operations, products and services. For example, developments in the plastics and packaging industry have brought in new packaging in the form of tetrapacks, pet bottles, cellophane, etc.

**Intermediaries**

The primary role of intermediaries is to link the producers to the end-user market in those cases where the latter are unable or unwilling to manage the delivery or the distribution process.

Intermediaries play a really big role in consumer goods 2 , particularly in FMCGs. FMCG majors such as Kellogg’s, Heinz and Unilever (Hindustan Unilever in India) and many other companies utilize the services of large supermarket chains to distribute their products to households.

It is important for companies to identify shifts in consumer behaviour and emerging trends in customer-buying patterns and the intermediaries’ willingness to service the changing end-user market. An example of consumer behaviour shift and changing expectations is the field of personal computers (PC). In the PC market in the US, many large customer organizations now expect distributors to go beyond just ‘selling boxes’ and give advice on selection, installation and post-sales operations of sophisticated computer systems. A number of distributors, known as value added resellers (VARs) are now available who specialize in supplying certain types of systems and/or serving particular market segments.

**Suppliers**

Suppliers to a company can be raw material suppliers, energy suppliers, suppliers of labour and capital; and the suppliers can affect the competitive position and business capabilities and therefore, the corporate strategy of a company. According to Porter, the relationship between suppliers and a company represents a power equation between them. The equation is based on, or governed by, the market environment, industry conditions and the extent to which one is dependent on the other.

The buyer company has better bargaining power under the following conditions:

* The buyer is a monopolist (single seller) or a monopsonist (single buyer) and buys large volumes relative to seller’s sales.
* The buyer can easily switch vendors — it has a choice of alternative sources of supplies.
* The supplier’s product is not very important to buyer’s finished products/services.

The supplier has stronger bargaining power in the following situations:

* The supplier is a monopolistic or an oligopolistic firm.
* The supplier’s product is a significant input to the buyer’s finished product.
* The buyer is not an important customer of the supplier.
* The supplier’s products are well differentiated and it has built up significant switching costs.

Q.No 2. What do you mean by Merger? Explain the various types of Merger.

Merger

Types of Merger

Merger =>

A merger is a combination of two or more organizations, in which one acquires the assets and liabilities of the other in exchange for shares or cash, or the organizations are dissolved, and a new company is formed, which takes over the assets and liabilities of the dissolved organizations and new shares are issued. So, combination or merger takes place, either through acquisition or amalgamation or consolidation. For the company which acquires another company, it is acquisition; for the company which is acquired, it is a merger. If both or more organizations dissolve themselves and form a new organization, it is amalgamation or consolidation. More common forms of mergers are through acquisition. There are many reasons why two or more organizations like to merge. There are reasons for buyer organization; there are reasons for the seller organization.

Why the buyer wishes to merge:

* To increase value of the company’s stock;
* To make profitable investment and increase the growth rate;
* To balance, complete or diversify product line;
* To improve stability of sales and earnings;
* To reduce or eliminate competition;
* To acquire resources quickly;
* To avail tax concessions/benefits;
* (h). To take advantage of synergy.

Why the seller wishes to merge:

* To increase the value of investment and stock
* To increase revenue and growth rate
* To acquire resources to stabilize operations
* To benefit from tax legislation
* To deal with top management succession problems
* To take advantage of synergy

Types of Merger =>

Mergers can be differentiated on the basis of activities or businesses currently pursued by the merger partners, and, also, the nature of activity or business to be added during the process of merger. Based on these, four major types of mergers may be distinguished:

1. Horizontal merger

2. Vertical merger

3. Concentric merger

4. Conglomerate merger

Horizontal merger takes place when there is a combination of two or more companies in the same business or product group or product. For example, a cement company combines with another cement company or a pharmaceutical company merges with another pharmaceutical company and so on.

Vertical merger takes place when there is a combination of two or more companies which are not in the same business but in related businesses or products. The combination or merger takes place to create complementarity of businesses or products. For example, a refrigerator-manufacturing company combines with a compressor-manufacturing company.

Concentric merger takes place when there is a combination of two or more companies related to each other in terms of production process, technology or market. For example, a leather shoe-manufacturing company combines with a leather goods company making purses, handbags, jackets.

Conglomerate merger takes place when there is a combination or two or more companies which are not related to each other in terms of production process, technology or market. For example, a shoe manufacturing company merges with a pharmaceutical company or an FMCG company.

As mentioned above, one of the major objectives of merger is to obtain advantages of synergy.

Mergers through amalgamation or consolidation are less common than through acquisitions.

For examples: Nirma Detergents Ltd, Nirma Soaps and Detergenets Ltd, and Shiva Soaps and Detergents Ltd into Nirma Ltd; Hi Beam Electronics and other two companies formed Tristar Electronics subsequently named as Solidaire India Ltd; British Motor Corporation and Leyland Motors into British Leyland Motors (in UK); likely amalgamation/consolidation: United Airlines and US Airways; Delta Airlines and Continental Airlines.

As mergers take place, demergers (merger in reverse) also take place, although they are not very common. Demerger means ‘Spinning of an unrelated business/division in a diversified company into a stand-alone company along with a free distribution of its shares to the existing shareholders of that original company. Some examples of demergers are: Sandoz India from Sandoz renamed as Clariant India; Ciba Speciality from Ciba India and Aptech from Apple Industries.

Q.No 3. Write Short notes on:

i. Strategic Audit

ii. Managed Corporation

Strategic Audit =>

Strategic audit is a formal strategic-review process, which imposes its own discipline on both the board and the management very much like the financial audit process. But, it is different from management audit, which is undertaken in many companies by the senior/top management on the progress and outcome of important corporate activities. To understand strategic audit in the correct

perspective, one needs to analyse this in terms of its various elements. Donaldson has specified five elements of strategic audit. These are:

1. Establishing criteria for performance
2. Database design and maintenance
3. Strategic audit committee
4. Relationship with the CEO
5. Alert to duty (by board members)

The performance criteria should be simple, well-understood and well-accepted measures of financial performance. A number of measures of financial performance are available. One common measure, used by many companies, is return on investment (ROI). The ROI can be analysed like this: profit per unit of sales (profit margin); sales per unit of capital employed (asset turnover); and, capital employed per unit of equity invested (leverage). If these three ratios are multiplied together, the resultant ratio will give profit per unit of equity. This criterion would fulfil two objectives: first, sustainable rate of return on shareholder investment, and, second, to decide whether the return is less, or equal to or more than returns on alternative investments with comparable risk, i.e., whether the company’s chosen strategy is justifiable or not.

To calculate different performance ratios and monitor performance criteria, a proper database is essential. This involves both database design and maintenance. This has to be a regular and an ongoing process. Data on financial performance can sometimes be sensitive to the managers/ employees of a company. It is, therefore, suggested that financial and related data design, maintenance and analyses should be entrusted to the auditors of the company or outside consultants.

For effective strategic audit, a strategic audit committee should be constituted. According to Donaldson, outside directors should select three of their own members to form the committee.

If properly conceived, designed and conducted, strategic audit, more than management audit, can be a powerful tool for monitoring the strategic process of a company and also strike a good balance between corporate strategy and corporate governance.

Managed Corporation =>

The managed corporation is more like the traditional model of a company or corporation. This is the model of governance where focus is on power equations between management and control, board–CEO relationship or strategy and governance conflict. In the managed corporation, senior managers are responsible for leadership and decision making. Board function is to hire the top-level managers, monitor them and fire them if they do not perform. Shareholders’ role is to throw out the board if the company or the corporation does not perform.

Emergence and growth of the managed corporation can be traced in two factors; first, change in the shareholding pattern—dispersion or distribution of ownership among many shareholders (including the public) and, second, emergence of a new class of professionals who were neither major stockholders nor founders nor owners of companies. Because shareholders were dispersed, they could not be directly involved in formulating corporate policy and strategy. Therefore, there was the need for managers and leaders who could formulate policies and strategies and promote organizational growth. The managed corporation has dominated the corporate arena for decades. The managed corporation model can be found in any modern organization; only the actual form may vary from one organization to another.

In the managed corporation, boards and shareholders are kept away from strategy formulation and policy making. A significant business proposal or a major investment project may be discussed at the board level but, the managers would be given the freedom to formulate and implement business strategies. Board members are expected to intervene in business policies and strategies if there is performance failure or the managers are found incompetent or corrupt. If this happens, that is, if the directors have to get involved in corporate strategies, may be it is time for the board to look for a new CEO.

If the major cause of corporate failure is management incompetence, the governance system in the managed corporation may work. But, many performance failures or crises are not results of incompetence, but are failures of judgement. Managers tend to be biased towards strategies and decisions which reflect their individual strengths. Managers also make mistakes. The managed corporation model permits or ignores mistakes to go uncorrected till they lead to major crisis or catastrophes. In the US, throughout the 1980s, boards allowed flawed retail strategy to be followed in spite of clear evidence that managers lacked retail skills. Some board members later admitted that it was a mistake to allow company managements to pursue incorrect retail policies and strategies. But, they did not intervene because they were following the managed corporation model.

Assignment Set -2 Questions

Q.No 1. What are the different categories according to Porter in which various industries can be broadly classified?

Different categories

Different categories =>

Industries can be of various types—each major product group constitutes an industry (subject to the definition above). Industries can also be classified in terms of size of the constituent units or companies, state or pace of development of the industry, spread of the market, etc. These are important ways of looking at the structure of an industry. Based on such factors, various industries can be broadly classified into five categories according to Porter:

**Fragmented industry**

As fragmented industry is characterized by the existence of a large number of small and medium units, and, no single company has any significant market share, and, none of these units can individually affect the market or industry outcome. The uniqueness of a fragmented industry is the absence of any market leader, and, typically, the market share of the largest unit does not exceed 10 per cent.

Fragmented industries are common in certain sectors of the economy including services, retailing, distribution and agricultural products. Fragmented industries in some of these sectors are characterized by product differentiation, whereas undifferentiated products more commonly exist in fragmented industries in other sectors. For example, computer software, television network/ programme and fast food industries are characterized by products or services which are differentiated; but, agricultural produce, ATMs, dry cleaning, etc., essentially involve undifferentiated products.

**Emerging industry**

An emerging industry is a developing or newly formed industry in which market for products initially exists in latent form, and, becomes visible later. An emerging industry may be created by technological innovations, new consumers or industrial needs for economic or sociological changes which create the environment or potential market for a new product or service. Emerging industries are being created all the time; or, to put it in other words, most of the existing industries today were emerging industries at some point of time or the other. Examples are word processors, photocopiers, computers, VCR/VCP, CTV, etc.

Different emerging industries may have different structures—structural details always vary. But, most of the emerging industries exhibit some common structural characteristics.

**Mature industry**

A mature industry is one which has passed through transition from period of fast growth to more modest or stable growth. Maturity is an important or critical phase in the industry life cycle. During this period, fundamental changes often take place in the competitive environment, and, companies are usually faced with difficult strategic decisions for survival and growth because competition becomes very intense. Industry maturity, in some cases, may be delayed or postponed because of innovations or other events or developments including environmental changes. This would mean prolonging the industry growth cycle or the transition to maturity.

Transition to maturity is associated with important changes in the industry structure and competitive environment. Industry maturity is characterized by new trends or tendencies for change. Porter (1980) has identified and analysed nine such trends or tendencies.

**Declining industry**

A declining industry is one with negative growth, that is, an industry which has registered absolute decline in sales over a sustained period of time. Such decline in sales is not because of business cycles or any other short-term factors like strike, lockouts or material shortages. Therefore, a declining industry does not represent a short-term discontinuity, but, a trend expressed in falling industry output, sales, profitability and dwindling number of competitors. In industry life cycle, decline follows maturity. Decline sets in generally because of product obsolescence or emergence of a strong substitute product. For example, demand for oil-based laundry soaps for cloth washing declined fast because of introduction of synthetic washing materials.

**Global industry**

In global industry, the strategic position of companies in different countries or national markets are governed by their overall global positions. For example, IBM’s strategic position in competing for computer sales in France and Germany has improved significantly because of technology and marketing skills developed in other countries, and a worldwide manufacturing system which is well coordinated. To be called a global industry, an industry’s economics and competitors in different national markets should be considered jointly rather than individually.

Distinction should be made between an international industry and a global industry. An industry in a country may be international if it comprises a number of multinational companies. But, industries with multinational competitors are not necessarily global industries. To be a global industry, as explained above about IBM, an industry should have multi-locational manufacturing facilities, and, compete worldwide to secure global synergy or competitive advantage.

Q.No 2. Write short notes on:

i. Corporate Social Responsibility (CSR)

ii. Social Audit

CSR

Social Audit

CSR =>

External stakeholders of an organization are too many and varied and many of them represent different sections or social groups. This implies that organizations should be socially responsible; that is, in addition to the interests of the shareholders, businesses or companies should also serve the society. This is corporate social responsibility (CSR). Corporate social responsibility can be defined as the alignment of business operations with social values.

The conflict between internal and external stakeholders can go much further than mentioned so far. Some feel that this is the most problematic issue in deciding company responsibility.

**CSR Practices in Corporates**

Worldwide, companies are trying to integrate corporate social responsibility into their business operations and strategies. Microsoft, Coca-Cola, McDonald’s, FedEx, IBM and Johnson & Johnson are some of the leading companies. In India also, many companies are integrating CSR into their business practices and making significant contributions to society. Companies like Infosys, Wipro, Hero Honda, ITC, Dr. Reddy’s, Godrej, Mahindra & Mahindra and Tata Steel are the foremost among them. Some of these companies have also established foundations to cater to the needs of society.

It should be noted that there is a difference in focus between CSR initiatives of Indian companies and the western companies. In India, CSR initiatives are mostly designed for the upliftment of the economically backward classes or sections of society with particular emphasis on the rural sector. In companies in developed countries, the focus is more on adoption of environment-friendly measures or schemes.

**Corporate Social Responsibility and Profitability**

Milton Friedman said in 1962: Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.

The relationship between CSR and profit is complex. Although the two are not mutually exclusive, neither of them is a prerequisite for the other. Advocates of corporate pragmatism suggest that CSR and profit need not necessarily be viewed as two competing concepts. It may be more rational to include CSR as a factor or component in the strategy-building process of the business which should determine, along with other objectives, how to increase or maximize profit.

Several research studies have been undertaken to determine the relationship between corporate social performance and financial performance. But, none of these studies has been able to establish the precise nature of relationship between the two. There may be a number of reasons for this. One reason may be that there is no significant correlation between social and financial performance. Another reason may be that the benefits of CSR are offset by its negative effect on profitability with no consequentially visible financial impact on the company. Other reasons include methodological weaknesses or drawbacks and/or problems with operational definitions or inadequacy of the conceptual models used in the studies. A general conclusion from these studies, however, is that certain relationship between CSR and profitability may exist, but, the nature of the relationship is not clear.

Social Audit =>

Exponents of CSR do not just want companies to be socially responsible. They also want to know how much or how far have they shown their social responsibility, that is, what is their social performance against stated social objectives. This can be measured through social audit. ‘Social audit’ and ‘social accounting’ are sometimes used synonymously. But, there is a distinction between the two. Social accounting is ‘the process of selecting firm level performance variables, measures and measurement procedures; systematically developing information useful for evaluating the firm’s social performance to concerned social groups, both within and outside the firm.’ Social audit, on the other hand, is more specific or focussed; as just mentioned, social audit evaluates or measures a company’s performance against planned or laid down social objectives or goals.

A social audit should be like a financial audit or a commercial audit. Some even feel that social audit should be ‘based on a social balance sheet with a "credit" side and a "debit" side ("inputs" and "outputs" or "costs" and "benefits").’ A social audit may be undertaken internally by companies; or, they may engage outside consultants to conduct the audit. But, as with financial audit, an outside consultant or agency minimizes organizational biases and brings more credibility to the evaluation process and the company.

Social audit is important not only because a company wants to ensure that it has implemented CSR policy as planned or committed, but, also because it improves its public image and social standing. Also, social audit is conducted by some companies not only to evaluate their social performance, but, also for other purposes which are connected with their corporate performance and image building. Some companies, for example, use social audit to scan the external environment and determine their vulnerabilities to it; some others conduct social audit to improve their relations with the government and public bodies. Others use social audit to institutionalize CSR within their companies.

Q.No 3. Explain Management Control System (MCS).

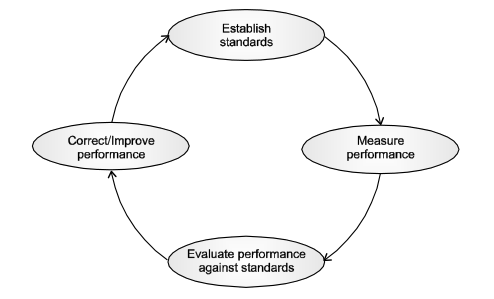
Management Control System

Management Control System =>

The management control system (MCS) runs parallel to the evaluation system, and, also, to some extent, is complementary to the evaluation system. The objective of the control system is to ensure that implementation of strategy takes place according to plan. A properly structured MCS should consist of four steps:

1. Establishing standards
2. Measuring performance
3. Evaluating performance against standards
4. Taking corrective measures to improve performance

Below these four steps constitute a cyclical process –



Organzational standards are prescribed in terms of targeted or planned performance. Measurement of performance is done through the evaluation system discussed above. Performance of employees/ managers is evaluated with respect to the prescribed standards and deviations are noted. On the basis of deviations or observed drifts in performance, corrective action is initiated so that performance improves and meets the prescribed organizational standards. This is the MCS cycle.

The MCS cycle depicts a purely quantitative control system in terms of formal or measurable indicators of standards and performance. But, in many organizations, all controls are not enforced only through the formal machinery or methods; they also use informal methods. In almost every organization, there is a formal structure, which specifies the official hierarchy and reporting system in the organization. But, there is also an informal structure which shows the way systems and relationships actually work bypassing, or parallel to, the formal structure. Informal controls are apprising the managers about possible problems or lapses in strategy implementation in advance: guiding them through the implementation process; cautioning them about mistakes or repeat of mistakes; adherence to ethical norms, etc. These are done in a more unstructured way. The informal control system many times complement or reinforces the formal control system. To make the MCS more positive and successful, a good mix of formal and informal control systems is generally recommended.